

The Economic slowdown and its consequences for the Indonesian Labour Movement

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The Indonesian economy is slowing down, like many of the “emerging” economies. In these conditions methods of struggle that led to important gains for the working class in the recent past no longer have the same effects. This poses a number of questions that have to be answered by the labour movement.

After experiencing rapid growth in the past few years, a number of indicators have pointed to the fact that the Indonesian economy is entering into a slowing down period. In the 3rd quarter of 2013, Indonesia's growth registered its lowest rate since 2009. Credit Suisse economist, Robert Prior-Wandesforde, said: “We very much doubt GDP growth has hit bottom yet.” (6/11) Meanwhile, Sri Soelistyowati, director of the Indonesian statistics agency, said that growth would likely slow in the fourth quarter. Finance Minister Chatib Basri echoed the same sentiment that this year's economy will probably only grow by 5.8%, lower than the budget prediction of 6.2%. How is this going to affect the labour movement in Indonesia that in the past two years has been growing by leaps and bounds?

More than 150 years ago, Marx said: “Capital therefore presupposes wage-labour; wage-labour presupposes capital. They condition each other; each brings the other into existence... Increase of capital, therefore, is increase of the proletariat, i.e., of the working class.” This is the portrait of the labour movement in Indonesia today, where the past 2-3 years has seen massive capital investments and consequently an increase in the proletariat.

Foreign direct investment (FDI) to Indonesia has increased drastically in the past 5 years, from \$4.9 billion in 2008 to \$19.9 billion in 2012. In the first 9 months of 2013, foreign investment reached \$21.2 billion. In 2012 the main destination for foreign investment was the mining sector (\$4.3 billion), followed by the chemical and pharmaceutical industry (\$2.8 billion), metal, machinery and electronic industry (\$2.5 billion), automotive and spare parts industry (\$1.8 billion). The majority of FDI entered into the large manufacturing sector. This can be seen by the rapid construction of large factories in industrial areas such as Bekasi.

For example, in May 2013, General Motors opened a new factory worth \$150 million in Bekasi that will be operated by 700 workers. In August, Royal Dutch Shell started the construction of a lubricant plant in Bekasi, which will be fully operational in 2 years time. The tyre company Hankook Tire opened a new plant in Bekasi this September, a \$350 million investment that will see 1400 workers producing in this factory, and is expected to hire 4300 workers by 2018. Generally, investment in the manufacturing sector increased rapidly in 2013. If between 2010 to 2012 on average 35% of FDI went into the manufacturing sector, this number increased to 56% in 2013.

In the midst of a stagnating world economy, Indonesia, together with a number of other so-called emerging economies like Brazil, India, South Africa and Turkey have seen relatively rapid growth. This is due to the flood of foreign investment into these countries, where investors are seeking higher returns. This capital has mainly come from the “quantitative easing” policy in the United States.

To keep the economy running, the US government for the past 5 years has been pumping money in large amounts into the economy through its “quantitative easing” policy. This policy, also known as “easy money”, was introduced in the United States in 2008 following the financial crisis, whereby the US government spent money to buy bonds and obligations. Through this policy, the US government provides cheap money to the financial system.

After the 2008 financial crisis, capital flow was significantly hampered. This is the result of the crisis of overproduction. Consumers, who are mainly workers, can no longer purchase products in the market as they did previously. Therefore the capitalists no longer invest. Who in their right mind would build a factory where there are no longer consumers with purchasing power? In general, the capitalists are shutting down their factories or lowering their factory output, which in turn lowers the purchasing power of the people. This is the vicious cycle of the crisis of overproduction.

To overcome this stagnation of capital flow, advanced capitalist governments around the world, in particular the US, did two things. First, they lowered interest rates; second, they pumped cheap money into the economy. A lower interest rate aims to stimulate capital flow, where banks and financial institutions can borrow money very cheaply. In the US, the federal rate is almost zero. In Canada, the central bank has set the rate at 1% since 2010. The EU has recently cut its rate to 0.25%. The second policy is to pump money through stimulus programmes and the purchase of bonds and obligations, which is known as “quantitative easing”. The US government has pumped \$85 billion every month to buy bonds, and to this day has pumped more than \$3.6 trillion into the economy. Other advanced capitalist countries have also been implementing similar “cheap money” policies. This cheap money is then used by banks and financial institutions to invest in countries like Indonesia that can promise a higher rate of return.

It is therefore not surprising that the Indonesian economy was severely affected in mid-2013 when there was talk of the US government cutting back on its QE programme. Investors immediately drew back their investments from emerging economies like Indonesia in anticipation of the ending of “cheap money”. FDI to Indonesia in the period July-September dropped to \$6.9 billion, from \$7.2 billion in the previous quarter. Global panic erupted. The stock exchanges of emerging economies fell 17%, and their currencies dropped 20%. Seeing the negative response from the world market, the US government shelved its plan to reduce the QE programme, and foreign investment continued its usual flow.

This shows how fragile the foundation of the Indonesian economy is, which is relying on “cheap money” from the US government, “cheap money” that will have to be paid off eventually by American workers through austerity programmes. This is a recipe for social explosions and class struggle at the centre of world capitalism. The US cannot continue printing “cheap money”, because its debt has reached \$17.2 trillion, which means that each US citizen, from the newborns to those who are on their death beds, owes 54 thousand dollars. This explains last year’s 17-day shutdown of the US government.

At the same time, the fall in the price of commodities such as palm oil and coal, 30% and 18% respectively in the past year, due to the slowing world demand especially from China and India, has resulted in a large trade deficit this year. In 2013, the trade deficit in Indonesia is expected to have reached \$8 billion. This has hit the value of the Indonesian currency, the Rupiah, that has lost 13%

of its value in the past year and inflation that reached 8% last year. These two factors combine to make growth in the Indonesian economy stand on even shakier ground. Responding to this increasingly out-of-control inflation, the Indonesian Central Bank has raised its rate by 1.5%, to 7.5% which is expected to produce downward pressure on growth.

In the last analysis, this shows that the Indonesian economy is tied hand and foot to the world economy. Furthermore, the recent increase in fuel prices, 44% for petrol and 22% for diesel, has cut the internal market of Indonesia. All the factors that led to its growth – which are “cheap money” policies and stimulus in US and other countries – are now turning into their opposite. The deficit crisis in the US and Europe has created an acute economic contradiction, and in the political sphere has led to unprecedented social turmoil. All the measures taken by the world capitalists are only postponing what has become inevitable, and even threaten to exacerbate it in the future.

“Cheap money” policies have created in Indonesia a large and strong battalion of the proletariat in the past two years. As Marx said, quoted above, growth of capital, presupposes an increase in the size of the working class. It cannot be denied that in the past two years there has been a qualitative leap in the workers’ movement. Centred in industrial areas that have been the investment target of “cheap money” are factory workers who have been playing a vanguard role.

For the past two years, workers with a growing self-confidence have organized militant mass actions and won wage increases, which are not small, and other demands. The threat of capitalists to relocate or take their money elsewhere has not materialized to this day. On the contrary, workers are witnessing more and more factories being built. This is strengthening the workers’ position in general. In the midst of rapid economic growth, workers tend to have a stronger bargaining position, although it does not mean that their victories do not require big sacrifices.

Trade union leaders can argue that there is economic growth from which the workers deserve some betterment in their working conditions, where workers deserve their share of this growth. The problem becomes much different when there is no longer growth, when the economy is stagnating or even shrinking.

Leaders who rely only on the economic growth argument – within the framework of capitalism – in fighting for the interests of workers will eventually find themselves hitting a big wall when the economic situation turns into its opposite. We can learn from the history of workers’ struggles in other parts of the world. Post-World War II economies in most Western capitalist countries experienced a rapid growth. This allowed the capitalists to be able to afford concessions for the workers. Workers’ leaders in the US and Europe, in their struggle, felt that it was enough for them to argue that workers deserved their share of this growth. In general they could win reforms, and not insignificant reforms, without having to attack the capitalist system.

However, when capitalism entered into crisis, the very same argument turns into its opposite. It means that workers also have to share in this crisis, that they have to accept cuts in their living standards and loss of employment. Faced with this stubborn fact, those leaders who could not and refused to think outside the framework of capitalism immediately become the loyal partners of the capitalists in attacking the workers. In the US, Canada, and Europe, when threatened with factory closures, these workers’ leaders are “forced” to accept wage cuts and loss of benefits so that the factory can stay open. They become part of the Human Resources, to convince the rank-and-file workers that there is no other way than accepting wage cuts, and during this crisis workers have to work “together” with the bosses to save the factories. These reformist workers’ leaders accept this fate under capitalism.

This is the limit of the reformist way of thinking, which seems sharp when the economy is growing,

but dull when the economy is in crisis. What is the future perspective for the economy? Is this crisis a brief one which will be followed by a period of growth? It seems that this question was answered by the Nobel Prize winner economist Paul Krugman in his recent article "A Permanent Slump":

"But what if the world we've been living in for the past five years is the new normal? What if depression-like conditions are on track to persist, not for another year or two, but for decades?

"...Again, the evidence suggests that we have become an economy whose normal state is one of mild depression, whose brief episodes of prosperity occur only thanks to bubbles and unsustainable borrowing."

There will no longer be any lengthy period of rapid growth. The new normality is a period of mild depression, interrupted briefly by periods of growth as a result of credit speculation. Past gains that have been won by the workers, especially in advanced capitalist countries, will continually be eroded. The new generation of workers will not enjoy the same or better working conditions than their predecessors.

The period of economic growth in Indonesia, particularly in the manufacturing sector, will prove to be a brief episode propped up by "cheap money" speculation. Economic slowdown is dawning upon Indonesia, and its consequences are becoming increasingly evident. Demands that were relatively easy to be won in the past will be harder to win today because the capitalists and the government are finding that their room to manoeuvre is getting smaller. This has been felt by the workers in the past few months. While the October 2012 general strike resulted in many big gains for the workers – for example a 40% increase in the minimum wage in Jakarta – the October 2013 general strike failed to win any of its demands. The same methods of struggle are no longer achieving the same result.

In March 2012, the government backed down from their plan to increase the price of fuel when thousands of workers took to the streets and threatened to shut down production. A year later, the same methods of struggle, demonstrating in front of the parliament house and threatening to go on strike, failed to stop the government increasing petrol by 44% and diesel by 22% in June 2013. At that time, it was no longer enough to just mobilize a couple of thousand workers for a demonstration and to speak of strike action. It was becoming necessary to concretely prepare for strikes – from local strikes up to national strikes – and carry them out to defeat the government's plan to increase fuel prices. Such nationwide strikes would have garnered national public support and could have dealt a shattering blow to the government's plan to cut fuel subsidies.

As mentioned above, the October 2013 general strike failed to repeat the same success of the previous year's national strike. Part of the reasons for this defeat could be attributed to the fact that leaders of several major trade unions refused to participate in the national strike. The MPBI (Council of Indonesians Workers and Labourers) that led the 2012 general strike suffered a de facto split over the question of organizing the 2013 general strike, whereby the more conservative reformist elements in MPBI came out against the planned general strike. The ruling class was also putting tremendous pressure on the union leadership to call off the general strike, or at least blunt its impact. Originally, the general strike had been called for three days, from October 28 to 30. Just a few days before, the leadership postponed the general strike to October 31, while declaring that October 28 to October 30 were warm-up days of action before the general strike. This is a clear indication that there was tremendous pressure already being put on the leadership of the KNGB (National Consolidation of Workers' Movement), an alliance of trade unions that were mobilizing for the general strike.

The most important lesson from the failure of the October 2013 national strike was the realization of the inadequacy of a one-day general strike. While in the earlier period the call for a one-day general

strike could serve as a rallying point, its limitation became immediately evident when the capitalists and their government stared it down. The trade union leaders did not have an answer ready for the question: if after the one-day general strike the government did not give in to the demands of the workers, what should be the response? The trade unions should have been prepared to continue the general strike until their demands were met, and to widen the strikes with solidarity picket squads to other workshops (or “sweeping” actions). Furthermore, the capitalists successfully organized paid thugs and paramilitary groups (such as Pancasila Youth) to physically intimidate the strikers, and the trade union leaders did not prepare a counter measure, i.e. by organizing workers’ defence groups capable of immediate and resolute action, even though they were fully aware that such intimidation would take place.

The economic slowdown in Indonesia has also resulted in a sharper polarization within the labour movement; on the one side are conservative reformist elements who are ready to collaborate with the bosses and give concessions, on the other side are radical elements who in the past two years have been steeled in the smouldering heat of the class struggle and have begun to question the limits of capitalism, as expressed in the split in the MPBI mentioned above. A sharp question will be posed in the near future: what should the labour movement do when the economy grinds to a halt? Should it lay down the sword and accept its fate under capitalism, or stand up and break free from the limits of capitalism?

As long as we abide by the laws of capitalism, we will be dictated to by its logic. Those reformist leaders who accept the logic of capitalism will inevitably serve the interests of capitalism, regardless of their good intentions to fight for the workers.

Capitalism has entered an impasse. The same conclusion has also been reached by some of the most well-known and respected bourgeois economists who are honest in their assessments, such as Paul Krugman and Larry Summers. If we accept capitalist logic, which is the logic of the private ownership of the means of production and the free market, then the workers’ struggle will also be dragged into the same impasse.

The workers’ struggle has to free itself from the framework of capitalism, from reformist ideas that limit workers’ welfare under capitalism. The idea that workers can be prosperous under capitalism, that workers can secure decent wages while ensuring that capitalists also secure decent profits, has been proven to be idealist, utopian, and even reactionary. Increasing numbers of workers, especially the more advanced and class-conscious layers, are reaching this conclusion. Meanwhile, great events that will unfold in the future, not only nationally but also in other countries, are bound to push the wider masses to reach the same conclusion. The process of reaching this conclusion can be accelerated if there is an organized Marxist force – with deep roots in the masses – that can gather around itself the best elements of the youth and workers and can be with the masses as they go through their experiences of victories, defeats and betrayals, and help them generalize these experiences and draw lessons from them.

The slowing down of the Indonesian economy – and the world economic crisis that seems to have no end – is testament to the historical obsolescence of capitalism as an economic system. The working class, because of its economic and political position, is the only organized and conscious political force that can lead this society out of the impasse of capitalism. This economic slowdown will be an opportunity for the Indonesian workers to take one more qualitative leap, which is to adopt a socialist programme: nationalization of the commanding heights of economy under workers’ democratic control and management and the establishment of a planned economy. If the working class doesn’t take this leap, there is only one other alternative left: to accept the logic of capitalism along with its dire consequences, low wages, long hours, diminishing pensions, etc. There can no longer be a middle road. Those who are promising the workers a middle road are either foolishly

naive or cunningly deceitful.

Ted Sprague, Monday, 17 February 2014

P.S.

* <http://www.marxist.com/economic-slodown-and-the-consequences-for-the-labour-movement.htm>