

The Future of Indonesia's Economic Strategy From Human Capital Policy Point of View: A Lesson From The Current Economic Crisis¹

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Abstracts. Indonesia's crisis began in July 1997, following the float of the Thai's Bath and the Malaysia's Ringgit. As a consequence, unemployment soared into the millions as the crisis spread. The number of poor people rose dramatically from around 22 million at early 1997 to about 79 million in the middle of 1998, according to the BPS estimation. In fact the pressure, which led to the ultimate collapse of the Indonesia's economic miracle, began in the early 1990s. Indonesia failed to sustain microeconomic reform after 1993. When Soeharto administration was re-inaugurated in 1993, economic growth was back to above 6.5 percent, and investment was pouring in. The days of the mega-project arrived. Two feature, common to most of these mega-projects were high capital requirements and their domestic market orientation. Inefficiency in the real sector due to high costs generated by the so-called: 'crony capitalism' also flourished. Despite several positive indications of economic development, a more fundamental reform has not been touched seriously, i.e. the human capital. Improvement in health and education of the people is of prime importance to raise labor productivity and turn will raise their earning and welfare.

Keywords: Human resource; economic reform; crisis; labor; productivity; Indonesia.

1. Introduction

Until the first half of 1997, the Indonesian economy seemed to be performing very well. There was no sign that the economy would fall into deep recession. Inflation was reduced to 7,4 percent in 1996 from 8,4 percent in the early 1980s. In 1996, various indicators such as expansions in manufacturing

and construction industries showed that the growth of Indonesian economy would develop not less than 7 percent (see Table 1). The income per capita raised from US\$530 in 1978-1981 to US\$1,280 in 1997. The Debt Service Ratio, meanwhile, was around 28 to 32 percent in 1990 to 1997. The ability to maintain the macro economy performance had given an optimistic projection among economists and policy makers that there would not be many difficulties in the Indonesian economic growth in the coming 2 to 3 years (Nomura 1997). Even at the beginning of financial crisis in July 1997, economists still believed it was only a temporary situation and it would turn to normal. The World Bank and IMF even claimed that it was only an economic adjustment of high growth performed by Indonesia in the previous years. The anxiety emerged after there was no positive sign of economic recovery after several months of financial crisis. The economic condition even became worse. It then forces government to ask the bailout package from the IMF and working together to restructure the economic sectors. The main goal is trying to push the foreign exchange back to normal. Furthermore, the government also had to cut budget deficits and encountered monopoly practices, as well as corruption. Government has yet to reduce all the subsidies prescribed by its agreement with the IMF, including those on electricity and fuel. However these policies and strategies so far have not been going well. In fact, the high interest rates the IMF was demanding in certain countries caused severe recessions and financial distress. And as a result of those actions even healthy banks and companies would eventually collapse. The state economy then fell into deep recession. The number of poor people suddenly increased remarkably.

This paper is, therefore, exploring the reform of Indonesian economy from the human resource perspective. It does not include an 'emergency' or 'ad-hoc' program for poverty alleviation during the economic crisis, since the programs are established according to the needs. Once the economic performance is better, these programs should be terminated. The first section presents the impact of the economic crisis on people's life. The second section describes the population situation in Indonesia. The last section analyzes the policy needed to achieve sustainable development in the future.

Table 1
INDONESIAN MACRO ECONOMIC INDICATORS 1978-1997

Indicators	1978- 1981	1981- 1985	1990	1992	1994	1995	1996	1997
GDP Growth (%)	5.3	2.5	7.2	6.4	7.3	8.1	7.9	7.5 to 8.5 **
Inflation Rate (%)	-	8.4	8.1	7.6	9.2	8.6	7.4	5 to 7 **
Debt Service Ratio (%)	-	-	28	32	28	31	32	30 to 31 **
Income per capita (US \$)	530	-	680	745	795	978	1,128 *	1,280 *

Sources: Sjahrir, 1995; World Bank, 1993; Nomura Research Institute, 1997.
Kompas, 14 August 1995; Kompas, 14 August 1996; President Speech, 16 August 1996.

Notes : * Government Projection.
** Personal Projection of Widjojo Nitisastro (Suara Karya, 17 December 1996).
- = Not available.

2. The Impact of Economic Crisis on People's Life

The current economic crisis seems to have dissipated much of the achievements of the past three decades in just one year. Real income per capita fallen substantially. Currently, average income per capita is predicted only as high as 350 US dollar. The amount is almost similar to the situation in early 1970s. However, some economists stated that the current Indonesian economic situation is even worse than in the early 1970s. At that time, Indonesia didn't have much dealing with foreign debts and still had many natural resources. The reverse condition has occurred at present. Currently, the total Indonesia's foreign debts are around US \$ 150 billion. Among them, 80 billions was made by the government and the rest was made by private sectors. Debt Service Ratio (DSR) is about 52 percent, which is much higher than the ideal number (Capital 1999).

Although few data on the magnitude of economic change in the recent months are available, the most severe increases in poverty apparently occurred in urban areas in Java. The sectors most severely affected by the economic crisis – construction, manufacturing, property, banking and finance, industry – are mostly located in Java. On the other hand, agriculture, fishery, forestry and mining products for export, such as cocoa, cloves, timbers, plywood, oil and gas, gold, prawn, etc, are experiencing a boost because of their increased international competitiveness following the depreciation of Rupiah. The poverty line in urban areas is expected to grow more than double and it is much higher than in rural areas in absolute term. But it will be the rural areas that will see the biggest absolute increases in the number of poor, notably among agricultural

households, which were hit by El Nino. Not surprisingly, households in the agriculture sector are vulnerable to even smaller economic shocks (World Bank, 1998). This indicates that even though economic crisis has been occurring throughout the country, the level of the impact on people's life differs across the region. The National Family Data gathered in early 1999 showed that the increasing number of poor family mostly occurred in Java.

In addition, a study conducted by the World Bank in 4 regencies in Java, namely, Blora (Central Java), Gunung Kidul (DI Yogyakarta), Pacitan (East Java), and Semarang (Central Java) indicated the impact of economic crisis on people's life particularly in grass root level. In that study, researchers stayed in a particular neighborhood for about 2 weeks and observed the community's daily activities. They also interviewed many people in the community about the impact of economic crisis on their lives and how they coped with such problems. A study titled "Survival Strategies of the Javanese During the Economic Crisis" showed that the impact of the crisis on people's life, particularly in rural areas, is not as dramatic as published by many mass media. Economic crisis has decreased the level of people's lives particularly middle class people in urban areas but it has also created the 'new lifestyle' of people. People tend to work harder, live more economically, and they also tend to collaborate with each other to solve problems in the community (Kompas, 10 February 1999). Quite similar result was also found in another study done by the Demographic Institute, Faculty of Economics, University of Indonesia (1998). This study, which focused on the impact of economic crisis on environment condition, showed that respondent --intentionally or unintentionally-- tried to change their behavior to be more economical.²

However, no one doubted that the crisis has made the Indonesians in general suffer. Before the crisis, the number of people living under the poverty line declined to only 22 million people or 11 percent of the 198 million people in Indonesia. By August 1998, the overall CPI rose to 189 (from a base of 100 in 1996). The increase of CPI between May 1998 and August 1998 was remarkable because of the government's decision to reduce the subsidy on fuel prices as a response to the IMF's agreement. The overall inflation rate from December 1997 to July 1998 was 59.1 percent. The high inflation rate brought further suffering to the poor and the newly poor. The number of poor people increased to around 79 million people in the middle of 1998 according to the BPS estimation. (Mubyarto 1999). Evidence of severe malnutrition in children began to show in Java and even worse in remote islands and mountain areas. Central Bureau of Statistics (CBS) claimed that at the end of 1998, the number of poor people in Indonesia was around 49 million.

In times of crisis, children education tends to suffer first. Families pull their children out of school to try to cope with the crisis. The decrease in purchasing power and the lost of income due to lost of jobs because of the economic crisis will reduce parent's ability to send their children to school. Statistics on school enrollments to measure the effect of the crisis are few and inaccurate. Therefore estimates of likely dropouts are needed. Before the crisis, it was recorded that on average 4.8 million children entered primary school every year. Based on the information that 40 percent of the population lived under the poverty line, it could be assumed that there could be 1.9 million poor children withheld from primary school. The Ministry of Education and Culture estimated that among 29 million children already enrolled at primary school in 1998-1999, 1.65 million or 5.7 percent would drop out from school if there were no financial support. Among 8.33 million enrolled at junior high school, 1.11 million or 13.3 percent would drop out.

In August 1997, it was recorded that the number of labor force was 89.6 million. Of this number, 85.4 million were employed and 4.2 million were looking for a job. The economic crisis caused a high degree of lay-offs, the highest of which was in the constructional property sector followed by finance and manufacturing industries. The Ministry of Manpower and Bureau of National Development Plan (Bappenas) estimated that unemployment in 1998 was around 13 million or 15 percent of total labor force. Before the crisis, the average unemployment rate in Indonesia was 4-6 percent of the total labor force.

During the economic crisis, a number of problems have disrupted private and public services in the field of reproductive health and family planning. The high prices and lack of reliable public supply of medicine makes them in accessible to the poor and rural people. Compared to generic drugs, prices of non-generic drugs have increased more than 4-5 times. The price of generic drugs has almost doubled compared to prices before the crisis. Falling incomes leave families unable to cope with an expensive illness or to purchase expensive contraceptives such as implants or injectables.

3. Overall Population Situation in Indonesia

In the perspective of human resource development, several population characteristics have to be considered by the policy makers. Indonesia is the world's fourth most populous nation, after China, India, and the United

States of America. In the last five decades, the population of Indonesia increased from 75 million in 1945 to 205.2 million in 1999. It is estimated that the number of population will reach about 262 million in 2025, before it comes to a stable growth of population. The huge number of population – if qualified – could be an asset for the national economic development. In fact, data show that the level of education and training of labor force in Indonesia is quite unsatisfactory. The labor force structure according to education is still dominated by low level of educational attainment (Primary School and below) or unskilled labor force. According to the 1996 National Labor Force Survey, about 68.57 percent of Indonesia's labor force in 1996 was elementary or under elementary educated and it decreased from 76.27 percent in 1990. The low quality of labor force in Indonesia could be shown by the availability of skilled labor. It revealed that during 1980-1985 there were not many scientists and technical scientists, i.e. 10.1 per 1000 people. This rate was slightly higher compared to the average neighboring developing countries in Asia, except Thailand. The difference between Indonesia (10.1) and Thailand (1.2) is quite surprising considering the advanced development achievements of Thailand compared to Indonesia. The rate in Indonesia is about one-eighth of developed countries. The United States has 55 scientists per 1000 people, while Sweden has 262.

The age composition of the Indonesian population is currently between "young" and "old" ("intermediate"). Because of the age structure of the Indonesian population, the proportion non-productive age group is relatively large. Included in the dependent groups are those aged below 15 and over 60 years. The dependency ratio is defined as the ratio between the dependent groups (0-14 years or 60 years or more) and the rest of the population (age 15-59 years) assumed to be productive. Furthermore, regarding the current age structure and population growth, data indicates the number of the productive working-age, 15 to 59 years, is growing faster than other age groups, even compared to the population growth it self. Population growth decreased from 2.34 percent during the period of 1971-1980 to 1.96 percent in 1980-1990 and then 1.66 percent during 1990-1995. During 2000-2005 population growth is projected as high as 1.70 percent and it will decrease to only 1.10 percent in 2015-2020 (Demographic Institute FEUI 2000). In line with the population growth, the growth of labor force will also decline from 2.88 percent in 1998 to 2.54 percent in 2004. However, the number still increased from 81.2 million in 1993 to 93.8 million in 1998 and 106.5 million in 2003. The problem of continued population growth is quintessentially with an employment problem. The working-age population will continue to increase. Rapid growth of the working-age population means a rise in the labor force, especially for women workers.

Even though in the last two decades there has been a shift in the main industry of employment, the percentage of population working in agriculture sector is still dominant. In 1971 around 73 percent of total employment worked in agriculture sector, 11 percent in industry and 16 percent in the service sectors. Meanwhile in 1996, the percentage of employment in agriculture decreased to only around 44 percent. About 18 percent in the industry sector and the rest were working in service sectors of the economy. However, we should bear in mind that most of the employments in services sectors are working in the informal sector – such as street vendors and hawkers - rather than in the formal sector.

Another Indonesian population characteristic is uneven population distribution. Almost sixty percent of the total population lives in the island of Java and Bali, which constitute only 6 percent of the total land area of the country. During the last decade, the urban population was growing on an average of 5 to 7 percent annually. In contrast, the rural population was growing as low as 1.2 percent annually. Uneven population distribution across the country creates some problems in sustaining economic growth and environment. Densely populated areas on one hand may maintain the high economic growth since there is enough labor supply in these areas. However, people cannot sustain the economic growth because densely populated areas are closely related to environment degradation. On the other hand, it is very difficult to reach a high economic growth in less densely populated areas because there is not enough employment in those areas as well as insufficient markets for the products.

4. Proposed Strategies for Future Economic Development

High economic growth, in this context refers to the increase in economic output measured in terms of GNP or GNP per capita, is generally seen as a positive sign of development. But GNP figures only represent the creation of material wealth and they fail to measure, or measure only partly, the extent to which human lives are enriched. It is only this broader concept of increase in quality of life which leads to what one may call a development. In other words, high growth rates do not necessary lead to a substantial development of societies and of nations. Depletion of natural resources and exploitation of cheap labor can result in high growth rates for only a short period of time. Rapid growth of income also brings perceived unfairness in income distribution. The 'lost decade' of the 1980s brought economic stagnation and crisis to many economies. Mass poverty persists, and has probably worsened, both in the South

and in the North. Economic adjustment programs imposed on many Southern countries have helped only a few. Many of them now believe that the conditions of life and the livelihoods of large numbers of poor people, especially women and girls, have worsened as a result of development policies which is favoring macroeconomic stabilization or GNP oriented growth. (Sen et al. 1996). Furthermore, the current economic crisis reminds us that orientation on growth cannot be sustained the development process for a long time. Industrialization and liberalization of markets will not only bring efficiency gains and productivity increases, but also the danger of growing un- and underemployment, as can be witnessed in China and Indonesia. Governments have to work hard to maintain the delicate balance between economic growth and the risk of social disturbances.

The vision of governments regarding the future of their society, the way they invest in their development, and how they take care of the needs of their people and of their environment, are therefore of utmost importance in assessing the sustainable development. The observation and analysis of macro economic indicators such as growth rates, GNP figures, government budgets or current accounts are insufficient for these purposes. Sustainable development is the improvement of the quality of life for everyone. The ICPD 1994 in Cairo, stated that sustainable development implies, inter-alia, long-term sustainability in production and consumption relating to all economic activities including industry, energy, agriculture, forestry, fisheries, transport, tourism, and infrastructure, in order to optimize ecologically sound resource use and minimize waste. (UN 1995). Implicitly, it implied that sustainable development has to be pro-people, pro-environment, pro-jobs and pro-women. It also stresses the importance of an equitable distribution of the benefits of economic growth and the sharing of opportunities between individuals and generations.

Sustainable development is a means to ensure human well being equitably shared by all people today and in the future. Therefore the interrelationships between population, resources, and the environment and development should be fully recognized, properly managed, and brought into harmonious, dynamic balance. To achieve sustainable development and higher quality of life, a nation should reduce and eliminate unsustainable patterns of production and consumption and promote appropriate policies, including population-related policies, to meet the needs of current generations without compromising with the ability of future generations to meet their own needs. On the contrary, sustainable development will enhance the ability of countries to meet the pressures of an expected population growth. It also facilitates the demographic transition in countries where there is imbalance between demographic rates and

social, economic and environmental goals and will permit the balance and integration of the population dimension into other development-related policies. (UN 1995). Integrating population policies into economic and development strategies will both speed up the pace of sustainable development and poverty alleviation and contribute to the achievement of population objectives and an improved quality of the life of the population.

The concept of population quality or human capital is not new in economic science. Schultz (1981) stated that what we learned in recent decades about the economics of agriculture appeared to most reasonably well-informed people to be paradoxical. Agriculture in many low-income countries has the potential economic capacity both to produce enough food for the still-growing population and to improve the income and welfare of poor people significantly. The decisive factors of production in improving the welfare of poor people are not space, energy, and cropland, but the improvement in population quality and advances in knowledge. In simple concept, human capital means health and education. Education should be defined in a broader concept which is not limited to formal education only. Education includes provision and development of knowledge of the society. Therefore, investment in human capital means investment in health and education of the people. The United Nations Development Program (UNDP) in Human Development Report 1995 using the term human development comprehended it as a process of extending peoples choices. Principally these choices can always change. However, at every development level, human's three most essential elements are: (1) to have a long healthy life, (2) to get good education, and (3) to get an access to resources required in a good standard of life. If these three essential elements are not obtained, other opportunities will be difficult to obtain. The other elements are alternative choices revered by many people, i.e. political and economic matters, social freedom and opportunities to be creative and productive in enjoying self-respect of human rights.

According to the UNDP, human development has two aspects. First, the forming of the human capacity such as increasing the standard of health, knowledge and skill. Second, to make use of the capacity, which increases, from individual to community for a more productive activity or effort in various fields of life, including to make use of free time, art, cultural, social, political activities, etc. These two aspects have to be balanced by supporting each other. The World Bank comprehends the human resources development as an effort of human development which is connected to the development of activities in the field of education and training, nutrient health, fertility reduction, capability growth of technology, and research and development. The World Bank then

divides them into smaller components in the forms of education and training, health and nutrient, field of endeavor, healthy environment, career development in their jobs, and a free political life. Although the World Bank has divided the concept into smaller and detailed elements, it seems that its emphasis is on the component of education and training, which are the most important elements in the development. Improvement in human capital has brought a further economic development as well as reducing population growth. Therefore, human capital investment is not only beneficial for economic development but also for population quantity program.

Investment in improving population quality can significantly enhance the economic prospects and the welfare of poor people. Childcare, home and work experience, the acquisition of information and skills through schooling, and other investments in health and schooling can improve population quality. Such investments in developing countries have been successful in improving economic prospects. A study conducted by the East West Center in 1992 indicated that in Thailand and the Philippines, households with fewer children saved a higher percentage of their disposal income. Moreover, families with fewer children had higher household wealth in all ages. Thus, smaller families enjoyed greater protection from unexpected calamities, parents could look forward to greater economic security in their old age, and children could anticipate larger inheritances. The decline in child-rearing households may certainly promote development. Women who are not engaged in child-rearing, unless elderly, are more likely to seek employment. Families, which have completed their child-rearing are generally in much better position to accumulate wealth. Thus the specific ways in which reduced family size promotes development may vary, but the outcome may be the same. There are clear linkages between the decline in family size and rapid development in East Asia. High levels of educational attainment and high rates of saving are two of the key ingredients of the Asian's economic miracle (Mason 1995).

The relationship between population quality and national development is reflected in the level of productivity of employment. The important contribution of human productivity to the national development was shown by the experience of the current developed countries, such as USA, England, Japan, Germany, the Netherlands, North Italy, etc, when they started to develop their nations. The competitiveness of state economy in many cases depends on the rates of the wages of labor. However, the fact shows that increased of productivity will abolish the comparative advantages of labor's wages. By higher productivity growth, the state economy advantages, i.e. high labor's wage will be maintained and at the same time the labor welfare could improved (Williamson 1991). It is

clear that the capability to reach and maintain the nation with high standard of living not only depend on the comparative of low level of labor's wages, but also on the productivity of resources. State economy with higher and rising productivity will defeat other competitors easily.

Studies done by M.J. Bowman (1974), Mincer (1974), T.W. Schultz (1975, 1981), and others have demonstrated a high positive correlation between the amount of prior formal schooling and the amount of learning that occurs on the job, and the capacity to adapt later. Even though an individual only has a basic level of education, -which enables him to perform – reading and writing- he will still get some benefits of education in job condition. Furthermore, Becker explains about the presence of incompatible connection between unemployment and education level, and the presence of positive relationship between education level and income (Becker 1975). In fact many empirical findings show that there are other factors beside formal education, which is more influential to someone's employment status and income. Education also facilitates the movement of an underutilized labor from low productivity industries (such as agriculture, even though productivity growth in agriculture is high) into high productivity Small Medium Enterprises (SME's). This helps to broaden the base of industrialization and widen the percentage of the population receiving earnings and participating in the growth process.

In Indonesia, although the Guidelines of State Policy (*GBHN*) states that economic development is in-accordance with human resource development, government has put too much stress on economic growth rather than on human resource development. With this new orientation on people matters, GNP growth may not be as high as before, but it promises the sustainability of development; otherwise, Indonesia will repeat the previous mistake. It is necessary to be noted that the people-centered-development or human resource development is not an anti-growth concept. Indeed a long-term and sustainable growth is the objective of the people-centered- development. Furthermore, growth is needed to enhance the quantity and quality of health and education in a broader sense; therefore, the strategy of the people-centered-development is much more relevant during the crisis. The deteriorating of health and education is the most fundamental factor that has to be faced. Improvement in these factors will greatly help the effort in reducing poverty.

Several prevailing problems of the government health services system are: chronic insufficiency in the operational budget; inability to target the poor and the vulnerable effectively?; lack of authority to retain revenue to complement necessary operational cost; and lack of authority to carry out "target

based budgeting" (bottom up planning and budgeting) as opposed to "budget based targeting" (top down planning and budgeting) (Gani 1998). Therefore, Indonesia needs to reform its health sector system. As a matter of fact, health sector reform which has been undertaken in Indonesia covers several areas simultaneously, namely (1) health sector financing, (2) health service delivery system, and (3) health administration and management.

The objectives of health financing reform are (1) to mobilize more resources, (2) to improve allocation, and (3) to improve utilization of the limited health funding. Introduction of the managed health care (JPKM), user fee mechanism, block grant of central health budget, revenue retention and "earmarked tax" from tobacco and alcohol and focusing the allocation of government health funding for public health programs are several options for health financing reform. Of those options, four reforms were implemented in Indonesia i.e. (1) JPKM development, (2) fee adjustment, (3) revenue retention by health services facilities, and (4) specified block grant. Under the health reform, JPKM (managed health care) should be implemented on a compulsory basis in order to protect the health of the poor and the vulnerable. Users fee adjustment initiated with an intensive research on unit cost and the ability to pay. This reform was undertaken in 1993 – 1996 before the economic crisis.

It is now strongly proposed to postpone this policy due to the fact that the crisis has created an enormous number of new poor people in the society. Revenue retention by health services facilities is based on Unit Swadana (self-funding) policy. However, the policy is limited to allow the respective health services facilities to retain only a portion of their revenues. It is recommended that total retention policy (100 percent of the revenues) should be adopted so that services facilities can provide cross subsidy to the poor and also improve its performance (quality and coverage). Specified block grant is proposed to remedy the problem with fragmented and top down planning and budgeting of health program funded by central sources. In line with policy to give autonomy to district level a method for an "Integrated Health Planning and Budgeting" or IHPB has been developed by the Bureau of Planning (ABD supported project). The IHPB model provides methods for bottom up planning and budgeting that allow district level to determine its program target and make budget estimate accordingly (Gani 1998).

Meanwhile government health service system is playing a major role in rendering basic health services. Contracting out the provision of those services to non-government health institutions (non-profit as well as profit-generating organizations) should be explored seriously since this reform can be regarded as

a pilot project. The purpose is to see whether presumption that a non-government institution is more cost effective can be verified. If it turned out to be true, this model will be regarded as another option for health service delivery reform. "Swadana" (self-funding) policy is currently implemented in several public hospitals. Success story, observed in many hospitals, gives all the reason to continue and expand this policy. Privatization of public health services is another option in delivery reform. Total privatization is not recommended because empirical experience has demonstrated market failure if this policy were adopted, which is against the normative objective of health sector reform as stated above. However partial privatization, such as contracting out certain functions (laundry, catering, etc.) or joint investment for expensive medical equipment (such as private investment of CT scan in public hospital) is worth considering if it proves to be more efficient than the government investment. This policy will relieve government from the burden of financing expensive medical equipment and therefore allow more allocation of funds to support other essential basic health services for the poor. The other reform proposed in the health service is to support the development of gatekeepers managed by a family doctor. To enhance the role of these doctors, the model of a conventional family physician need to be slightly modified. The "gate keeper" should be consisting of a medical doctor assisted by a number of public health nurses who perform home visits.

Decentralization to district level, professionalism in hospital administration and good governance are specific reforms undertaken in health and health care administration. Under the autonomy policy District Health Office will have more authority to carry out integrated health planning and budgeting as well as making necessary operational decision.

Before the crisis, the development of educational sector showed quite a satisfactory result. In 1970 the literacy rate of people over 15 was only 54.0 percent, in 1995 this number increased to 83.8 percent which was 89.6 percent among male and 78 percent among female.^{3,4} Compared to people in other countries, the ability of Indonesians to read is quite high. The average literacy rate in developing countries is only 75 percent for men and 55 percent for women. Meanwhile, the percentage of student enrollment in High School increased from 10 percent in 1968 to 46 percent in 1994, with the target of 100 percent in 2008; and the step up student enrollment in tertiary education. However education sector in Indonesia still has to face problems concerning education quality. There are still a large number of dropouts especially in villages coupled with efficiency problems in all education level.

The SRR (Social Rate of Return) of basic and under education decreased steeply, i.e. from 13 percent in 1982 to 4 percent in 1989 (see Table-2). This shows that there are too many basic educated labors, who are classified as mostly blue-collar workers. This means that investment priority on basic education only is no longer sufficient. It seems that the government has to start giving priority to the higher education level, i.e. the SLTP and SLTA (Junior and Senior High School). Along with this, the 9 years compulsory education program, which has already been proclaimed by the government, seems to be the right move.

Table 2
SOCIAL RATE OF RETURN (SRR) BY LEVEL OF EDUCATION, 1982-1989
(IN PERCENT)

Level of Education	1982	1986	1988	1989
Primary School and Less	13	16	13	4
Junior High School	17	14	13	14
Senior High School (General)	22	16	13	11
Senior High School (General)	16	15	10	6
Academy	13	10	12	5
University	11	7	6	5

Source: Ministry of Education and Culture R.I., 1992.

The bottom line of education problem is closely related to the budget shortage. From the side of public spending percentage for education towards GNP, the position of Indonesia is low. Longitudinal data, from 1960 to 1989, shows that the percentage of investment of education to GNP was only on an average of 3.8 percent per year - which it was the lowest percentage among the ASEAN countries. On the contrary, during the same time (1960-1989) Indonesia invested aggressively in physical capital from about 11.7 percent of GNP in 1969 to about 30.17 percent of the GNP in 1989. This is the highest level among ASEAN countries except for Singapore (Ministry of Education, 1992).⁵ Furthermore, Indonesia's investment in education is relatively low, i.e. about 2.95 percent of the GDP while other ASEAN countries invest more than 4 percent of the GDP for education.

Compared to other countries in Southeast/ East Asia, the percentage of public expenditure for elementary and secondary school in Indonesia is quite low, only about 52 percent, while in Thailand it is about 78 percent, Malaysia (69 percent, Philippine (73 percent and South Korea (78 percent. On the contrary, the public expenditure for the tertiary education in Indonesia is quite high, which is about 20 percent, while in Thailand it is about 15 percent), Brunei

(10 percent), Philippine (15 percent). It shows that the government of Indonesia pays more attention to the primary and secondary level of education i.e. through 9 years compulsory education and leaves the higher level of education to the public contribution (Ananta 1995).

Responding to the globalization era, the government needs to pay more attention to higher education in order to fulfill the global and regional labor market demands, which are created by the economic globalization.⁶ Improving quantity and quality of higher education and training institutions needs to be done, otherwise Indonesian manpower can not compete with manpower from other countries nor can it fulfill the domestic labor market. Higher education has been expanded rapidly since 1969 (the first year of First-Five-Year Development Plan).

The accomplishments in education have been truly remarkable, increasing from few institutions in 1968 to at least one public university in every province, and over 700-800 colleges altogether. Participation rate of higher education increased from less than 1.63 percent in 1968 to more than 8.43 percent in 1992 (Ministry of Education and Culture, 1992).⁷ The expansion in quantity of higher education has caused many problems with academic quality. For example, inadequate faculty salary was one of the reasons for faculty to be employed elsewhere. Furthermore, they do not have time to update their professional academic skills. There are also problems with financing related to internal inefficiencies and costs accompanied by problem of quality.⁸ The quality problem of the technical, professional, and research training appears to contribute to the problems of employability. Not only are many graduates remain jobless, and not employable, but they are also experience an excessive long job search time⁹. Furthermore, the rate of return of higher education in Indonesia is relatively lower compared to other level of education (see Tabel 2). It also needs to be tackled seriously since data indicate that the rate of return of higher education tend to decrease over time. The low rate of return at higher education is partly due to the excessively long period of study – between 7 to 10 years – for a supposedly 4 years of university study. This situation will increase the study costs. Therefore, it is important to concentrate on improving the quality and efficiency of the higher education and establishing college placement offices that work with students, to achieve earlier employability of new college graduates.

In line with the above issues, the government of Indonesia has set the goals of higher education as follows:

- Expanded Access: Raising net enrollment from 6.5 percent in 1992 to 25 percent by 2018;
- Improved Efficiency: Reducing average enrollment for 4 year bachelors degree programs, which will reduce costs and permit greater expansion of net enrollments, increase resource recovery from parents and students;
- Greater Equity: Tuition waivers only for students of lower income families, and
- Improved Quality: Better salary incentives to attract and retain higher quality faculties.

Implementing the goals is an equally great challenge. The size and complexity of the suggested improvements in access, efficiency, equity, and quality will place new and heavy demands on educational management and require special attention on implementation planning. The translation of goal into programs involves defining the responsibility of each level of the educational bureaucracy. Which decisions should remain centralized, which should become decentralized and which goals can the private sector is in the best help (e.g. textbooks production, accreditation of private colleges, internships, etc). Central management is still needed to be involved in the allocation of funds and the management of large scale, complex operations such as the purchase and distribution of equipment. Central authority may also be expected to play a major role in defining the general direction for educational change, monitoring resource flows, ensuring adequate inputs, and mobilizing national commitment when necessary.

The ability of central policy makers to affect what happens inside the universities and colleges can be greatly enhanced by effective local university and college management. Reliance on centralized management to specifying quantities and program delivery may overestimate the capability of the central authority to control implementation efficiently while simultaneously it underestimates the need for local adaptation. For effective implementation, local level involvement is needed in the more detailed proposing and planning for new programs and in the mobilization of tutor and parent participation. Successful management and implementation of the proposed reforms need an additional responsibility and resources to be transferred to the university level and the creation of participatory decision making processes involving parents' concerns.

Achievement of all goals requires adequate resources. The substantial community participation including private sectors needs to be encouraged. The central government expenditure on education has to be increased steeply from

3.8 percent of GNP in 1995 to about 7.0 percent of GNP in 2018. Reform of the provincial and local tax system is needed to increase community participation both in the financing and in the decision making. Private universities need to be strengthened through accreditation, with parents bearing most of the costs of the continuing expansion. Students can also assist in the financing through work-study program, student loan, and half time research and teaching assistantship services. Private business firms have particularly important new roles in the production and delivery of textbooks and in assisting with vocational training through part-time internships. Firms can also assist through much closer relationships with colleges of Engineering, Agro-Business, or Business Administration. Since Indonesia is at the moment facing the economic crisis, special grant through social safety net program needs to be delivered to the students based on professional judgment.

In economic sector, it is time to reconsider about the export oriented strategy. During the crisis, the dependence on international market may have contributed to the severity of the crisis, since the crisis was triggered by international situation. Many domestic prices rose because many of them contain imported components. The Indonesian has just realized how dependent they are on imported materials. Studies done by Chenery (1960), and Chenery and Taylor (1968) showed the strong negative relationships between population size and the extent of international trade. Small country in term of the number of population depended mostly on international trade (Chenery 1988). In this sense, the number of population in Indonesia is a potential market for economic activities, because people from the lowest 40 percent of the income brackets are the most potential market. Indonesia should do business for these people, although income and price elasticity is low, it is still a profitable business. Because multiplier effect is also big, it will also promote economic equality. Growth may not be high, but it promises a better and more equality.¹⁰

Moreover, the inward looking strategy is in line with the people-centered-development. Businesses which are going to be developed should match with the market. Therefore, business activities can be more sustained. Government should promote small and simple business activities, particularly those related to foods and cheap consumer goods that can be absorbed by the majority of Indonesian population. Indonesia could not jump from agriculture society to the advanced industrial society by promoting the high-tech industries.¹¹ The economic development strategy should be formulated based on own resources and capacities. In this sense, agriculture sector should be developed more seriously. The policy should be related to raise the rate of returns from agriculture, because the product is needed by all people. Indonesia

should not make excessive protection to the domestic producers. Foreign investors are also allowed to produce goods and services for this attractive market, including those in agriculture sector.

5. Conclusion

Even though there have been several positive indications of economic development lately-- inflation rate and economic growth has move to the positive ways-- , - it is still too early to claim that Indonesia has begun the economic recovery. Furthermore, if the government still focuses on economic growth approach there is no guarantee that Indonesia will accomplish the sustainable economic development in the future. Indonesia needs a much more fundamental economic reform. Human capital is often seen outside the scope of economic policies. Yet, it may not be an overstatement to say that human capital reform is the most fundamental reform Indonesia required at present. The government must give equal consideration on human capital development in the economic policies. GNP oriented growth must be replaced with the alternative approach, which call for people-centered approach. People-centered development approach sees that human capital is the basic of the economy. Improvement of human --i.e. health and education- is a necessary condition to raise labor productivity, which in turn will raise the earning and the welfare of the people. In other words, human capital will h help a lot in the effort to reduce and even to eliminate absolute poverty.

Notes:

1. Revised version of a paper presented at the "Joint Convention for Asian Economic Studies in Kitakyushu", Japan on November 5 and 6, 1999.

2. Other study done by Faturochman with 331 respondents in Klaten Regency, Central Java, reported that only one-third of the rural population suffered from declining prosperity while the other two thirds remained unaffected by the economic crisis (Mubyarto 1999).

3. See. UNDP, 1999: Human Development Report 1998.

4. Indonesia achieves a satisfactory result on education development since the government launched the six-year compulsory education in 1976. As a result of the compulsory education, the percentage of children aged 7 to 12 years old who are attending school increased from 1971 to 1990. The figure for males were 62 percent in 1971 and 91percent in 1990, whereas for females, the figures were 58 percent in 1971 and 92 in 1990. Furthermore, government also

launched the out-of-school program called 'Kejar Paket A' which provides the basic education i.e. reading and writing for people above 7-12 years old.

5. Meantime, Hill (1996) showed that investment on education in Indonesia during 1975 to 1990 decreased substantially. In 1975 investment on education had been 2.7 percent of GNP while in 1990 it was only 0.9 percent. He also showed that in 1975, investment on education was only 13.1 percent of government budget and in 1990 the figure was even worse (4.3 percent).

6. A nation's success in developing technology is very much determined not only by the number of human resources available, but also by its quality. This quality can be expressed by various indicators. Among others are: the quality of skilled manpower possessed, the rate of people with high school education, and the university enrollment for people aged 20-24 years.

7. Significant growth has occurred after 1978 up to recent time. During the last 20 years, participation rate has increased about 6.1 percent per year consistently.

8. The curricula and teaching methods are not always conducive to expeditious creation of a technically qualified, problem solving, and innovative labor force, which can contribute effectively to economic development.

9. Job search time in Indonesia is far longer than is typical in Western market economies. Suryadi (1994) showed that about 70 percent of graduates need one to two months to find a job. Other study done by the Ministry of Education and Culture (1992) found that 41 to 51 percent of graduates leaving Academy and University, respectively have a job after one month. However, about one-third of them experience a job-search time of 3 months or longer. As a comparison, in U.S. more than 90 percent of graduates are employed in less than one month.

10. Inward looking policy doesn't mean that export and import should be discouraged or regulated, rather to let the market decide whether and how much to export and to import. There must still be free export and import activities. Government must not return to import substitution policies. However, government must help establish and promote the domestic market as its first priority.

11. During 1966 to the end of 1970's, economists designed the development of industrial sectors based on the prudential macro economic strategy. It means that labor force situation as well as financial aspects are the essential factors on the industrial development. However, since early 1980's the industrial development strategy have been replaced by Habibie as a State Minister of Science and Technology to the high-tech industries. (Hill, 1996).

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