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The Long Lasting Brunt of Indonesia's Currency Depreciation: a historical analysis on Suharto's reign and the decades-long condemnation of low-wage workers

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ABSTRACT

The 1997 Asian Financial Crisis had a significant impact on the Indonesian financial sector. Despite statistics showing an increase in low-wage workers' employment, reduction in overall confidence resulted in bank runs, consequently weakening the Rupiah. Amidst currency depreciation and Suharto's faulty economic policies, the Indonesian labor market proved unsustainable. When banks began to declare bankruptcy, industries with services that depended on banks also faced the difficulty of dismissing employees or lowering their wages. The labor market was restructured in a way that increased inter-sectoral mobility and widened income inequality. Reduction in real workers' wages, heavy decrease in government budget and a weakening of export-dependent sectors were all factors that contributed to an increase in the number of people living on or below the poverty line. Indonesia's continued ethnic divide and corrupt governance made market restructuring rigid and irreversible, further prolonging the crisis and widening the population of low-wage workers. Suharto's policies that occurred on the backdrop of the crisis had dire consequences that exceeded his presidency.

INTRODUCTION

President Suharto's regime lasted from 1967 to 1998 marked the longest ranging Indonesian presidency. It carries the infamy of mass genocide and a cycle of economic crises. Although the 1997 Asian economic crisis caused great currency depreciation for Indonesia, statistics show increased employment for low-wage workers. However, said influx is ignorant of individuals' purchasing power amidst other issues like inflation. These consequences are still true for modern-day low-wage workers. Suharto's unstable regime was the catalyst for the Indonesian currency crisis, resulting in numerous short term harms and decades-long restructuring of the labor market.

The creation of the low-wage worker crisis, which spills into today, can largely be traced back to policies made in 1997. The worrying amounts of under-employment and gruesome working conditions resulted from increased mobility across sectors, a shift in labor market structures, and the widening of income inequality. These three distinct problems, stemming from Indonesia's stagnating economy ultimately can be traced back to currency depreciation.

THE ASIAN ECONOMIC CRISIS AND INDONESIA'S CURRENCY DEPRECIATION

A mixture of faulty policies and a shift in global capitalism led to the eruption of the Asian economic crisis in 1997. Prior to the crisis, Asian regimes such as Thailand and Japan experienced massive growth due to western investors attempting to liberalize trade and privatize Asian markets (Bell, 2010). Monetary authorities could control such increase in capital flows, eventually leading to unstable currency fluctuations (McLeod, 2000). Indonesia, however, marks a different case among these other Asian nations.

Before 1997, the Indonesian economy was considered better than Thailand's as data showcases higher real GDP rates. Throughout 1997, however, the crisis depreciated currencies of nations including Indonesia, Thailand and Korea. In the early stages of the crisis, the Indonesian Rupiah depreciated by around 50% and inflation stayed within single digits (Feridhanusetyawan, 1999). In fact, experts still considered the economy to be growing. This came to a halt in the beginning of July 1997 when the Indonesian crisis started as a contagion of Thailand's currency crisis (Sadli, 1998). Towards the end of 1997, Suharto's administration started losing more credibility. The nation's lack in confidence

towards the government, along with the IMF's approval of liquidating up to sixteen banks with no guaranteed deposit, resulted in capital flight and spiraling inflation (Feridhanusetyawan, 1999). By October of 1997, the Rupiah had depreciated up to 55% in comparison to the Thai baht depreciating by 41%, the Malaysian ringgit by 31%, the Philippine peso by 34%, and the Singaporean dollar by 11% (Sadli, 1998). Indonesia depreciated more steeply among other Asian nations because of the numerous domestic problems with the nation. Although deregulation packages in the 1980s enhanced Indonesia's economic competitiveness, Indonesia continued to "[score] low with respect to the quality of its institutions, politics, law, and bureaucracy" (Sadli, 1998). These institutions will prove to be relevant when Indonesia experienced the crisis of confidence.

By July of 1997, Bangkok was on the path of currency recovery whilst Indonesia, Malaysia, the Philippines and Singapore still suffered with currency depreciation (Pempel, 1999). Interestingly, Vietnam, Myanmar, China and Hong Kong weren't affected by such issues (Pempel, 1999). Around this time, the Chinese capital market was not fully open and liberalized, and its foreign exchange reserves still combined with Hong Kong. Nations such as Hong Kong had their currency pegged to the US dollar, which meant that the Hong Kong dollar wasn't as hurt by the crisis (Sadli, 1998). Vietnam and Myanmar were not destinations of as significant foreign capital in comparison to other ASEAN countries, further explaining why the crisis did not affect them as significantly (Sadli, 1998).

The crisis hit nations like Indonesia and Malaysia more so than the aforementioned nations due to a sudden influx of international capital. This resulted in lax government policies regarding exchange rates in order to allow even more capital inflow - causing instability and eventually depreciation in their respective currencies (Wade, 1998).

Under Suharto's regime, the Indonesian economy started diversifying in the 1980s with a strong financial sector (Hoffman, Rodrick-Jones, & Thee, 2004). Because of this, there was significantly more inflow of foreign capital by the 1990s, prompting firms to borrow from abroad and placing the Indonesian Rupiah in a vulnerable position. Coupled with a regime full of corrupt officials, the Indonesian economy grew to be very fragile (Hoffman et al., 2004). The collapse of other Asian currency propelled Indonesia into the crisis, however, it was Indonesia's various institutional weakness that deepened the national crisis (Hartono & Ehrmann, 2001). The public's lack of confidence became the cornerstone of the crisis - an aspect that separated Indonesia from its Asian counterparts (World Bank Annual Report, 1999).

INDONESIA'S MISTAKES

Why Rupiah fell more than the Baht/Won

Indonesia's economic condition prior to the Asian Economic Crisis was in line with the majority of nations hit by the crisis. Although inflation kept below 10% annually (Pincus & Ramli, 1998). In the mid-eighties and early nineties, there were high levels of investment (Sadli, 1998). The Indonesian crisis occurred due to a flawed private sector because of the high amounts of foreign loans being made available with minimum security (Pempel, 1999). In order to encourage more investment between the years 1979 to 1991, domestic borrowers were provided a subsidy on the exchange rate, incentivizing a herd of foreign investment in and out of Indonesia (Nasution, 2000). Through the nineties, there was an influx of investment in real estate and infrastructure projects (Pempel, 1999). A lot of these large investments remained unsecured; for instance, a US\$265 million loan was made from Hong Kong to a taxi company in Jakarta with the only security being the fact that one of Suharto's daughters was a partner in the company (Sadli, 1998). The company subsequently collapsed in 1998 after 20 years in operation (Nasution, 2000). In total, the currency depreciated by an alarming 508% (Hsieh, 2009). Suharto's over reliance on foreign capital propelled of the Rupiah's depreciation.

The many reforms created the foreign perception that Indonesia is a stable country. Foreigners were allowed to own up to 49% of national company shares with the exception of banks (Nasution, 2000). National companies could sell securities to international stock markets (Nasution, 2000). As capital inflow increased, so did demand for foreign exchange rates as corporations sought funds to cover unhedged currency exposure (Sadli, 1998). Because the value of the Rupiah was determined by domestic and foreign demand (floating currency), the value decreased as demand decreased (Hoffman, et al., 2004).

The main cause of Indonesia's heavy currency depreciation can therefore be traced to a series of failed domestic practices. The majority of Asian nations hit by the crisis experienced some form of currency depreciation, but Indonesia experienced significantly larger currency depreciation in comparison to these other countries. Although the Rupiah stabilized within the short span of two years, the consequences of president Suharto's policies would impact decades of low-wage workers. These long term consequences of various labor market restructurings are outcomes that are not generally linked to the 1997 crisis.

Crisis of Confidence

Initial institutional challenges include problems with governance and corruption. Already rampant inequality was further exacerbated with the political culture of

patronage. Consequently, other relevant institutions such as courts aren't as impartial as they should be, largely favoring the upper class through a system of direct and indirect bribery. Authorities were also reluctant to make decisions that would threaten their self interests (Hartono, et al., 2001). Such problematic political culture generated pessimism amongst domestic investors.

In December of 1997, President Suharto cancelled an overseas trip, circulating rumors regarding his health (Hoffman et al., 2004). This caused the public to question Suharto's ability to handle the crisis (also given his ambivalence towards IMF help), which increased uncertainty and further aggravated Indonesia's currency depreciation (Wade, 1998).

The Rupiah fell further in March 1997 due to the presidential election and issue of Suharto's succession (Pincus et al., 1998). The autocratic nature of Indonesian politics caused a crisis of confidence. In contrast to Thailand and Korea – nations that continually hold national elections and became increasingly democratic – President Suharto ruled Indonesia for 32 years (Sadli, 1998). Therefore, many perceived Indonesian politics as greatly unstable. Although Suharto's policy did not directly jeopardize the nation's economy, his methods of ruling and the mixed signals he sent regarding IMF intervention resulted in heightened uncertainty amongst investors (World Bank Annual Report, 1999). The climate of a regional financial crisis and speculation in regards to Suharto's successor played a large role in the crisis of confidence.

In May 1998, Suharto raised the price of petroleum and electricity in order to reduce national budget deficit. As a result, Suharto's unpopularity mounted that same month, combined with backlash from the Students Movement. On May 21, Habibie became president (Pincus et al., 1998). The following June, the Rupiah depreciated to Rp. 16,000.00 per US dollar (Sadli, 1998). The public's confidence in the market is extremely vital to generate investment. Even more, "once market confidence is lost, it is very, very hard to regain it, because of the 'components' of the confidence factor change over time, becoming more complex" (Sadli, 1998). Although the IMF tried to implement rescue packages, the government remained indecisive, excessively eroding confidence in economic management (Nasution, 2000).

The process was cyclical; as demand for the Rupiah decreased, so did the value, resulting in an increase in prices, capturing government indecisiveness, then further reducing investors' confidence.

Suharto's faulty policies

One of the most relevant policies enacted during the crisis was increased interest rates, harming fixed salary earners, most of whom include construction workers and laborers in manufacturing industries (Feridhanusetyawan, 1999). They accounted for 28% of the labor force in the

1980s, and 35% in the 1990s (Eng, 2009). By 1998, currency depreciation meant that almost a third of wage workers in Indonesia received lower than minimum wage (Islam & Nazara, 2000).

Other policies included the removal of government subsidies, primarily on fuel and electricity, and increasing tax on goods such as alcohol and tobacco in order to generate more revenue. This resulted in higher prices of necessary utilities, such as transportation. This prompted the May Riots, which further decreased public confidence in a stable government (Feridhanusetyawan, 1999).

There were, however, larger policies that impacted the market as a whole rather than individual households. The vast liberalization of markets in Indonesia meant that banks were more deregulated and free to act. As a result, domestic companies recklessly expanded by engaging in loans for non-tradable sectors including but not limited to real estate, office buildings, and hotels (Sadli, 1998). There was minimal monitoring of the central bank, especially in lending surveillance, causing the private sector to become deeply indebted. The state bank, being the primary provider of credit programs, was also a victim of free and open government policies, like shifting public deposits from commercial banks to the central bank (Nasution, 2000). As Bhagwati put it, "even if one believes that capital flows are greatly productive, there is still an important difference between embracing free capital mobility and having a policy of attracting direct equity investment" (Bhagwati, 1998).

The crisis of confidence resulted in mass amounts of customers withdrawing their money from banks or bank runs. In late 1997, 16 banks had to be liquidated without deposit guarantee, meaning the central bank had to provide financial support. By 1998, the money taken out of the central bank reached one trillion Rupiah per day. Consequently, currency circulation doubled when the government printed more money. The total capital outflow accounts for 15% of the GDP. As a result, more money was printed in order to supply these banks, effectively increasing interest rates and producing high levels of inflation (Feridhanusetyawan, 1998). To compensate, interest rates were heightened in order to pull the money back into the banking system.

Although Indonesia imposed limits on lending, its enforcement and implementation is extremely weak. With its autocratic system, regulators operate with bureaucratic interests. Bank managers also don't have sufficient supervision from government officials – expanding the power of these financial institutions (Nasution, 2000).

Short term reduction in real wage

By 1998, 5.4 million workers were displaced and male unemployment increased by 1.5%. Although the crisis did not significantly impact unemployment rates, it placed a massive weight on wages (Bhagwati, 1998). Hourly

wages declined by 40% within the first year (Allen, 2016). Although many people lost jobs, the high level of mobility permitted these people to still gain new jobs.

Other than certain job sectors' inability to uphold workers, the price placed on consumers including rice, which was part of the agricultural sector and generally accounted for 20% of the average Indonesian household's budget, rose three to four times the amount of nominal wage (Bhagwati, 1998). Therefore, workers who earned the same nominal wage value were unable to use the money for the same amount of goods as before. The purchasing power of individuals and families declined by half (Buehler, 2011). Although there existed the same nominal income for each household, there was still an overall reduction in purchasing power.

Even if the economy eventually adjusted and low paying jobs could suffice, the Rupiah depreciation caused other long term impacts that made more permanent adjustments to the labor market – those of which are still relevant to the low-paid workers of today.

SHIFT IN JOB SECTORS AND INCREASED MOBILITY

From import-oriented to export-oriented sectors

The financial crisis had massive impact on both the growth and diminishing of certain sectors that held mass amounts of labor. When the Rupiah faced heavy pressure, credit tightening and rising interest rates resulted in the bankruptcy of many banks. As a result, the government took control of a large amount of the financial sector and heavily restricted employment in banks (Thomas, Beegle, & Frankenberg, 2000). This was due to two reasons. First, when taken over, the banks already lacked lending demand. More significantly, there were even looser enforcement in financial regulations and cases of corruption that surrounds the Indonesian government. The downfall of the financial sectors also caused the disenfranchisement of other sectors that depended on money borrowed from banks (Thomas et al, 2000).

Such sectors included import-dependent ones such as construction, real estate, and urban services. Because Indonesia had very high interest rates, costs of imported raw materials required more capital, which was unattainable from banks (Sadli, 1998). Without enough capital, these sectors couldn't operate and therefore placed the consequences upon the low-paying workers in these sectors. As a result, there were large movements from import-oriented to export-oriented sectors, such as forestry and agriculture, which were not dependent on local banks. Another shift occurred because of the increased price of food – meaning there was increased market demand for more labor in the agricultural sector (Feridhanusetyawan, 1999).

The malfunction of numerous banks meant that numerous other industries either underpay or lay off

workers, bringing approximately half of Indonesia's population below the poverty line (Fallon & Lucas, 2002). However, regions whose income was dependent on agriculture, such as Sulawesi, could flourish from trading clove and marine products. Within the first year, the decline of the Rupiah promoted exports, which were initially harmed by the banking system (Sadli, 1998). Although Indonesia was able to prioritize other industries, the national economy experienced a shift from manufacturing to the agricultural sector, which ultimately proved problematic for certain groups of people. The fact that the manufacturing sector was so dependent on credit meant that the banking crisis hurt them and other similar firms the most.

Labor Market Transitions Resulting in Labor Surplus Economy

When economies moved from agricultural to industrial and or service-based sectors, manufacturing firms absorbed large amounts of labor, resulting in labor scarcity within the industrial sector. In the 1990s, the Indonesian labor market underwent mass growth (Fallon et al., 2002). The Indonesian economy largely relied on oil/gas exports and labor intensive industries. When recession dropped the price of oil in the 1980s, Indonesia started to hinge its exports on labor intensive manufacturing sectors (Feridhanusetyawan, 1999).

The economic crisis slowed down this labor market transformation, brought the nation back to its economic state prior to the mid-eighties investment boom, and propelled the dominance of the agricultural sector. Because most of the labor-intensive manufacturing industries relied on banks and because employment in the agricultural sector largely depended on land ownership and geographical residence, there was a large surplus of labor especially in urban areas (Douglass, 2000). Between 1990 to 1996, agricultural employment declined by 8% and subsequently increased employment in the manufacturing sector by 5% (Feridhanusetyawan, 1999). Upon crisis and currency depreciation, the government found it difficult to accommodate such massive movements of labor out of the manufacturing sector. This is due to the reduced government revenue, posing budgetary constraints for things like infrastructure and other services and resulting in the inability to accommodate massive migrations (Rudnycky, 2004). Some of the largest decline in real wage therefore occurred in public utilities sectors, manufacturing and construction, totaling to over 35% from 1997 to 1998 (Feridhanusetyawan, 1999).

Although the currency depreciation increased Indonesia's terms of trade in agricultural goods and allowed it to absorb the labor surplus, it couldn't sustainably provide jobs since the liberalization of agriculture needed more capital than what the government could provide (Feridhanusetyawan, 1999). Also, depreciation may slow

down the process of urbanization, which caused unskilled workers who had no ties to rural jobs to get laid off in manufacturing industries. These are generally the lowest class of laborers. The third reason constitutes labor movements from formal to informal sector, increasing the number of self-employed workers (Rudnyckyj, 2004).

The surplus of labor in urban areas also increases the proportion of underemployment. Due to the massive layoffs of workers in manufacturing industries, people were employed to work at around an hour a week. About 35% of workers works for less than 35 hours per week (Firdausy, 2011). The surplus of labor continues until today, where Indonesia places in one of the leading nations in provision of low skilled workers in Asia. The reason why underemployment remains prevalent up until today is because permanent work (whether in the private sector or government work) requires more training and formal contracts (Firdausy, 2011). This means that permanent employees are those who developed more skills and became more accommodative to the company over time, allowing them to earn more. It is therefore difficult for underemployed workers to develop and earn higher wages over time, given that they're not permanent workers.

Such reversal to 1980 economy meant that Indonesia needed decades more to urbanize, harming the workers, primarily those employed in the manufacturing sector due to major job shifts during the next 20 years following the crisis. The majority of low-wage and unskilled workers were and still are manufacturers. The great shift in job sectors mostly harmed the manufacturing sector, disenfranchising a majority of low-wage workers. This lowered spending on public and social services, resulting in unavailable social safety net (Feridhanusetyawan, 1999).

Technology

Indonesia's rapid growth within the 1980s advanced some technological development, especially those within the manufacturing sector. Although in relative terms it hasn't been as rapid as either Korea or Taiwan, Indonesia's undergone enough development to replace some workers with machines (Timmer, 1999). Seeing that these were the very industries most workers would opt into, it was especially detrimental that agricultural or other less technology-based industries had the highest barriers of entry. This meant that most workers had to shift towards the manufacturing industry.

The crisis, however, placed a halt on innovation. Indonesia's weak domestic capacity played an especially large role in its inability to absorb more complex technologies. With the massive rates of underemployment and people's willingness to work for less, employing more workers proved to be far cheaper than importing, using, and maintaining innovative technology (Lall, 1993). Consequently, any existing technology were ill-maintained. Although the lack of innovation allowed

some space for labor-intensive workers, it also meant that these workers were receiving minimal protection and operated on dangerous working conditions. The reduction in government revenue also debilitated their ability to enact enforcement on laws that upheld labor standards.

Furthermore, this stagnation of technological development meant that Indonesia became far less competitive on the global scale. A large number of manufacturing firms, including both privately-controlled firms and state-owned enterprises, weren't as internationally competitive before the crisis. The fact that local businesses decreased in profitability meant that foreign investors saw Indonesia as less of an ideal place to invest in, therefore reducing numerous FDI projects (Timmer, 1999). Reduced FDI funneled less technological development and research entering into Indonesia, making technology exponentially more expensive than it would be otherwise. Indonesia experienced a rare instance in which workers costed less than using technology. Although there was space in domestic firms to employ workers on minimal conditions, there was still a good amount of unemployed workers that could've been employed should there have been more foreign businesses interested in the Indonesian market.

Creation of the urban crisis

In 1997 onwards, annual urban-to-rural migration increased substantially. Prior to the crisis, the 1990s saw a 7.5% increase in migration to urban areas in comparison to a 0.8% annual rate to rural migration. This also includes workers shifting from agriculture to non agriculture-related jobs. Within urban areas, employment in construction grew by over 10% whilst employment in transportation and communication sectors grew by 9.3% (Feridhanusetyawan, 1999).

The shift in dominant sectors prompted workers to migrate back to rural areas during and after the crisis. Amongst those in the labor force, the proportion of kids attending school in rural areas increased to 3.4% annually in comparison to the usual 0%. On the contrary, when labor force growth decreased by an additional 2.6% annually in urban areas, so did school participation (Feridhanusetyawan, 1999).

This meant that the crisis moved large portions of the urban population back to rural areas, resulting in little incentive and capacity for government spending on infrastructure enhancement of public utilities. As a result, there's increasing numbers of urban crimes and other forms of social conflict (Rohdewohld, 1995). The economic crisis was immediately followed by a drought and increased urban poverty (Fane & McLeod, 2002). Amongst the rising poverty levels, crimes, and riots, government capacity also decreased. Although Indonesia has seen levels of development twenty years after the crisis, defected urban environments due to the lack of

funding for public infrastructure still upholds the social problems that erupted in 1997 – most of which surrounds the poorest areas (Rohdewohld, 1995). The damage inflicted upon manufacturers increased the amount of urban-rural migration, resulting in more even damaging impacts for urban areas.

Formal to informal sector shifts

Another significant change the crisis brought about was movements from formal to informal sectors, significantly changing the Indonesian labor structure. Between 1990 to 1996, the formalization of the labor market that occurred was effectively reversed by the crisis. From 1997-1998, higher levels of informal employment resulted in overall employment growing by 2.7% which was higher than the annual rate of 2% (Rohdewohld, 1995). In 1997, employment in the informal sector increased by 10.3% as opposed to the usual 2.9% annual growth in the years prior to the crisis (Douglass, 2000). A large portion of people in the informal sector were employed as family workers in order to cope with the crisis (Feridhanusetyawan, 1999). Shifting to the informal sector means getting little to no coverage in benefits.

The move towards informal sector also accounts for the increase in overall underemployment. In 1998, the proportion of underemployed female workers grew to above 50% in comparison to the 40% average, as many women moved to work in the informal sector (Silvey & Elmhirst, 2002). Although income isn't measured in the informal sector, the increasing workers' shift to the informal sector drove up competition, effectively driving down wages (Fallon et al., 2002). The mass shifts towards the informal sector means that a larger proportion of Indonesian workers were left with no labor safety protection, such as minimum wage and bargaining power (Feridhanusetyawan, 1999).

In addition, the middle class had low insurance coverage and poor access to health care. This meant that more than 40 million workers are likely to decrease in income level due to prolonged issues such as medical problems ("Poverty Reduction and Economic Management," 2014). Today, poverty in Indonesia is at 12%. However, 27% live directly above poverty line, meaning any small shocks may drag them under (Michael, 2011). In 2012, 65 million Indonesians were considered to be a vulnerable group. Even though they didn't live under poverty line, they are likely to slide under poverty line, allowing them even less access to social protections. In 2014 wherein around half the population did not have access to health insurance, showing that the long-lasting issues are a result of families lacking crucial insurance coverage – most of which were lost during massive shifts to the informal sector in 1997 ("Poverty Reduction and Economic Management," 2014).

Today, working in the informal sector is less beneficial. With limited protection, individuals experience long-term problems, like health coverage, that prove to be

costlier. In addition, the informal sector has also become less mobile. The few who succeed in informal sector employment are those whose family businesses have sustained through decades before the crisis – making them the deviants. New entrants to this sector upon crisis will suffer in the long run. It becomes difficult to move out of the informal sector for permanent higher-paying jobs in other sectors, due to issues like lack of training (Naidoo, Packard, & Auwalin, 2015). Even if workers move to the formal sector, they will only earn the lowest-paying wages, an option most workers would not prefer even if it comes with insurance benefits, highlighting why this sectoral shift becomes more rigid throughout the years.

Influx of Worker Migration to the Public Sector

Most of the shifts in workers following the crisis were involuntary and necessary, meaning the rural poor of Indonesia bore the biggest burden – a dynamic that remains true today. Around 30% of men and 40% of women changed sectors in the year that followed the crisis (Setiawan, 2011). This raised intersectoral mobility rates to about 25% (Thomas et al., 2000).

Despite such intersectoral mobility, the public sector remains immobile. Over 80% of workers who worked in the public sector during the crisis were still recorded as working there in 1998. This opposes the mobility in the private sector. Around two-thirds of those in the private sector remained there a year after the crisis, and about 75% moved to being self-employed since government work was more secure especially when considering premiums and benefits (Thomas et al., 2000). For those in higher governmental positions, the wage gap reached over 60% (Fallon et al., 2002). However, wages are a little different with lower-level public employees. In 1998, Indonesian civil servants earned about 40% of those with similar educational backgrounds in the private sector, because public sector wages reflected of the nation's budget (Hoffman et al., 2004). Low levels of salaries amongst public workers means that there are higher levels of corruption. Some public employees also used government funds and facilities to develop private businesses, resulting in less public funds to use in support of even lower wage workers (Rohdewohld, 1995). The shifts towards lower-paying jobs to ensure premiums resulted in more corruption in the long run, especially once higher positions become more difficult to obtain into over time. The shift from manufacturing to the agricultural sector along with formal to informal sector work, might have seemed inconsequential in 1997, but is quite influential today.

The crisis primarily affected low-skilled labor in the manufacturing and informal sectors. These groups remain low-wage workers today due to the crisis. In addition, accessing social welfare became abundantly more difficult for low-income groups for the three reasons outlined in the above section; the limited government

revenue reduced taxes from higher occupation of the informal sector, and the immobility of the public sector due to the crisis, which results in higher levels of corruption that further debilitates the government's ability to spend on social welfare. The workers who are left in the manufacturing sector aren't necessarily less productive, they're simply unable to shift to other sectors that demand employment, since there are high barriers to enter into the agricultural sector, which includes things like geographic distance and land ownership.

WIDENED INCOME INEQUALITY

Although GDP per capita increased after the year 2000 and poverty rates reduced, the crisis left a wide gap of inequality. Today, Indonesia holds the highest increase in income inequality in Southeast Asia in the 10 years that followed the crisis (Wicaksono, Amir, & Nugroho, 2017). The World Bank reports that only about the top 20% of Indonesians benefit from economic growth within the past decade, excluding 205 million people (Zain, 2018).

Education

The overall reduction in purchasing power not only means forcing children to work (for some of the lowest income families), but many middle income families also faced a sharp decline in education spending. The crisis saw decreased school enrollment and increased dropout rates. For children between the ages of 13 to 19, the dropout rate in urban areas increased from 11.1% to 17.5% by 1998 (Feridhanusetyawan, 1999). Since most of the positions that were under demand during the crisis were high-skilled jobs, the impact it had on school dropouts became an even bigger burden for poorer families. According to the Minister of Social Affairs, in 1998 the amount of street children increased by about 400% (Feridhanusetyawan, 1999).

The fall in wages also meant that a higher number of citizens were placed in the lower income groups, resulting in less income tax and therefore less overall government revenue (Bell, 2010). These budget constraints also resulted in cuts made in the public sector, including but not limited to education, health, and social services (Feridhanusetyawan, 1999). The overall reduction in education funding forced children workers to only take low paying jobs (most of which includes begging on the streets) and are unable to adapt to the economy.

The lack in provision of education is one of the biggest contributors to income inequality today, and the biggest contributor in 2000. Uneven access to not only education, but also different levels of education, suggests that there are very minimal people who are educated enough to obtain higher-paying skilled positions (Wicaksono et al., 2017). Not only that, there are also a very small amount of people who can access more job opportunities and expand the labor market (Silva & Sumarto, 2014).

Self-employed workers

Families who were already in the bottom of the income distribution experience most of the impacts of income cuts are experienced by. Both rural and urban families in the top 25% faced a 20% cut in real income. In contrast, those at the bottom 25% faced around a 30-60% income cut, whilst, their wages decreased by over 160% (Silva et al., 2014).

The mass movement toward self employment, although it does not mark the highest paying positions during the crisis, widened income inequality in two ways. Firstly, these are the workers who already, prior to the crisis, owned some assets such as land (when viewing the agricultural sector) and other forms of equipment (for businessmen) (Silva et al., 2014). This means that not only were they in relatively higher income groups before the crisis, they were able to remain here since their assets guaranteed some form of job protection. Women who come from family-owning businesses could also easily enter into the labor market and were more protected in comparison to the urban poor (Douglass, 2000). The case is different for those who rely on getting employed, since they become unemployed or underemployed in the years following the crisis.

The second way in which the crisis widened income inequality is through the guarantee of self-employed workers in following years. These higher class groups are less likely to get affected by inflation. When the price of food increased, many landowners and food producers were able to obtain food at significantly lower prices (Douglass, 2000). The wages of those who were self-employed increased by 60-70%, since they became more self-sufficient (Thomas et al., 2000).

Today, generational wealth is also an important cause of inequality. Assets and wealth accumulated by individuals gives better access to education and other forms of health services. Inheritance also remains a big reason as to why the rich could remain rich whilst the middle class fell lower and lower class became more vulnerable (Wicaksono et al., 2017). The individuals who had other forms of safety nets during the crisis were able to sustain their wealth, whilst wage earners and lower level employees suffered the brunt of the crisis.

Foreign Workers

Another factor that widened income inequality post crisis was how currency depreciation impacted foreign workers in Indonesia. Employment increased within the short period after the crisis partly because of the increase in underemployment. However, it was mostly because of the high number of foreign workers in the 1990s (Lipsey & Sjöholm, 2004). The depreciation of the Rupiah reduced domestic companies' ability to employ foreign workers. In 1996, Indonesia's amount of foreign workers is totaled at 37,600 workers, whereas that amount was reduced

to 35,000 in April of 1998 and 33,000 the following September. Of all the foreign workers in Indonesia, about 64.5% of them had high positions, such as executives and professionals (Feridhanusetyawan, 1999). Currency depreciation meant that the value of wages for foreign workers significantly dropped. Given that they can't as easily transition to the agricultural or informal sector, they would be able to earn higher-valued wages should they move outside of Indonesia (Lipse et al., 2004).

This signifies that in spite of the crisis, there was a high need for management positions and skilled workers in Indonesia, further suggesting that there was a lack of local workers who were qualified enough to fill those positions. Positions of foreign workers who earned some of the highest wages in Indonesia were some of the few positions that opened up during the crisis – those of which were substituted by locals who had equal qualifications and therefore were some of the better-off citizens (Fallon et al., 2002). The opening of positions for skilled-level jobs meant that the portion of the higher class who couldn't sustain themselves in assets were still able to obtain decent-paying jobs – given that higher education was only afforded by these groups (Fallon et al., 2002). Most of the positions that opened up only permitted those who already had prior safety nets to survive. The inequality that persists today is largely accredited by circumstances at birth. It can therefore be fairly concluded that today, poverty remains rigid given that it's largely generational.

Although efforts to countervail the crisis, mainly done by the IMF, exist, it was Indonesia's embedded history of weak institutions and bureaucratic structures that prevented any of these efforts to prevail. Individuals who were in control of the public sector were primarily self-interested and elite individuals who benefited from the widened income inequality. Therefore, jobs couldn't be recovered, especially in export-oriented and credit-dependent sectors. The mass amounts of corruption and policy mistakes done in the preceding years were far too sticky.

IRREVERSIBILITY OF CURRENCY DEPRECIATION

The crisis of confidence uniquely harmed Indonesia, as its economic implications influenced modern day workers. Other than the long-term impacts previously outlined, Indonesia also had difficulty recovering. Although there was an international loan valued at US\$14 billion in 1998, the crisis limited the amount of foreign exchange earned by exporters, meaning there was less revenue that flowed back to the central bank (Firdausy, 2011). The restriction in the supply of foreign exchange continued to place the Rupiah at a weak position. The crisis of confidence made currency depreciation not only a long-lasting, but also a cyclical issue, for as long as the nation lacks confidence, exporters can buy back their

currencies and deposit them into foreign countries. As long as the private sector still has debt, there will not be any international credit available, making the harm in the private sector quite permanent (Sadli, 1998).

Mistreatment of ethnic Chinese and Continued Crisis of Confidence

Some of the largest controversies surrounding Suharto's regime is also his treatment towards ethnic Chinese in Indonesia – most of whom were businessmen then and controllers of Jakarta's economy today. There was a degree of resentment towards ethnic Chinese prior to the crisis as the Chinese were linked to wealth-hoarding communists (Purdey, 2006). Upon the 1997 crisis, said mistreatment heavily escalated. The crisis created platform for the Suharto regime to blame some of the wealthy Chinese class for their wealth. Violence quickly escalated to encompass mass burning of Chinese stores and rape of Chinese women (Varshney, Panggabean, & Tadjoeddin, 2004). In 1998, the May Riots against Chinese-Indonesians occurred (Purdey, 2006).

In addition to the faulty private sector, a large number ethnic Chinese businessmen sent their wealth abroad. Suharto's era inflicted a certain amount of trauma towards these groups. Economically speaking, a large number of Chinese-Indonesians lost some property during Suharto's era. This meant that overall, the mistrust Chinese populations had towards Suharto's regime greatly reduced the government's overall tax revenue, since a number of the population was wary about owning property on Indonesian soil (Sadli, 1998).

The 1998 riots deteriorated law and order. In 1999, a poll carried out by the Jakarta Post stated that 77% of people poorly rated public safety. In addition, the National Police also reported that crime increased by 10% in 1998 (Purdey, 2006). This meant that all round, there was little urban planning and development in place amidst widespread dissatisfaction. Progress for economic betterment therefore continues to fluctuate the years that followed the crisis – even after a change in presidency.

Prospective Policies

As far as prospective policies goes, it's important to recognize that a lot of the problems the crisis generated not only expanded the number of people who are currently in the lower class, but also made upward movement more rigid. This is in correlation to barriers discussed such as the lack of necessary skillsets and the overwhelming demand for jobs are only available in some of the highest paying positions. Furthermore, access to education and other social welfare are hindered by things like bureaucratic incompetence and corruption. Therefore, some of the first steps to take would have to be institutional reformations, including governmental

crackdown on corruption. Corruption continues to prevail due to the lack of enforcement. Although punishment for corruption remains harsh on the state level, it's less likely to get caught on the local level, since those enforcing laws are also underpaid and are therefore prone to corruption (Harahap, 1999). One suggestion of tackling this is through enlisting public support. This means giving more power and attention to NGOs and workers able to report corruption crimes, and perhaps even giving some form of compensation (Harahap, 1999). Secondly, it's also helpful to establish stricter punishment for corruption in order to ensure deterrence. This might look like things like longer jail punishments in addition to barring anyone from ever entering back into the public sector. Combating said things means that a larger portion of the public would no longer have to pay incomprehensible amounts for basic goods like health care and children's education, thus investing their money elsewhere like daily needs or perhaps even vocational school.

Other than fiscal policies, Indonesia should focus on enhancing value of its currency in order to receive more FDI and ensure economic growth. Although the value of money itself isn't the direct proprietor of wealth, it will contribute to things like cheaper imports and the strengthening of Indonesia's exports – a sector that was deeply harmed by the 1997 crisis. Although it will take time for the entire economy to recover, the significant increase in revenue received from exports could contribute to overall economic growth. This can be done by increasing the demand for the Indonesian Rupiah. In 2016, president Joko Widodo established that all domestic transactions must be done in the Rupiah – including large amount payments (Yusuf & Sumner, 2015). This means that more people would demand the Rupiah from banks and therefore strengthen its value.

CONCLUSION

Although statistically, the Indonesian currency depreciation resulted in higher demand of employment and overall increase in employment rates, these numbers are deceiving as large portions of the population were either unemployed or earning below the minimum wage; an impact more visible today than then. Suharto's social policies created an economic catastrophe for modern day low income workers in the form of labor market restructuring. The shifts in dominance and demand of the different sectors provoked the shifts in dominance and demand of certain workers. Manufacturers and informal sector workers – predominantly those belonging to the lower class – are the most badly impacted by the crisis. Moreover, the pressure of the crisis pushed those who lacked a social safety net to remain poor, whilst it propelled those with enough security to insert even more dominance.

A series of small defects could lead to some of the

most permanent problems. The disarray of policies, regime culture, and poorly warranted domestic practices at a time where good governance was critical not only dragged the national currency down by 508%, but also both sustained and thickened the most vulnerable layer of society.

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