Much has been written about how the 2008/9 global financial crisis affected individual countries, focusing on the macroeconomic impacts (on GDP growth, debt and inflation, for instance). But macroeconomic data only reveal part of the picture. They say little about whether the crisis has affected young people more than older people, women more than men, or skilled workers more than non-skilled, for example. Yet policymakers increasingly want to know how a shock affects people at the micro or household level, so that they can devise the most effective interventions.

When the financial crisis began to spread beyond the USA in late 2008, IDS carried out rapid, qualitative studies with its research partners in five countries, including Indonesia. The aim was to generate hypotheses or theories about the possible national impacts, and to test them using nationally representative data (in this case, labour force surveys) from before and after the crisis.

At the macroeconomic level, the global financial crisis affected Indonesia through dramatically reduced exports and steep falls in commodity prices. The two sectors most affected were manufacturing, and the trade, hotel and restaurant sector. The nature of the shock would suggest some strong localised effects, with some groups of people and workers more severely affected than others.

For instance, as a result of the decline in manufacturing output, one would expect to see companies laying off workers. The impact on the trade, hotel and restaurant sector – a major employer – would expect to be seen in an increase in unemployment or cuts in real wages. But is what one expects to see the same as what actually happened?

The research teams carried out two-week, qualitative studies using participatory methods in February 2009 in two villages: one in a rural area of Banjar district, South Kalimantan, and one in an urban neighbourhood in the district of Bekasi, just outside the capital city, Jakarta. Households in the rural area were heavily dependent on local sources of rubber and coal for their livelihoods. The urban location was home to large numbers of migrant workers employed by more than 170 large Japanese, Korean and US manufacturing companies at a large-scale industrial park.

The results from these qualitative studies were used to formulate hypotheses about the likely impact of the financial crisis. These were then tested quantitatively using three waves of the nationally representative Labor Force Survey from before and after the onset of the crisis.

Macroeconomic data say little about whether the crisis has affected young people more than older people, women more than men, or skilled workers more than non-skilled.
The steep rise in food prices during 2008 may have had a much stronger impact on poor people’s welfare than the financial crisis.

Key research findings:
- Indonesia weathered the recent global financial crisis reasonably well, particularly compared to some of its neighbours and its own experience during the 1997/8 Asian financial crisis. In part, this is due to structural factors (it is less dependent on international trade than other countries in the region). The government also managed the crisis well, intervening quickly to bring down interest rates and to restore confidence to the banking sector.
- Unemployment rose for some groups (particularly those aged 18 to 25) but fell for workers over 25. Average hours worked remained roughly the same, and there was no evidence of significant shifts of employment between sectors.
- There was no evidence of more children dropping out of school, and no notable differences by gender, age, or rural/urban location. This suggests that parents kept their children in school as job opportunities for young people narrowed.
- The biggest surprise finding was that, in contrast to what happened in 1997/8, there were large increases in real wages between August 2008 and February 2009 for workers over 25. But workers in the informal sector saw no such increase.

The two different approaches used in this study can complement each other to show how a crisis actually affects different communities, households, and the individuals within them. Each approach can help to identify gaps or weaknesses in the other (for instance, the findings in the urban location suggest that the design of labour force surveys may exclude some vulnerable groups, such as migrant workers). Each approach can also be used to help identify hypotheses that may be better explored using the other.

Key policy implications
The findings from this research, and other studies elsewhere, suggest that a deeper understanding of other factors – including what happens to food prices, to specific groups such as migrant workers, and to informal sector workers (who represent the vast majority of the workforce in most developing countries) – is essential to enable governments to respond to future crises more effectively. The qualitative research carried out in Indonesia suggests that high food prices are the single most important factor in the welfare of poor families. The steep rise in food prices during 2008 may have had a much stronger impact on poor people’s welfare than the financial crisis. The different impact on people working in the formal and informal sectors also calls for further investigation.

Credits

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