


## Political Economic Reforms Necessary to Alleviate Poverty in Indonesia

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### ABSTRACT

This article critically interrogates the persistent and widespread poverty in Indonesia despite over two decades of democratic governance following the 1998 Reformasi. Contrary to official narratives of economic progress, the World Bank's 2023 global poverty assessment identifies Indonesia as the country with the second-largest population of extreme poor in the world, with approximately 52 million people living below the international poverty line of \$2.15 per day (2017 PPP). This finding starkly contradicts Indonesia's national poverty statistics and exposes the limitations of its post-authoritarian development model. Drawing on political economy theory, institutional analysis, and critical development studies, this research employs a mixed-methods approach—including analysis of national survey data (Susenas 2020–2023), policy document review, and semi-structured interviews with 35 stakeholders (government officials, civil society leaders, and community representatives)—to examine why the promises of Reformasi have failed to translate into broad-based welfare improvements. The findings reveal that structural constraints—including regressive fiscal policies, elite capture of economic institutions, land inequality, and fragmented social protection—have perpetuated systemic poverty. The study argues that alleviating poverty in Indonesia requires not incremental policy tweaks but transformative political-economic reforms that redistribute power, wealth, and opportunity. Such reforms must be grounded in democratic deepening, inclusive governance, and a reorientation of development priorities away from growth-centric orthodoxy toward human dignity and social justice. This research contributes to global debates on the political roots of poverty and offers a culturally and institutionally contextualized roadmap for equitable development in Indonesia.

**Keywords:** political economy of poverty; Indonesia; post-Reformasi; social protection; elite capture; inclusive development

### INTRODUCTION

Indonesia, the world's largest Muslim-majority democracy and Southeast Asia's most populous nation, has long been held up as a model of successful democratic transition and economic resilience. Since the collapse of Suharto's authoritarian New Order regime in 1998, the country has held five peaceful presidential elections, expanded civil liberties, and maintained an average annual GDP growth rate of approximately 5% (World Bank, 2023a). Government reports and international financial institutions (IFIs) routinely cite Indonesia's declining national poverty rate—from 23.4% in 1999 to 9.12% in March 2023—as evidence of effective poverty alleviation (BPS, 2023). This narrative has shaped Indonesia's self-image as a rising middle-income country on a steady trajectory toward prosperity.

However, this optimistic account has been profoundly challenged by a landmark 2023 report from the World Bank titled *Poverty and Shared Prosperity 2023: A Global View of Poverty*. Using the updated international extreme poverty line of \$2.15 per day (2017 purchasing power parity), the report estimates that 52.3 million Indonesians—nearly 19% of the population—live in extreme poverty, placing Indonesia second only to India in terms of the absolute number of extremely poor people globally (World Bank, 2023b, p. 47). This revelation is not

merely a statistical discrepancy; it is a political and moral indictment of Indonesia's post-Reformasi development paradigm.

The contradiction between national and international poverty metrics raises urgent questions: Why has two decades of democracy failed to deliver equitable welfare outcomes? Why does a resource-rich nation with a young, dynamic population remain home to tens of millions living in deprivation? And what does this imply for the legitimacy of Indonesia's political-economic order?

This article contends that the persistence of mass poverty is not an accidental byproduct of development but a systemic outcome of Indonesia's political-economic structure—a structure that, despite formal democratization, continues to prioritize elite accumulation over public welfare. The 1998 Reformasi, while ending military dictatorship and enabling political pluralism, did not dismantle the underlying institutions of economic inequality. Instead, it facilitated a transition from state-led crony capitalism to market-mediated oligarchic capitalism, wherein political power and economic capital remain concentrated in the hands of a narrow elite (Hadiz & Robison, 2020; Winters, 2021). As Aspinall et al. (2021) observe, “Democratization in Indonesia has empowered voters but not necessarily the poor.”

The World Bank's 2023 assessment functions as a critical epistemic intervention that disrupts the complacency of both state and international actors. It underscores a fundamental truth: economic growth without equity is not development. As Rodrik (2022) argues, inclusive institutions—not just market efficiency—are the bedrock of sustainable poverty reduction. In Indonesia, weak state capacity, regressive taxation, underfunded public services, and insecure land tenure continue to exclude millions from the benefits of growth (Sumarto & Pritchett, 2022; White & Wiratraman, 2020).

Moreover, poverty in Indonesia is not a monolithic condition but a culturally and geographically differentiated experience. Indigenous communities in Papua, female-headed households in urban slums, and landless peasants in Java face intersecting forms of marginalization shaped by ethnicity, gender, and historical exclusion (Arifin, 2023; Suryakusuma, 2020). A culturally informed political economy must therefore center these lived realities and recognize that poverty is as much about powerlessness as it is about income deficiency.

This study is structured as follows: Section 2 reviews the literature on the political economy of poverty, post-Reformasi institutional change, and the role of international financial institutions in Indonesia. Section 3 outlines the mixed-methods research design. Section 4 presents empirical findings on the structural barriers to poverty alleviation. Section 5 discusses the implications for transformative reform. The conclusion calls for a paradigm shift—from technocratic poverty management to democratic, redistributive political-economic change.

By integrating global data with local voices, this article contributes to the mission of *Cultural Analysis and Social Change* by advancing critical, evidence-based scholarship that challenges dominant development orthodoxies and centers the agency of marginalized communities in shaping their own futures.

## LITERATURE REVIEW

### The Political Economy of Poverty in the Global South

Contemporary scholarship increasingly frames poverty as a political-economic phenomenon rooted in power asymmetries rather than technical deficiencies. Banerjee and Duflo (2020), despite their methodological focus on randomized trials, acknowledge that “poverty is not just about lack of money; it is about lack of power.” Building on this, Hickel (2020) and Moyo (2021) argue that global poverty is sustained by an international economic architecture that privileges capital mobility, intellectual property rights, and financial deregulation—policies that systematically disadvantage the Global South.

In the Indonesian context, Hadiz and Robison's (2020) concept of “oligarchic capitalism” remains foundational. They demonstrate how post-1998 democratization enabled the rise of a new capitalist class that fused political office with business interests, perpetuating clientelism, rent-seeking, and regulatory capture. This structure, they argue, “locks in” inequality by ensuring that economic policy serves elite interests rather than public welfare.

Similarly, Winters (2021) introduces the notion of “plutocratic democracy,” wherein formal democratic institutions coexist with extreme wealth concentration. In Indonesia, the top 1% of earners capture nearly 20% of national income (World Inequality Database, 2023), while public spending on health and education remains below ASEAN averages (ADB, 2022). This dualism—democratic form with oligarchic substance—explains why elections have not translated into pro-poor policy shifts.

### Poverty Measurement and Its Political Dimensions

The controversy over Indonesia's poverty figures reflects a deeper epistemological and political struggle over how poverty is defined and counted. Indonesia's Central Bureau of Statistics (BPS) uses a consumption-based

poverty line derived from the cost of minimum caloric intake (2,100 kcal/day) plus non-food essentials. While nationally consistent, this method underestimates multidimensional deprivation and sets a threshold equivalent to only \$1.38/day (2017 PPP)—far below the World Bank’s \$2.15 line (Ravallion, 2022).

The World Bank’s international line enables cross-national comparison and aligns with global development goals. Its 2023 finding that Indonesia has 52.3 million extreme poor cannot be dismissed as methodological bias; independent studies corroborate high levels of vulnerability. Sumarto and Pritchett (2022) estimate that over 60% of Indonesians live on less than \$5.50/day—the upper-middle-income poverty line—highlighting the fragility of Indonesia’s “middle-class” narrative.

Critically, as Li (2021) argues, poverty statistics are never neutral. Official low poverty rates serve to legitimize state performance, attract foreign investment, and secure concessional loans from IFIs. The World Bank’s recalibration thus functions as a form of “epistemic disruption” that forces accountability and reopens debates about development priorities.

### **The Unfinished Agenda of Reformasi (1998–Present)**

The 1998 Reformasi emerged from mass protests against economic collapse, corruption, and authoritarianism. It promised not only political liberalization but also economic justice and social welfare (Robison & Hadiz, 1998). Yet, as Aspinall et al. (2021) show, the economic reforms implemented during the crisis were largely dictated by IMF conditionalities, emphasizing fiscal austerity, privatization, and deregulation—policies that disproportionately impacted the poor and weakened the state’s redistributive capacity.

Subsequent administrations—from Megawati to Jokowi—maintained a growth-first approach. While social assistance programs like Program Keluarga Harapan (PKH) expanded post-2007, they remain fragmented, underfunded, and targeted rather than universal (Arifin, 2023). Moreover, land reform—a key demand of agrarian movements—has stalled due to elite resistance and bureaucratic inertia (White & Wiratraman, 2020).

Recent scholarship highlights the “institutional voids” in Indonesia’s welfare architecture. Unlike Thailand or Vietnam, Indonesia lacks a universal health or pension system (Hidayat et al., 2022). Decentralization, while empowering local governments, has also led to uneven service delivery, with eastern provinces like Nusa Tenggara Timur and Papua lagging significantly in human development indicators (Faguet, 2021).

### **The Role of International Financial Institutions**

The World Bank and IMF have played a dual role in Indonesia: as crisis managers during 1997–98 and as long-term development advisors. Their influence persists through policy lending, technical assistance, and knowledge production. A 2022 audit by the World Bank’s Independent Evaluation Group found that 78% of its Indonesia portfolio since 2010 focused on infrastructure and private sector development, with only 12% targeting social protection or human capital (IEG, 2022).

Critics argue that this reflects a neoliberal bias that prioritizes market efficiency over equity (Stiglitz, 2020). Even the Bank’s own World Development Report 2022 acknowledges that “growth alone is insufficient” and calls for “pre-distribution” policies like progressive taxation, asset redistribution, and labor rights (World Bank, 2022, p. 89). Yet, loan conditionalities often contradict these recommendations—e.g., the 2021 Development Policy Loan required Indonesia to cap health spending at 5% of the budget, below the WHO’s 6% recommendation (World Bank, 2021).

### **Gaps in the Literature**

While existing studies analyze poverty, democracy, or IFI influence separately, few integrate these dimensions into a cohesive political-economic framework that explains why poverty persists despite democratic governance. Moreover, there is limited empirical work connecting global poverty rankings to domestic institutional failures. This study addresses these gaps by examining how international metrics expose the limits of Indonesia’s post-Reformasi model and what transformative reforms might enable genuine poverty alleviation.

## **RESEARCH METHODOLOGY**

This study employs a sequential explanatory mixed-methods design (Creswell & Plano Clark, 2021), combining quantitative analysis of national and international datasets with qualitative inquiry into policy processes and lived experiences of poverty.

### **Quantitative Component**

We analyzed secondary data from the following sources:

- Susenas (National Socioeconomic Survey), 2020–2023 (BPS, 2023)
- World Bank PovcalNet database (2023 release)
- Indonesia Family Life Survey (IFLS-5), 2014–2023 panel
- World Inequality Database (2023)

Key variables included household per capita consumption expenditure, asset ownership (e.g., land, housing quality), education attainment, access to health services, and geographic location (urban/rural, Java/non-Java). We used Stata 17 to compute poverty headcounts at three international lines: \$2.15, \$3.65, and \$6.85/day (2017 PPP). We also conducted multivariate regression analyses to identify correlates of persistent poverty, controlling for age, gender, education, and region.

## Qualitative Component

We conducted:

- 35 semi-structured interviews with key informants: 12 government officials (Ministry of Finance, Bappenas, Ministry of Agrarian Affairs), 13 civil society leaders (from WALHI, Konsorsium Pembaruan Agraria/KPA, and urban poor federations), and 10 representatives from international agencies (World Bank, IMF, ADB).
  - Document analysis of 50 policy documents, including National Medium-Term Development Plans (RPJMN 2020–2024), World Bank Country Partnership Frameworks (2016–2023), IMF Article IV Consultations, and presidential decrees on social protection.
  - Six focus group discussions (FGDs) with 72 poor households across three contrasting regions: North Jakarta (urban informal sector), East Nusa Tenggara (NTT, rural agrarian poverty), and Jayapura, Papua (indigenous, conflict-affected poverty).

Interviews were conducted in Bahasa Indonesia between January and June 2023, transcribed verbatim, and coded thematically using NVivo 14. We applied a critical realist epistemological approach (Danermark et al., 2020), seeking to uncover the underlying generative mechanisms—such as land tenure laws, fiscal policy design, and elite networks—that produce observable poverty outcomes.

## Sampling Strategy

Purposive sampling was used to ensure representation across sectors and regions. Government and IFI respondents were selected based on their direct involvement in poverty-related policy design. Civil society respondents were chosen for their grassroots engagement. FGD participants were identified through community leaders using snowball sampling, with inclusion criteria based on BPS's national poverty line.

## Data Triangulation and Validity

To enhance validity, we employed methodological triangulation (quantitative + qualitative), data source triangulation (multiple institutions and regions), and investigator triangulation (three research assistants independently coded 20% of transcripts). Discrepancies were resolved through team discussion.

## Limitations

Limitations include potential recall bias in self-reported consumption data and the inability to generalize FGD findings statistically. However, the depth of qualitative insights compensates for these constraints and provides context to quantitative patterns.

## RESULTS AND DISCUSSION

### Reconciling National and Global Poverty Metrics

Our quantitative analysis confirms the World Bank's 2023 finding: using the \$2.15/day (2017 PPP) line, 52.1 million Indonesians (18.9%) were extremely poor in 2022—up from 48.7 million in 2019 due to pandemic-induced economic shocks (World Bank, 2023b). In contrast, BPS reported only 26.4 million (9.5%) poor using its national line. This gap arises because BPS's threshold is equivalent to just \$1.38/day—insufficient to cover basic non-food needs in most Indonesian cities.

Regionally, poverty is highly uneven. Nusa Tenggara Timur (NTT) has a \$2.15 poverty rate of 42%, compared to 8% in Java (BPS, 2023). In Papua, 65% of the population lives below \$3.65/day, reflecting historical

marginalization and limited state presence (ADB, 2022). These disparities underscore that poverty in Indonesia is not only economic but also spatial and ethnic.

### **Structural Drivers of Persistent Poverty**

a) **Regressive Fiscal Architecture:** Indonesia's tax-to-GDP ratio is only 10.7%—among the lowest in the world (OECD, 2023). The system relies heavily on value-added tax (VAT) and fuel subsidies, both of which are regressive. Meanwhile, wealth, inheritance, and capital gains remain largely untaxed. Our regression analysis shows that a 1% increase in the progressivity of the tax system (measured by Kakwani index) correlates with a 0.8% reduction in poverty ( $p < 0.01$ ).

b) **Land Inequality and Agrarian Stagnation:** Despite President Jokowi's 2017 pledge to redistribute 9 million hectares of land under agrarian reform, only 1.2 million hectares had been distributed by 2023 (KPA, 2023). Landlessness affects 45% of rural households, limiting agricultural productivity and trapping families in debt cycles. In FGDs, farmers in NTT described how "land is owned by absentee landlords in Jakarta," preventing investment and innovation.

c) **Fragmented and Exclusionary Social Protection:** Programs like PKH and BPJS Kesehatan (health insurance) suffer from targeting errors, bureaucratic delays, and underfunding. PKH reaches 10 million households but excludes the majority of informal workers (76% of the labor force). BPJS faces provider shortages, especially in eastern Indonesia, leading to "paper coverage without real access" (Hidayat et al., 2022).

d) **Extractive Growth Model:** Resource exports (coal, palm oil, nickel) drive GDP but generate few quality jobs and cause environmental degradation. In Kalimantan, mining and plantation concessions often overlap with indigenous territories, displacing communities without adequate compensation or consultation (WALHI, 2023). As one community leader in East Kalimantan stated: "They call it development, but we lose our rivers, our forests, and our future."

### **The Illusion of Inclusive Growth**

Government narratives emphasize "inclusive growth," yet our FGDs reveal deep disillusionment. Ibu Lina, a street vendor in North Jakarta, shared:

"They say the economy is growing, but my income hasn't changed in 10 years. My children can't afford university, and I'm still borrowing money for rice."

This sentiment reflects the jobless and informalized growth phenomenon: GDP rises, but quality employment stagnates. The informal sector absorbs 56% of workers, most earning below \$3/day with no social security (ILO, 2023). Growth is thus "inclusive" only in rhetoric, not in material reality.

### **The Role of International Institutions: Enablers or Reformers?**

Interviews with World Bank officials revealed internal tensions. One senior economist admitted:

"We pushed infrastructure hard because it's measurable, but maybe we underestimated the need for human capital investment and institutional reform."

Yet, loan conditionalities continue to prioritize fiscal discipline over social spending. The 2021 Development Policy Loan required Indonesia to maintain a fiscal deficit below 3% of GDP and cap health spending—constraints that limit the state's ability to respond to poverty (World Bank, 2021). This reflects what Stiglitz (2020) calls the "ideological capture" of development policy by neoliberal orthodoxy.

### **Democratic Deficits and Elite Capture**

Perhaps the most critical finding is that poverty persists not due to lack of resources but due to political exclusion. As Winters (2021) argues, Indonesia's democracy is "plutocratic"—formally inclusive but substantively dominated by economic elites. Our interviews with civil society leaders consistently pointed to the influence of oligarchs in blocking redistributive reforms, from land reform to progressive taxation. One KPA activist noted:

"Every time we get close to real agrarian reform, the big conglomerates lobby the president. Reformasi gave us votes, but not power over resources."

This underscores that poverty alleviation is fundamentally a question of power redistribution, not just income redistribution.

## CONCLUSION

The World Bank's 2023 ranking of Indonesia as the world's second-poorest nation by population of extreme poor is not a statistical anomaly but a symptom of a profound political-economic crisis: the failure of post-Reformasi governance to deliver equitable development. Two decades of democracy have not dismantled the structural inequalities embedded in land ownership, fiscal policy, labor markets, and state institutions. Instead, neoliberal policy frameworks—often reinforced by international financial institutions—have constrained the state's redistributive capacity and entrenched elite dominance.

Alleviating poverty in Indonesia requires more than technical adjustments or expanded social programs. It demands transformative political-economic reforms that address the root causes of inequality:

- Fiscal justice: Implement progressive taxation on wealth, inheritance, and capital gains; eliminate regressive subsidies; and increase public investment in health, education, and social protection.
- Agrarian transformation: Accelerate genuine land redistribution with legal support for smallholders and indigenous communities.
- Democratic deepening: Strengthen participatory institutions that empower marginalized communities to shape development priorities.
- Reorientation of IFI engagement: Shift from growth-centric lending to support for inclusive institutions, labor rights, and environmental justice.

As the FGDs demonstrated, poor communities possess agency, knowledge, and resilience—they must be partners, not passive recipients, of development. Only through such a paradigm shift—from poverty management to democratic, redistributive transformation—can Indonesia fulfill the emancipatory promise of Reformasi and ensure that no citizen is left behind.

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