

# CHAPTER I

## INTRODUCTION

### 1.1 Background

Poverty is an international issue encountered by all nations, whether developed or developing nations, each having its severity. However, developing nations are impacted the most. There is no exclusive definition of poverty that applies to everyone. The people with the lowest income in a developed country may be better off than the average individual in a developing country; it is defined differently in different parts of the world. According to the United Nations, poverty is essentially a restriction of choices and opportunities, a violation of human dignity, and a lack of basic competence to participate effectively in society.<sup>1</sup>

Poverty not only affects productivity and economic outcome but also simultaneously causes a rise in crime rates and in the nation's health disbursement, thus affecting mortality rates also. There is no singular cause of poverty around the world. It is the result of a combination of factors including inequality, conflict, poor healthcare systems, lack of education and government support, climate change, and among other factors.<sup>2</sup> This research focuses solely on wealth inequality as the key contributor to poverty. Inequality may be observed from a variety of angles, all of which are connected. The most prevalent indicator is wealth inequality, which

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<sup>1</sup> United Nations Meeting Coverage and Press Releases, "Statement of Commitment for Action to Eradicate Poverty," Administrative Committee on Coordination (ACC). May 20, 1998. <https://press.un.org/en/1998/19980520.eco5759.html> (accessed March 28, 2023).

<sup>2</sup> "Half of the Global Population Lives on Less than US\$6.85 per Person per Day." World Bank Blogs. Accessed April 24, 2023. <https://blogs.worldbank.org/developmenttalk/half-global-population-lives-less-us685-person-day>.

refers to how equally income is distributed throughout a population.<sup>3</sup> Wealth inequality itself refers to the unequal distribution of wealth across the population. How wealth inequality functions as a cause of poverty is a complex matter. When people are presented with fewer rights or assets based on the wealth distribution in their environment, that means they have fewer opportunities to move ahead in life. We often see this in rural areas where they have less access to proper education, infrastructure, and employment, therefore decreasing their chances of attaining a proper job compared to the people residing in urban areas.

The International Monetary Fund (IMF) recently found that countries with higher wealth inequality also tend to have larger gaps between women and men in terms of health, education, labor market participation, and representation in institutions like parliaments.<sup>4</sup> Despite the fact that the highest rates of wealth inequality and poverty thrive in developing nations, it is also important to take note that it is also a phenomenon that transpires in developed nations-some of the wealthiest nations on Earth. The economic gap between rich and poor nations has been widening as a global phenomenon that affects a majority of all countries. Among developing regions across the globe, countries within Africa have the highest rates of poverty and inequality. This can be measured by the Gini coefficient, which is the metric system to measure wealth inequality; it varies between zero (0) and one (1). With zero representing absolute equality and one

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<sup>3</sup> International Monetary Fund, “*Introduction to Inequality*,” <https://www.imf.org/en/Topics/Inequality/introduction-to-inequality>. (accessed March 28, 2023).

<sup>4</sup> C. Gonzales, S. Jain-Chandra, K. Kochhar, M. Newiak and T. Zeinullayev, “Catalyst for Change: Empowering Women and Tackling Income Inequality,” IMF. 2015. <http://www.imf.org/external/pubs/ft/sdn/2015/sdn1520.pdf> (accessed February 28, 2021).

absolute inequality.<sup>5</sup> South Africa is the most unequal country in the world, ranking first among 164 countries in the World Bank's global poverty database, followed by Botswana and Eswatini. Africa's high poverty rate has been attributed to multiple factors, one is the high-wealth inequality, hindering agriculture growth and rural development, which characterizes 85% of Africans' livelihoods.<sup>6</sup> The high poverty levels coupled with low asset ownership and restricted access to public services due to unequal wealth distribution also make it difficult for households to escape the cycle of poverty.

Meanwhile, wealth inequality also happens in developed countries, as the major distribution of income is concentrated in only several parts of the country. For instance, in the third quarter of 2022, 68% of total wealth in the United States is owned by the top 10% of earners, while the lowest 50% of income people own only 3.3% of total wealth.<sup>7</sup> Russia is another developed country with relatively high wealth inequality. According to the European Parliamentary Research Service, the richest 1% of Russia's population received more than a fifth of national income, and wealth inequality has also increased over the last two decades, with almost half of the total wealth owned by just 1% of the population in 2020.<sup>8</sup> Although the ratio of

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<sup>5</sup> International Monetary Fund, "Introduction to Inequality," <https://www.imf.org/en/Topics/Inequality/introduction-to-inequality>. (accessed March 28, 2023).

<sup>6</sup> Ibid.

<sup>7</sup> United States Census Bureau, "What Drives Income Inequality," *2021 Income Inequality Increased for First Time Since 2011*. September 13th, 2022. <https://www.census.gov/library/stories/2022/09/income-inequality-increased.html#:~:text=At%20the%2010th%20percentile%2C%2010,the%202020%20estimate%20of%20%24211%2C438>. (accessed April 2, 2023).

<sup>8</sup> European Parliamentary Research Service. *Income and wealth inequalities in Russia over time*. 2021. <https://epthinktank.eu/2022/04/22/human-development-in-putins-russia-what-the-data-tell-us/income-and-wealth-inequalities-in-russia-over-time/#:~:text=In%202020%2C%20the%20richest%201,see%20Figures%204%20and%205> (accessed April 2, 2023).

inequality between the top and middle of the income distribution was not as significant and the poverty level is still lower compared to the aforementioned developing countries, this still further indicates that inequality is still present and concentrated income does not change in the upper end.

Globally, there have been movements and programs to treat poverty and wealth inequality as a single problem (World Bank's twin goals; Oxfam's Even It Up; and the UN Sustainable Development Goals), but the relationship between the two variables remains unexplored. This research seeks to understand the relationship between the two from a new perspective, exploring how wealth inequality has remained a major driving factor for the poverty levels in Indonesia. Wealth inequality and income growth had a strong quantitative effect but in opposite directions. If income growth had been evenly distributed, all families' incomes would have increased at the same rate, and the poverty rate would have decreased.<sup>9</sup> Consequently, slowing or even stopping the increase in wealth inequality would be highly beneficial to making meaningful progress in lowering the poverty rate. In practice, this shows that incomes for those at the bottom and middle line of the income spectrum would have to increase.

Among numerous countries that face poverty, Indonesia is no exception. It is imperative to explore what factors influence the disparate distribution of wealth in Indonesia. The issue of wealth inequality in Indonesia is intricate and multi-faceted, differing from systemic influences to more specific policy decisions over

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<sup>9</sup> Gould, E., 2014. "*Inequality Is the Main Cause of Persistent Poverty*", Economic Policy Institute. Bulgaria. <https://policycommons.net/artifacts/1412055/inequality-is-the-main-cause-of-persistent-poverty/2026319/> (accessed on March 26, 2023).

the last three decades, policy changes such as deregulation, privatization, financial confidentiality, and globalization, particularly in the economic sector, have amplified Indonesia's rich and powerful in their ability to use their role to consolidate their wealth even deeper. This topic is in line with Marxism, in grasping a better understanding.

As mentioned in the previous paragraph, South Africa and Botswana make up the top two countries with the highest wealth inequality. For South Africa, this is due to the “dual economy”, in which there are two separate economic sectors in the country, one with high development and technology, and the rest is still underdeveloped with low-paying jobs. In South Africa, this idea is known as the first (capitalist, high-profit industries) and second (underdeveloped) economies.<sup>10</sup> Although this dual economy is most likely to happen in less developed countries. For developing countries, for example, in the Philippines, there is an increase in growth rate and expansion of off-farm employment, in which poverty fell by two-thirds—from 49.2% in 1985 to 16.7% in 2018. By 2018, the middle class had grown to nearly 12 million people and an economically secure population has increased to 44 million. But inequality remains high: the top 1% of earners together earn 17% of national income, with only 14% being shared by the bottom 50%.<sup>11</sup> Although the case of Indonesia is not as extreme as South Africa, the case of Indonesia's poverty

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<sup>10</sup> Institute for African Alternatives. “*Dualism in the South African Economy.*” June 5, 2018. <https://ifaaza.org/2018/06/05/dualism-in-south-africas-economy/> (retrieved April 2, 2023).

<sup>11</sup> The World Bank. “*PHILIPPINES: Reducing Inequality Key to Becoming a Middle-Class Society Free of Poverty.*” November 24, 2022. <https://www.worldbank.org/en/news/press-release/2022/11/24/ph-reducing-inequality-key-to-becoming-a-middle-class-society-free-of-poverty#:~:text=Yet%20inequality%20remains%20high%3A%20the.by%20the%20bottom%2050%20percent>. (accessed April 2, 2023).

caused by wealth inequality is similar to the Philippines in which growth of employment is rising, but wealth is still dispersed in several areas. These pieces of evidence further emphasize that wealth inequality is still present in all parts of the world at each economic stage.

In Indonesia, there are still around 26.42 million citizens that are living below the poverty line out of a population of around 273.7 million. Following the pandemic, Indonesia's economy fell from upper-middle income to lower-middle income by July 2021. The pandemic also slowed recent progress in poverty reduction, which fell from a record low of 9.2% in September 2019 to 9.7% in September 2021.<sup>12</sup> Indonesia's official poverty rate dropped by half between 1999 and 2012, decreasing from 24% to 12%. However, the Gini coefficient has increased from 0.32 in 1999 to 0.41 in 2012.<sup>13</sup>

Whilst Indonesia has the highest Gross Domestic Product (GDP) in Southeast Asia and also has one of the fastest economic growths, wealth inequality in Indonesia is one of the most prominent issues that is faced within the economy. The increasing inequality between the wealthy and the rest of the population poses a significant threat to Indonesia's future. About 20% of Indonesians benefited from the development in the economy that took place in the last decade while 80% of them, roughly around 205 million people, were disproportionately disadvantaged, based on the World Bank report. It is also written in the report that one of the highest

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<sup>12</sup> The World Bank Group, "Overview," *The World Bank in Indonesia*. October 2020. <https://www.worldbank.org/en/country/indonesia/overview> (accessed March 29, 2023).

<sup>13</sup> The World Bank Group, "Reducing Inequality in Indonesia," The World Bank. October 2014. <https://www.worldbank.org/en/country/indonesia/brief/reducing-inequality-in-indonesia> (accessed February 28, 2021).

wealth concentrations in the world goes to Indonesia, with the richest 10% possessing approximately 77% of the country's assets, 1% of them owning half of the wealth, which indicates just how severe this issue is. Furthermore, this wealth inequality issue is rising more rapidly in Indonesia than in any other country.<sup>14</sup>

As a developing country, Indonesia's wealth inequality is still prominent in each province. The development rate covering all of Indonesia's 38 provinces remains unequal and inconsistent. Based on Badan Pusat Statistik/BPS or Central Bureau of Statistics/Statistics Indonesia, the provinces with the three highest Gross Regional Domestic Product (GRDP) are DKI Jakarta, East Kalimantan, and North Kalimantan.<sup>15</sup> They dominate the economy due to its activeness in sectors that contribute to Indonesia's main economy, namely the manufacturing industry; wholesale and retail trade, banking, financial services, automotive, and electronics. Meanwhile, in East Nusa Tenggara and Maluku, they make up the three lowest GRDP in Indonesia.<sup>16</sup>

The issue of wealth inequality is fascinating when it comes to its relationship with poverty in Indonesia. In understanding the relationship between the two, following its development throughout Indonesia's history is essential. Based on the BPS data on poverty throughout the period of 1980-2018, there has been a substantial drop in poverty rates, from 60% to just under 10%, with some

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<sup>14</sup> Zain, Winarno. "Behind the Rise of Inequality in Indonesia," *The Jakarta Post*. June 2016. <https://www.thejakartapost.com/academia/2016/06/08/behind-the-rise-of-income-inequality-in-indonesia.html> (accessed February 28, 2021).

<sup>15</sup> 1. "Daftar PDRB per Kapita Di Seluruh Provinsi Indonesia Pada 2022, DKI Jakarta Tetap Jadi Yang Tertinggi: Databoks," Pusat Data Ekonomi dan Bisnis Indonesia, accessed May 14, 2023, <https://databoks.katadata.co.id/datapublish/2023/04/13/daftar-pdrb-per-kapita-di-seluruh-provinsi-indonesia-pada-2022-dki-jakarta-tetap-jadi-yang-tertinggi>.

<sup>16</sup> Ibid.

years in exceptions such as the 1997/1998 Asian financial crisis. Furthermore, the drop has been even more pronounced since the BPS adopted a higher poverty line in 1996 and 1998, the line was changed upward, and thus the official poverty figures rose by about 50%.<sup>17</sup>

Although Indonesia has been successful in alleviating poverty, there is still a major distinction in numbers between rural and urban poverty. According to the estimates of the Gini index available during the 1980s, Indonesia was a nation with comparatively low inequality, a decade later, the numbers in inequality started to rise and continued up to the 1997/1998 Asian financial crisis.<sup>18</sup> As a result, individuals with higher income, living in more urbanized industrial service economies were the most negatively impacted, as compared to the less urbanized areas, especially those living outside of the island of Java that relied on agriculture as their main source of means. Inequality started to increase again as the economy bounced back corresponding with the start of the democratic period. It rose significantly over the next 10 years, by 10%, one of the largest increases in Asia.<sup>19</sup> Inequality, on the other hand, has increased considerably over the last three decades.

Comprehending the root causes of both these correlating variables is a complex but imperative matter to be explored in achieving a more equal society that tends to the livelihoods of all of Indonesia, regardless of region. This study

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<sup>17</sup> Hill, Hall. "What's Happened to Poverty and Inequality in Indonesia over Half a Century?" 2021. <https://www.adb.org/sites/default/files/publication/689686/adr-vol38no1-poverty-inequality-indonesia.pdf> (accessed April 2, 2023)

<sup>18</sup> Ibid.

<sup>19</sup> Kanbur, Ravi, Changyong Rhee, and Juzhong Zhuang, eds. 2014. *Inequality in Asia and the Pacific: Trends, Drivers, and Policy Implications*. New York: Routledge.

wishes to analyze further the interrelationship between rooted poverty and wealth inequality towards the progress of promoting a more equal wealth distribution in counteracting poverty through conducting studies on by analyzing the inconsistency of Marxism point of view on the consequences of capitalism on developing countries through **“Wealth Inequality and Poverty: A Critique to Marxist Point of View on Indonesia Under Jokowi’s Presidency.”**

## **1.2 Research Question**

Based on the background mentioned above, this thesis explores the intertwined relationship between poverty and wealth inequality in Indonesia, between the three provinces with the highest GRDPs, investigating the root causes of wealth inequality and how it leads to poverty. While both variables have been previously studied, they have been studied as two separate entities, this research will explore both variables as a joint and interlaced problem. Therefore, this thesis will utilize the following research questions:

1. How does wealth inequality affect poverty in Indonesia?
2. What has the government implemented towards eradicating this wealth inequality and poverty pattern?

## **1.3 Research Objective**

With the proposed research questions in the structure of this thesis, the research objective is:

1. To prove whether Marxism's key argument on wealth inequality caused by capitalism is responsible in explaining poverty in Indonesia.
2. To describe the efforts implemented by the government in alleviating poverty and analyze how they have contributed to achieving the goal.

The final outcome of this thesis explains the relationship between the variables that have been mentioned. To analyze the growing inequality in Indonesia, one must be aware of the sources of wealth inequality. Once the sources of inequality are identified, the policies formulated to close the gap in income distribution can be better understood, leading to the second research objective. Particularly, this research will provide a critic on how Marxism's perspectives on capitalism does not apply in contributing to Indonesia's poverty.

#### **1.4 Research Significance**

The purpose of this thesis focuses on giving insight to the people of interest with the aim of learning the impacts of wealth inequality with its effect on Indonesia's poverty rates.. I hope that the studies from this research can highlight the importance of equal wealth distribution and raise awareness of how severe this wealth inequality issue affects the people of Indonesia that still live in the middle to below the poverty line. Furthermore, it is hoped that this research serves as a source of information for a broad audience, especially scholars that are interested in learning more about wealth inequality and its effect on poverty in Indonesia.

Lastly, this thesis could be useful to anyone who requires sources, reading, or secondary data relevant to the thesis's topic field.

### **1.5 Structure of Thesis**

This research consists of five chapters. The first chapter consists of the introduction of the topic, the research questions to be answered, the objectives, the significance of the research and the structure of thesis.

The second chapter presents the theoretical framework to assist in analysing the topic and answering the research questions, which includes three categories for literature review, one International Relations theory (Marxism and Economic Structuralism), and three concepts (Poverty, Wealth Inequality, and Class Struggle).

The third chapter consists of the research approach, research method, data collection technique, and data analysis technique to answer the research questions.

The fourth chapter is the main analysis in answering the two research questions. Firstly, this research elaborates on the wealth inequality in Indonesia through the lens of Marxism theory in international relations. The primary findings are analyzed and described with the theory and concepts to answer the research questions.

The last chapter contains the conclusions of the research, complete with a summary of the entire research, and contains suggestions for further research.