

Concern over inequality

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Editorial News

National Development Planning Minister Armida Alisjahbana warned last week of the risks of widening income inequality if the government did not make concerted programs to enhance a more equitable distribution of income.

She said the Gini coefficient ratio in Indonesia, which measures income distribution, was not yet worrisome, as it stood at 0.41, still way below one that reflects perfect income inequality.

The issue of rising inequality arose after the announcement of economic growth for the whole of last year, which predictably fell to 5.8 percent last year from 6.2 percent in 2012 due to the impact of the global economic recession. The geographical distribution of the gross domestic product (GDP) growth also showed widening inequality in that the most-developed, densely populated island of Java accounted for 57.8 percent of GDP.

Another worrisome trend concerned the poor quality of the growth because the highest growth occurred mostly in the service sector covering financial, transportation and communications services and real estate, which did not generate many jobs. Such labor intensive sectors as manufacturing and agriculture remained the laggards, growing slower than the GDP expansion rate.

The basic question though is whether such growth, though still among the highest in the world after China and India, could be sustained for a long time in view of the crumbling infrastructure, pervasively corrupt government bureaucracy and utterly inadequate institutional capacity at regional administrations. In fact, as a domestic consumption-driven economy as Indonesia's at present relies on the middle and high income urban people, there are big risks of inequality increasing.

It is therefore most imperative for the government to implement policies designed to maintain the purchasing power of the poor segment of the society so that the gap between the rich and

the poor does not widen. Widening income inequality could become a source of political and social unrest and consequently could stymie investment and hamper economic growth.

The government has been implementing a series of affirmative programs designed specifically to increase the income of the poorest segment of the population and to enhance asset ownership. Take for example, the national community empowerment programs that have been implemented in cooperation with the World Bank. These large community-driven development programs have contributed greatly to poverty reduction in rural and urban areas.

The Agriculture Ministry's policy that restricts land holdings by a plantation company or a plantation business group maximally at 100,000 hectares nationwide is another attempt to prevent widening inequality in asset ownership. The government regulation that requires plantation firms to serve as the development agent for smallholders in their areas is also aimed at enhancing equality in income distribution.

But more such affirmative actions are needed to enhance a more equitable distribution of income and asset ownership through job creation in rural and urban areas.