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The Rise of the Managerial State in Indonesia: Institutional Transition during the Early Independence Period. 1950-1965

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CHAPTER VII

Economic Policy-Making in the Guided Democracy (1962-1965)

Economic policy-making showed inherent tensions between participatory ideas and the need for societal control to carry through harsh and necessary policies. Both positions stemmed from two different philosophical ideas, which often times seemed to contradict the assumed ideological position of 'Marxist' versus 'liberal' economists. Both parties agreed, more or less, that the control of the economy by the state, especially its inefficient bureaucracy, was doing more harm than good.

Yet, the answer each side gave was decidedly different. The communist idea of the production policy called for greater participation of farmers and labourers in the economy as agents, as opposed to the expert-led economy, which increasingly pushed the Western-educated economists into a cooperative position with military managers. Institutions like the *Dewan Perusahaan*, would allow unions into the managerial boards of state-owned enterprises in an effort to allow greater participation in the decision-making process of the economy. This production policy assumed an active agency of the farmers and labourers as producers and capitalists themselves. One might say that the difference between a state-centered versus a society-centered development was quite slim. In fact, Communist support for decentralization and de-concentration of management had a rather weird liberal air about it. The Communists questioned whether Guided Democracy was a semi-

fascist political and economic system that was even worse than the liberal democratic system it replaced.¹

Western-educated economists also supported de-concentration and the gradual introduction of the market mechanism into the economy, but they saw this process within the confines of state control over market forces. They wanted to introduce incentives and competition into the state-owned enterprises; authority was to be given to the managerial level, not to individual farmers and labourers. The economic rehabilitation program was predicated on the control by the expert, as the discussion on the new generation of economists in Chapter One has shown. The effort to implement economic rehabilitation since 1963 provided a glimpse into the increasing tension between these two economic models and showed how the Communists successfully implement their nationalistic economic ideas, especially when the state took over much of the Communist lexicon during the *Berdikari* (*berdiri diatas kaki sendiri* – standing on one's own feet) policy period.²

The Deklarasi Ekonomi (Dekon) started off as a rehabilitation policy under the guidance of the IMF, but the influence of nationalists and Communists within its various committees had resulted in the change in its wording to accommodate ideas that were supportive of the nationalist and communist stance in the economy. As a result, Dekon was used by the Communists as a legal foundation to push forward their ideas, including attacking the May rehabilitation regulations and policies which had been the result of the work between Indonesian economists and the IMF. The failure of the rehabilitation program and the use of Dekon as a legal and moral foundation allowed for a continued Communist push into the policy-making process in the government.

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- 1 Herbert Feith, *Sukarno-Militer dalam Demokrasi Terpimpin*, p. 48. The Communist distrust of the bureaucracy and the military shaped this somewhat non-state centered view of the economy and society.
 - 2 This autarkic confidence stemmed from the notion's of the productive capability of the Indonesian farmers and workers and also from the belief that despite economic problems, Indonesian society would soldier on. Both Sukarno and the PKI believed this condition and the thought that Indonesian society breaking down was something that was not entertained by many within these circles. On the other hand, Western economists were equally befuddled by the seeming capability of the Indonesian to make do within a constantly deteriorating situation.

Economic Deterioration and Rehabilitation

There was a widespread acknowledgement that the economic situation by 1962 had become dire indeed. Indonesia had started reaching out for international help, in fact, in 1961 when the Humphrey mission evaluated its economic condition. An IMF loan was procured in August 1961 to the tune of 41 million dollars to help the country's balance of payment. However, Indonesia was refused a loan from the World Bank because it was still required to pay indemnities to the nationalized Dutch enterprises. Dekon was considered to be a good rehabilitation strategy. Mohammad Sadli said about the program that "now our price policies are based on more rational principles."³ The Dekon effort produced two quite different documents; the Deklarasi Ekonomi announced on 28 March 1963 and one month later, the May Regulations announced on 26 May 1963. The Deklarasi was a philosophical tract concerning the goal of the national revolution. While the May Regulations were policies on austerity measures and the effort to relieve the economy from the inflationary spiral. The regulations were supposedly the logical extension of Dekon, but because of Dekon's vague wording, it failed to provide legitimacy to the regulations. This divergence was put to good use by the Communists, while attacking the legitimacy of the rehabilitation effort.

Indonesia has had a strong inflation since 1952, increasing since 1957 and lurching toward an uncontrollable level by 1961.⁴ The collection of 'funds and forces' of the revolution were not central to the Dekon's approach for economic rehabilitation, because its successful negotiation with the IMF and the DAC (Development Assistance Committee) nations allowed some monetary reprieve through foreign loans. Later on, when Indonesia became increasingly isolated, the focus would be on gathering the last pools of money available in the Republic—for instance by targeting the Chinese-Indonesian businessmen, living in Jakarta's Pintu Ketjil Chinatown. Production had slowed considerably as productivity levels dropped and infrastructural woes increased costs and created congestion, resulting in lower exports. The 14 regulations published in May were focused on rehabilitating the production

3 Mohammad Sadli, "Stabilisasi ekonomi sebagai sjarat untuk pembangunan ekonomi jang efektif" in *Madjalah Perusahaan Negara*, no. 33, year 3, September 1963, p. 8.

4 J.A.C. Mackie, *Problems of the Indonesian inflation*, p. 2-3.

sector, increasing state income and improving strategic sectors.⁵ The main focus of the plan was to limit inflation to a manageable level and then to increase production. The problem was how to create a big production drive while introducing anti-inflationary measures.

A significant part of the economic woes was due to the reduced efficiency of large segments of the state-owned companies that had previously been under foreign management. Between 1957/1958 and 1960, Dutch nationalized companies were under a variety of government supervisory bodies, grouped according to their industrial field; the BUD for commercial enterprises, Bappit for industry and mining, PPN-Baru for industrial estates. These bodies were to be government-owned but privately managed along sound business lines.⁶ The Presidential Regulation (PP) no. 19/1960 integrated all government- and non-government owned companies within managerial bodies controlled by the state. The PP also required companies to provide 55% of their profits as contribution to the government's revolutionary funds. It dissolved the supervisory bodies and "ambitiously codified the behaviour of all state enterprises and rigidly laid down rules governing the relationships between them in different sectors of the economy."⁷ Government-owned companies were to be integrated according to types of industry within what were called General Managerial Boards or BPUs (*Badan Pelaksana Umum*). The boards oversaw a contingent of government-owned companies in an effort to create economies of scale. The BPUs themselves were placed under various government ministries. This meant that government-owned companies had at least three levels of management: the ministry, the BPU and the company management. This often caused problems resulting from conflicting rules and policies. Coupled with a lack of infrastructure and traffic congestion, uncertainty in regulations, an increasingly complex and unwieldy bureaucracy and, most important of all, uncontrolled inflation, it was no wonder that much of the state-owned sector effectively became bankrupt.

During the colonial period, government-owned companies provided quite a large share of total government revenue. In 1929, they contributed

5 Production, prices, credits, budgets and administration or procedures.

6 J. Panglaykim and Ingrid Palmer, *State trading corporations in developing countries. With special reference to Indonesia and selected Asian countries*, (Rotterdam: Rotterdam University Press, 1969), p. 7-8 and 16.

7 J. Panglaykim and Ingrid Palmer, *State trading corporations in developing countries*. p. 17.

up to 28% but in 1939, this had decreased to only 14%. By 1955, the total share of government revenue contributed by government-owned companies had reached only 8%. In comparison, taxes climbed from 65% of the total revenue from 1929 to over 90% by 1951.⁸ It was thus quite weird for the government to expect increased revenues from the profits of state-owned companies. In fact, government-owned company contributions to state coffers dipped below the state's credit commitments given through state banks since 1960. The state was in effect subsidizing the companies. Contributions declined from a level just even to government credit to a whopping 1/102th of the credit by 1965, when government credit grew to Rp. 527,106,000,000 with a measly Rp. 5,130,000,000 of return contributions.⁹ Government-owned companies grew to become a huge liability for the government and became a subsidized system for the various Indonesian managers and employees.

Another principal reason for the deterioration of the economy has been attributed to the reduction of the Central Bank as an independent body capable of determining monetary policies and thus fine-tuning the economy. Sjafruddin Prawiranegara, the noted head of Bank Indonesia, had resigned in February 1958 and would join the PRRI rebels soon enough. By 1960, the Bank stopped publishing its weekly, quarterly and annual financial reports, plunging the public into the dark concerning the monetary condition of the country. In 1961, the naming of Jusuf Muda Dalam, a PNI Sukarnoist, as Minister for Central Bank Affairs and Governor of the Bank of Indonesia spelled the end of its role as independent monetary policy maker. Instead, the Bank was there to support Sukarno's revolutionary plan.¹⁰ The combination of the loss of discipline of the fiscal policy and the loss of a monetary policy body significantly reduced the government's capability in dealing with macroeconomic problems especially the looming inflation, which by the end of the Guided Democracy would rise to become a full-blown stagflation, i.e. high inflation with a stagnant economy.

8 Douglas Paauw, *Financing Economic Development. The Indonesian Case*, (Glencoe: The Free Press, 1960), p. 169-170.

9 *Laporan Penelitian tentang Efisiensi Pembelandjaan Perusahaan2 Negara Periode 1960-1966*, (Yogyakarta: Biro Penelitian Ekonomi FE-UGM, 1968), p. 3.

10 Radius Prawiro, *Indonesia's Struggle for Economic Development. Pragmatism in Action*, (Kuala Lumpur: Oxford University Press, 1998), p. 3-4.

A comparison between 1961 and 1965 gives a vivid picture of the deteriorating conditions. GDP (constant price 1960) increased from Rp.390.5 billion in 1960 to Rp.429.7 billion in 1965 with an annual growth of 2,2% and an annual population growth of 2,8%. GDP per-capita was on an annual negative growth of 0,6%. Exports had gone from \$620 million in 1960 to \$462.7 million in 1965, down 30%. With an increase in population of about 30%¹¹ throughout the same period, foreign exchange per capita had decreased by a whopping 60%. Foreign debt grew from around \$900 million in 1961 to about \$250 million by 1966, an increase of 250%. For the year 1966, the total amount of debt payment, including interests, equaled to around \$530 million dollars because some of the long-term debts had matured. This amount was larger than the entire national export. Even more uncontrollable was the problem of deficit. The money flow increased from Rp. 47,8 million in 1960 to 11,418.2 million by July 1966, an increase of 23,887%. Government deficit grew from Rp. 6,9 million in 1960 to Rp. 5,237.7 million by the same period. Throughout the later part of the Guided Democracy, inflation was always above 100 percent annually. This hurt consumers badly as food prices between 1961-1966 increased by forty times, in fact eight times in the year 1965 alone.¹² Massive inefficiency and the lack of foreign exchange reserve plus an escalating food price coupled with bad harvest resulted in outbreaks of famine in many parts of central Java.

DEKON: Deklarasi Ekonomi

At its heart, the Dekon was a rehabilitation measure meant to deal with inflation. Thus, monetary policy, i.e. Keynesian fine-tuning of the economy, was the main thrust for rehabilitation and its main policy was austerity. It was vaguely based on a Yugoslavian political economy model,¹³ although to what extent this was the result of the studies by Indonesian economists is undetermined. Economists stressed the importance of austerity: "As long as

11 This was based on Bintoro Tjokroamidjojo calculations. Population growth rates of 2.8% would have increased total population in five years of just around 11 percent. Because of lack of accurate data, it is uncertain which numbers were more representative of reality.

12 Bintoro Tjokroamidjojo, "Perkembangan dan Evaluasi Tahap Penjelamatan Bidang Ekonomi dan Keuangan" in Bintoro Tjokroamidjojo, *Tulisan-tulisan Administrasi Pembangunan, 1966-1968*, p. 1-7.

13 J.A.C. Mackie, *Problem of Indonesian Inflation*, p. 38.

the government fails to rein in this strong inflation, then first, social efficiency will never be met and, second, the targets of the national planning will never be achieved.”¹⁴

Yet, the resultant Dekon had to accommodate various views that blurred this monetary focus. Sukarno himself said that “the present dire circumstances cannot be solved as a stand-alone problem; it certainly cannot be solved purely through conventional monetary actions alone.”¹⁵ This blurring of the rehabilitation program allowed for a sustained attack, by the Communists and by the end of 1964, their influence became quite significant, resulting in a shift of emphasis toward expanding worker participation. The drive toward what was termed ‘social support’ grew significantly in the later years of Guided Democracy. But the Dekon showed just to what extent economists were willing to integrate their views on market mechanism, competition and other forms of ‘Western’ economies with the socialist system.

By late 1962, the worsening economic condition was worrying Sukarno’s inner circle. In November, Djuanda approached American ambassador Howard Jones to ask for American aid. At the same time, the Soviet Union delegation met with Soebandrio to discuss a trade credit for Indonesia worth 100 million dollars.¹⁶ Foreign Minister Soebandrio, also approached the intellectual Soedjatmoko for help in formulating an economic program for Indonesia.¹⁷ Soedjatmoko was part of a group of Indonesian intellectuals who met regularly to discuss the problems facing the country. According to Sarbini Sumawinata, he and others saw it as an important opportunity to draw Sukarno closer toward the technocratic group.¹⁸

Economists like Sarbini Sumawinata and others like Mohammad Sadli and Widjojo Nitisastro¹⁹ no doubt contributed to the development of the

14 Mohammad Sadli, “Effisiensi perusahaan dan efisiensi perusahaan negara dewasa ini” in *Madjalah Perusahaan Negara*, no. 28, year 3, April, 1963, p. 22. “Selama pemerintah tidak dapat mentjegah inflasi jang keras maka, pertama, efisiensi sosial tak akan pernah tertjapai, dan kedua, target2 penanaman Rentjana Nasional djuga tak pernah akan tertjapai.”

15 Sukarno, “Deklarasi Ekonomi” in *Madjalah Perusahaan Negara*, no. 28, year 3, (April, 1963), p. 5.

16 Rosihan Anwar, *Sukarno, Tentara, PKI*, p. 189-190.

17 Soebandrio later disowned this claim and stressed that the Dekon was equally affected by Communists like Aidit. Rosihan Anwar, *Sukarno, Tentara, PKI*, p. 233.

18 Sarbini Sumawinata, “Recollections of my career” in *Bulletin of Indonesian Economics Studies*, Vol. 28, no. 2, August, 1992, p. 49.

19 Thee Kian Wie, *Recollections. The Indonesian Economy, 1950s-1990s*, p. 229.

Dekon and its regulations. This effort to reduce the role of the state and allow for the implementation of market forces seemed to be a challenge to the socialist experiment of the Guided Democracy. That Soebandrio, a senior member of the Guided Democracy elite, now requested the help of the economists was a sobering indictment of the failure of the early Guided Democracy experiment. Soebandrio was competing with Djuanda to come up with an acceptable stabilization plan.²⁰ The Dekon was launched on 28 March 1963 and by May, a series of economic and fiscal reforms was announced, price controls were removed and government subsidies reduced. Sukarno's projects were halted and the government focused henceforth on agricultural and industrial production.²¹

By late 1962, the AID mission ramped up their consultation with the economists in Djuanda's entourage. On February 14, 1963, an Indonesian delegation headed by Sutikno Slamet,²² went to the United States for three weeks to hammer out an agreement and discuss debt rescheduling and loans to Indonesia to the tune of 350 million dollars. They succeeded in convincing the authorities there of the sincerity of the Indonesian efforts at economic reforms and acceded to stringent qualifications. In March, the IMF sent its Indonesian executive director, Mr. Sumanang, a former member of the Wilopo cabinet, to reassure Indonesia on the economic rehabilitation program.²³ In November, Indonesia requested an IMF mission to advise on stabilization measures.²⁴ A team of 10 experts was sent to draft technical details with their Indonesian counterparts. The report was said to have contributed heavily to the May stabilization regulations.²⁵ The Kennedy Administration was hopeful that the core economic managers and technocrats around Djuanda would be able to wade through the political muck.²⁶ Debt rescheduling was an important component of the economic reforms being proposed. In April, Indonesia discussed the issue with the Soviet Union. On

20 Rosihan Anwar, *Sukarno, Tentara, PKI*, p. 223-224.

21 John H. Sullivan, *The United States and the New Order*, (PhD Dissertation American University, Washington DC, 1969), p. 42-43.

22 Eric Chetwynd Jr. "The Indonesian Stabilization Attempt of May 1963," p. 41. He was a former director of the IMF and former financial advisor to President Sukarno.

23 Duta Masyarakat, 26 March 1963.

24 Frederic Philip Bunnell, *The Kennedy Initiatives in Indonesia, 1962-1963*, p. 214.

25 Eric Chetwynd Jr. "The Indonesian Stabilization Attempt of May 1963," p. 41-42.

26 Frederic Philip Bunnell, *The Kennedy Initiatives in Indonesia, 1962-1963*, p. 75.

9 December, the United States proposed debt rescheduling for Indonesia to the Development Assistance Council, a group of lender nations within the US orbit of influence, and discussed the possibility of creating a coordinating group for Indonesia.²⁷ This was precursor to the later Inter-Governmental Group on Indonesia in 1967. Sukarno was convinced that he could get 600 million out of America relatively easy.²⁸ After a favourable report by the IMF, the government hoped to obtain up to 400 million dollars from the US, the World Bank, the IMF and other DAC members, like the UK, France, West Germany and Japan.

Between February when Indonesia contacted the IMF and March when the Dekon was announced, three separate committees were created in order to design and implement the economic program. The first, a Committee of Five, was formed in February 6, 1963, and was headed by First Minister Djuanda, Finance Minister Notohamiprodjo, Foreign Minister Dr. Subandrio, Minister of Central Bank Affairs Sumarno and Minister for Basic Industries and Mining Chaerul Saleh. The Committee published a report that was heavily influenced by Djuanda drafted with the help of his AID-funded advisor, Bernard Bell, a private economic consultant. His staff was successful because he knew many of the Indonesians working at the First Minister's office and there was a degree of trust.²⁹ Yet, according to Rosihan Anwar, the President rejected Djuanda's plan on 27 February.

In early March, a Committee of Thirteen was created, chaired again by Djuanda, and drafted the basic strategic principle for future policy guidelines. This committee included more 'political' representation, including D.N. Aidit and M.H. Lukman of the PKI, Ali Sastroamidjojo of the National Front, Idham Chalid of NU and various other political appointments. It was within the Committee of Thirteen that Soebandrio approached the economists and produced what was called the Economic Manifest (*Manifesto Ekonomi*). It was also in this committee that the Communist involvement became significant and this allowed them to claim that Dekon supported their economic policies. At a later date, the President named the last committee, the Committee of Seven, to outline the government's economic

27 Frederic Philip Bunnell, *The Kennedy Initiatives in Indonesia, 1962-1963*, p. 215.

28 Rosihan Anwar, *Sukarno, Tentara, PKI*, p. 218.

29 World Bank Archives, Bernard Bell personal archives, Conversations about George Wood and the World Bank, S.5583 Oral History Transcript.

policy. It was chaired by Dr. Johannes Leimena and was dominated by political figures.³⁰ The Committee of Seven saw Djuanda's further erosion from his position, as he was not included in the committee.³¹ Djuanda's gradual loss of influence was paralleled Soebandrio's rise.³² Unlike Djuanda's plan, Soebandrio's FEUI-written plan was approved.

The rehabilitation program was abandoned several months later after receiving little public support, even from the government and decreasing international support as Western governments gradually lost faith in Indonesia's sincerity in dealing with the problem. The 26 May regulations, which were part of the IMF-endorsed stabilization programme had dismantled price controls, resulting in increased fares for public transport and other austerity measures. The role of Djuanda in coordinating the regulation was central. Other key figures included Finance Minister Notohamiprodojo, Central Bank Affairs Minister Sumarno, State Budget Minister Arifin Harahap and the Executive Governor of the World Bank and former Bank Indonesia Governor, Sutikno Slamet, a good selection of Indonesian professional experts.³³ Prices of the postal service, transport and electricity rose by 400% to 600%, but salaries and allowances of civil servants were doubled. A new set of foreign exchange regulations were introduced, 40 million dollars worth of foreign exchange was released as part of the 'crash program' to import spare parts and raw materials to support industrial production and the program envisaged the halving of 1963 deficit and complete elimination by 1964.³⁴ Reaction from the political class was decidedly negative.

The PKI focused its attack on Djuanda and his heinous crime of 'liberalism'. By September 7, Sukarno had issued a statement for the retraction of the rehabilitation measures.³⁵ US Ambassador Howard Jones announced that

30 Eric Chetwynd Jr. "The Indonesian Stabilization Attempt of May 1963," p. 42-45.

31 Rosihan Anwar, *Sukarno, Tentara, PKI*, p. 232-233.

32 According to Rosihan Anwar Djuanda was sullen about this and did not attend a state meeting on Dekon. Rosihan Anwar "Pelopor Teknokrat. Non-stop jadi Menteri" in Awaloeddin Djamin (ed.), *Pahlawan Nasional. Ir. H. Djuanda Kartawidjaja. Negarawan, Administrator dan Teknokrat Utama*, (Jakarta: Kompas, 2001), p. 216.

33 Eric Chetwynd Jr. "The Indonesian Stabilization Attempt of May 1963," p. 39.

34 J.A.C. Mackie, *Problems of Indonesian Inflation*, p. 39.

35 Rex Mortimer, *Indonesian Communism under Sukarno. Ideology and Politics, 1959-1965*, (Ithaca: Cornell University Press, 1973), p. 266-267.

if Indonesia created a new cabinet of which the Communist were a part, or if Indonesia escalated its *Konfrontasi*, the IMF deal would be off.³⁶ This despite the fact that, since early 1963, the Russians had been pushing for a cabinet that included the PKI as part of the debt rescheduling negotiation.³⁷ Even so, because of the vague wording of the Dekon itself, its symbolic use was to continue throughout the period and a variety of people claimed to have been the main actor in its inception.³⁸ It was obvious that at the last instance, the Dekon document accommodated the wishes of both the PKI and the military, rendering it rather useless as the legal foundation for the legitimacy of the rehabilitation program. It was, according to Sjahrir, a ruse by Sukarno.³⁹

On 15 May 1963, Sukarno's *Ambeg Parama Arta* speech, meaning 'to prioritize essential matters', declared further changes in government policy-making. In the speech, Sukarno declared a series of sweeping changes within the Guided Democracy state. It was a declaration of the failure of the corporative project of the early Guided Democracy state with its mascot, the corporative Depernas body. Sukarno announced that the Depernas was to be incorporated within the executive government and to be put under the office of the President, similar to the function of the BPN during the 1950s.

Sukarno's position on experts seemed to have changed, at least briefly during this period. Although he still loathed economists⁴⁰ and proclaimed to have no knowledge of the economy in a speech he gave at the FEUI in 1964,⁴¹ he warned members of Parliament that they had no constitutional right to

36 Rosihan Anwar, *Sukarno, Tentara, PKI*, p. 234.

37 J.A.C. Mackie, *Problems of Indonesian Inflation*, p. 37.

38 Rosihan Anwar, *Sukarno, Tentara, PKI*, p. 236. The communists consider the Dekon to be the work of M.H. Lukman, a staf of BI claimed that it was Djuanda's staff, an Indian military attaché claimed to have inside information that Prajudi Atmosudirdjo, the then former head of LAN was involved. As Prajudi was a follower of Sumitro, it was claimed that it was PSI involved.

39 Rosihan Anwar, *Sukarno, Tentara, PKI*, p. 237.

40 For instance, Emil Salim was surprised when he returned to Indonesia in 1964 after finishing his doctorate degree to find that Sukarno has disallowed the reading of Western economic textbooks. Emil Salim, "Emil Salim" in Thee Kian Wie (ed.), *Recollections*, p. 197-198.

41 Selo Soemardjan, "Public and Private Enterprise in Indonesian Economic Development" in Yip Yat Hoong (ed.), *Role of Universities in Management Education for National Development in Southeast Asia*, p. 81.

tamper with details and “stuff I consider too complex.”⁴² He warned them to stay away from discussing about ‘numbers’ and other technical stuff. “Let that stuff be in the hands of a specialized apparatus, made exactly for the purpose, in order for the job to be conducted in a perfect manner, because this work requires expertise and a long work hours.”⁴³ In March 1964, Sukarno asked for Hatta’s help in solving the worsening economic situation, especially the provision of rice. Hatta, meanwhile, asked for the help of Sarbini, Saroso Wirodihardjo and Soedjatmoko in this quest.⁴⁴

The Deklarasi Ekonomi envisioned a series of policy changes to bring about a turn around. Although the focus was primarily on the reduction of inflation, the choices was made for a decentralized and de-concentrated economy, the de-bureaucratization of the economic structure and the allowance of greater market forces to work for price mechanism.

Austerity Measures

Austerity measures imposed on the government and the economy in order to control inflation through reduced government spending constituted the most important part of Dekon. The elimination of various price controls and government subsidies and a significant rise in the bus and rail transportation and other mounting prices hit hard the urban section of the population with fixed wages.⁴⁵ These measures were necessarily imposed by the IMF and the DAC in return for emergency aid. It was also the weakest part of the Dekon measures as such policies were open to Communist attack. It became, in fact, a political struggle between monetarists and production policy makers. Those of the future technocracy saw inflation as the most significant problem while the Communist economists identified the problem as one rooted in the system’s non-participatory nature and the absence of the people’s productive capacity within the economy.

42 Soekarno, *Ambeg Parama Arta*. p. 31.

43 Soekarno, *Ambeg Parama Arta*. p. 32. “Biarlah hal itu dikerdjakan oleh suatu Aparatur khusus, jang ditugaskan untuk keperluan itu, agar pekerdjaan dapat diselenggarakan dengan lebih sempurna, karena untuk keperluan itu diperlukan keahlian dan waktu-kerdja jang tjukup lama.”

44 Rosihan Anwar, *Sukarno, Tentara, PKI*, p. 282-282. Saroso Wirodihardjo was an economist and uncle of Sumitro Djojohadikusumo.

45 Frederick Phillip Bunnell, *The Kennedy Initiatives in Indonesia, 1962-1963*, p. 381-382.

The austerity measures required strong will-power from President Sukarno, but it became obvious by many people that this was not possible. For instance, sometime after the announcement of Dekon, Garuda Indonesia imported several brand-new planes on credit. This weakness at the very heart of the state doomed the Dekon program from the start. It is no coincidence that the measures of the Dekon were practically the same as the measures undertaken by Widjojo Nitisastro in 1966 when Indonesia announced its rehabilitation measures.⁴⁶ This is not wholly surprising; the Dekon was itself written by the same FEUI economist-IMF group.

Shift toward Production

Increased production was essential because inflation hit both the productive sector and agriculture. Export had decreased from Rp. 19 billion to Rp. 12,8 billion between 1960 and 1962, the lowest in a decade.⁴⁷ The government acknowledged the economic difficulties and promised to focus on the economy, after spending 80% of the national budget on security issues and the West Irian effort in 1960-1962.⁴⁸ A major problem had been the constraints on the managerial independence at the company level, for example, the application of the PP no. 19/1960, which integrated all state-owned companies within managerial boards (*Badan Perusahaan Umum* or General Management Board). The BPUs were, in turn, under the authority of specific ministries. The BPU and the ministries pushed their ideas and plans on the company managements and this affected their efficiency. The BPUs were to be reduced in organization and authority. Mohammad Sadli suggested that BPUs should become a watchdog, part of the social control that would allow for the increase in the social efficiency of the economy.⁴⁹

46 Widjojo Nitisastro, *The Indonesian Development Experience*, (Singapore: Institute of South East Asian Studies, 2011), p. xiv. "In the short term, a stabilization programme to control inflation and a rehabilitation programme to build infrastructure were given particular priority."

47 C. Siahaan, "Pelaksanaan Dekon" in *Madjalah Perusahaan Negara*, no. 31, year, 3, July, 1963, p. 14-15.

48 Djuanda Kartawidjaja, "Sambutan Menteri Pertama pada Seminar Perusahaan Negara tgl. 30 Maret 1963 di Djakarta" in *Madjalah Perusahaan Negara*, no. 28, year 3, April, 1963, p. 11-12.

49 Mohammad Sadli, "Effisiensi perusahaan dan efisiensi perusahaan negara dewasa ini" in *Madjalah Perusahaan Negara*, no. 28, year 3, April, 1963, p. 18.

De-concentration and De-control

The Dekon allowed greater independence for companies to determine levels of production, pricing, profit making, marketing and so forth.⁵⁰ Companies were free to work according to a business mind-frame within a free environment without being hampered by regulations of the Department and the General Management Boards or regional officials.⁵¹ At the same time, the General Management Boards should provide economies of scale, as their coordinating authority would allow various companies to work together within common goals. The PP no. 19/1960 also earmarked state-owned companies as cash cows, requiring them to fork up 55% of their profits to the state as part of the Overall Development Fund. Although profits were on the increase, they also encountered increasing levels of state taxation.⁵² A gradual de-control of the economy away from the hands of state bureaucrats was envisioned. Government Regulation no. 7/1963 was one of the follow up measures, which gave full autonomy to state trading corporations.⁵³ Setting the price mechanism within the productive and service sector was left to company management. The shift toward an export drive was part of the stepping up of production. A limit on the increase in prices of rice and textiles was also introduced in order to stem inflation.

Increased managerial independence from the central government, the BPUs and the regional government heralded an effort for greater de-concentration. The central government's role in the economy was to be gradually reduced. This meant greater managerial independence and also greater regional autonomy. Import and export administration were to be devolved from central to regional offices.⁵⁴ This devolvement would result in the reintroduction of competition, not a free-market one, but a socialist one.

50 C. Siahaan, "Pelaksanaan Dekon", p. 14-15.

51 Soenarto Soedibroto, "Aktivitas PDN2 dalam rangka Dekon" in *Madjalah Perusahaan Negara*, no. 34, year 3, October, 1963, p. 13-15.

52 In 1960, the profit of state-owned trading companies was at Rp. 1.926,9 billion and in 1961 at 1.425,1 billion. Profits that were given to the Overall Development Funds were Rp. 503,9 million and Rp. 648,3 million. "Kolonel Soehardiman dihadapan wartawan2 ekonomi ibukota tentang fungsi BPU-PDN dan PDN2 dalam rangka Perpres no.7, 1963" in *Madjalah Perusahaan Negara*, no. 32, year 3, August, 1963, p. 10-13. By 1965, however, most of the companies have become unprofitable.

53 J. Panglaykim and Ingrid Palmer, *State Trading Corporations in Developing Countries*, p. 70

54 Sukarno, "Deklarasi Ekonomi" in *Madjalah Perusahaan Negara*, no. 28, year 3, April, 1963, p. 8.

Competition was considered essential in order to raise productivity and as a corrective mechanism for market conditions. It was not called a free-market competition, but an efficiency competition.

Market Mechanism

Mechanisms that worked within free-market economies were introduced as part of the effort to increase efficiency and increase productivity within objective measurements. For instance, competitions based on goals between state trading companies and amongst employees working within the same companies were introduced. "Obviously, the price mechanism which is used in the interest of planning must not be left on its own; price mechanisms should be used in a guided manner! That is why the nature of competition is also limited, it is a guided competition!"⁵⁵ It really was a socialist competition. Many of the reasons being put forward to legitimate such actions were taken from the studies conducted by economists in Eastern European countries, which also faced a lack of incentives in the economy and the need to reintroduce forms of market mechanisms.

The idea of incentives was not merely to introduce market mechanisms, but to reach overall efficiency. Within a socialist economy, efficiency lay not within a particular company, but within the overall economy. This was what Sadli termed to be 'social efficiency.' It was the job of the managerial body of each company to respond to the social efficiency, not purely to company efficiency. The state was to provide incentives and disincentives toward the companies as a means of control toward the desired goals of society, such as through import and export policies, credit policies and taxation.

Foreign Participation

Both production-sharing and joint venture programmes were introduced as means to allow forms of foreign direct investment within the country. Development financing had become a major problem, only made worse by inflation. Inaugurated in 1962, it was hoped to act as a funnel for foreign investment in the extractive sectors of mining and oil. The funds committed

55 Mohammad Sadli, "Effisiensi perusahaan dan efisiensi perusahaan negara dewasa ini" in *Madjalah Perusahaan Negara*, no. 28, year 3, April, 1963, p. 22.

were rather limited; 72 million dollars for the period of 1962-1966, a small fraction in comparison to the foreign borrowings Indonesia accrued. The biggest investment came from the Japanese at over 44 million dollars. Western Europe provided some 15.5 million and Eastern Europe over 12 million dollars. Aside from foreign exchange, foreign direct investment was also expected to import foreign managerial and technical experts. Six million dollars were spent on paying for foreign experts in a wide range of extractive industries including tin mines, palm and coconut oil plantations.⁵⁶

Social Control

As part of the corporative strategy of the Guided Democracy model, the idea of social control, social support and social participation became an essential component of the reform process. Yet, the failure of the Depernas project and its incorporative forms in national planning, did not lessen Sukarno's support of some form of participation that should be extended into the wider economy. If national planning had to be retraced within the central governing bodies of the Bappenas-Muppenas, at the company level, participation of social organizations should be achieved through the provision of access toward the managerial level of companies. These ideas of social control were to be implemented under the auspices of the National Front.

The creation of the Company Board (*Dewan Perusahaan*) which allowed for participation of trade union organizations within the policy making body of companies represented significant expansion of participation at the grass-roots level of the economy. It was an effort to democratize company managerial relations. The *Dewan Perusahaan* was incorporated into law no. 45/1960 as part of the economic reorganization of that year. It was meant as an answer to the problems plaguing labour-management relationship and the low levels of productivity of Indonesian industry. The relationships were strengthened in the Dekon Chapter 11. The *Dewan Perusahaan* assumed to replace labour-management relationship from one of employment to a human and social relationship in order to increase the quality of production.⁵⁷

56 Joyce Gibson, "Production sharing: part II" in *Bulletin of Indonesian Economic Studies*, no. 2, year 4, 1966, p. 75-100.

57 Nurdjaman, "Dewan Perusahaan sebagai Alat Revolusi dalam kerangka tata susunan perusahaan Indonesia" in *Kumpulan Kertas Karya Musyawarah Besar Sardjana Ekonomi. Djakarta, 15 Djuli 1964. Jilid I*, (Jakarta: Jajasan Badan Penerbit, 1964).

Like many other aspects of Guided Democracy, economists had studied various forms of company boards in the Soviet Union, Poland and Yugoslavia, obtaining a varying range of institutional applications within their respective contexts.

A financial plan was drawn up which included the need to reach a balanced budget and a reduction of expenditures by stopping new projects, rescheduling foreign credit payment and gradual and selective elimination of subsidies. State income was to be increased through intensification of taxation and customs, increasing taxes on domestic transaction, private wealth, land, external signs of wealth, the profits of state-owned companies and introducing new land-reform taxes such as an absentee and sharecropping tax on landowners. Foreign exchange policy was focused on import of raw materials and spare-parts in order to reach the pre-Guided Democracy production capacity (1955-1957).

Increase in exports was to be achieved by reducing bottlenecks and increasing flexibility in the export system, the rescheduling of foreign credit payment and obtaining new credit facilities at the same time. A credit plan was worked out in which credits would be selectively given only to quick-yielding ventures. Consumption credits were to be stopped and credits were to be structured in accordance with import plans. Price policy should be in-line to support production target output. Selective price control would be conducted as stimulus to increase production. State subsidies would be decreased and rationing would be selected for strategic products. Some subsidies would be maintained, for instance for oil and gas, in order to dampen inflation. Salary and wage policies were designed to reduce inflation. Increases in wages and salaries were allowed in some sectors as a stimulus to increase production and a reorganization and rationalization of the state apparatus was to be conducted in order to increase efficiency. It was hoped this would effectively reduce the bloated numbers of civil servants.⁵⁸

Regulations and facilities for state-owned and private-owned companies should be equalized in order to push for more efficient organization and management capabilities. The focus on economic growth was to increase production and infrastructure, especially in transportation and distribution. The role of private-owned companies was acknowledged especially in

58 *Laporan Tahunan Staf Komando Tertinggi Operasi Ekonomi tahun 1964*, (Jakarta: KOTOE, 1964), p. 29-37.

manufacturing industries. Tax holidays, fiscal pardon and depreciation policies and other incentives were given. Market rationale through incentives and stimulus was replacing state-controlled decisions. The focus was not on proposing new projects, but on rehabilitating old ones. Nonetheless, government control over the various aspects of this austerity plan was very limited. For instance, over 70% of Indonesian credit was produced through the non-banking system.⁵⁹

Deferment of foreign credit payment required cooperation with foreign creditors. The Soviet Union had already stopped extending large-scale credit to Indonesia by 1963.⁶⁰ The IMF and DAC remained willing to provide 350-400 million dollars of credit as a stopgap financial measure, but these required Indonesia's commitment to focus on its economic recovery.

Amount	Form and source
90 million	DAC emergency credit
150 million	Surplus food supplies from US
20 million	Annual Japanese War reparations
40 million	IMF credits
100 million	Rescheduling

Frederick Philip Bunnell, *The Kennedy Initiatives in Indonesia, 1962-1963* (Thesis Presented at Cornell University, 1969) p. 388.

Criticism of the PKI

The failure of the Dekon was understood to be the result of the inability of Sukarno's government to maintain discipline. The opening of *Konfrontasi*

59Laporan Tahunan Staf Komando Tertinggi Operasi Ekonomi tahun 1964, (Jakarta: KOTOE, 1964), p. 48.

60 In 1964, there had been agreement to increase military aid in relation to the confrontation with Malaysia, but not as large as the Soviet support for the Irian confrontation. In fact, the Soviet were less certain of their support for Indonesia in the *Konfrontasi*. 90% of Soviet aid was for military purposes. Usha Mahajani, *Soviet and American aid to Indonesia. 1949-1968*, (Athens: Ohio University Center for International Studies, 1970), p. 28-29, Nadia Derkach, "The Soviet policy towards Indonesia in the West Irian and Malaysian dispute" in *Asian Survey*, vol. 5, no. 11, November 1965, p. 566-571, Ragna Boden, "Cold War economics: Soviet aid to Indonesia" in *Journal of Cold War Studies*, vol. 10, no. 3, Summer 2008, p. 110-128.

with Malaysia and Singapore shifted the political focus, while austerity measures were not kept. Popular support for the rehabilitation remained low. Bunnell has suggested that the reason for this was that the business sector represented only a small percentage of the Indonesian urban population. The vast majority of Indonesians were farmers on whom the monetary sector of the urban economy has less effect on their lives. At the same time, the bureaucracy and the military were protected from inflation through a combination of government subsidies and corruption.⁶¹ The support from urban wage earners was understandable considering the fact that wages lagged behind price increases, due to the easing of price control and the removal of some government subsidies.⁶²

The PKI immediately launched opposition to the May Regulation. Front Pemuda said that it benefitted only the capitalist bureaucrats, compradors and corruptors.⁶³ Carmel Budiardjo attacked its Western economic credential for failing to link the problem of inflation with the problems of production.⁶⁴ The production approach was meant to “concretely free the productive forces which would push the basic strategy of the Indonesian economy.”⁶⁵ The Communists championed this shift from monetary policy to production policy for it would provide them with access to the derogatorily called bureaucratic capitalist productive economy, which was in the hands of the military.⁶⁶ De-concentration was also attacked. The Communist wanted more government intervention, not less. “The corruptors, who had to be eliminated through changing the price policies then, by eliminating price controls and letting the price of government-owned companies conform to market prices, were not eliminated. In fact, they grew because their actions were no longer supervised by the government.”⁶⁷

61 Frederick Phillip Bunnell, *The Kennedy Initiatives in Indonesia, 1962-1963*, p. 411-412.

62 Frederick Phillip Bunnell, *The Kennedy Initiatives in Indonesia, 1962-1963*, p. 381.

63 “Mengobarkan gerakan anti-korupsi dan menatasi krisis sandang-pangan. Memorandum Front Pemuda” in *Perekonomian Nasional*, No. 47, year IV, December 1964, p. 21-23.

64 Carmel Budiardjo, “Melaksanakan Dekon dengan konsekwen. Kesulitan ekonomi dewasa ini dapat diatasi” in *Perekonomian Nasional*, No. 47, year IV, December 1964, p. 9-11.

65 Carmel Budiardjo, “Melaksanakan Dekon dengan konsekwen. Kesulitan ekonomi dewasa ini dapat diatasi” p. 9-11.

66 Kabir: kapitalis birokrat.

67 Carmel Budiardjo, “Melaksanakan Dekon dengan konsekwen. Kesulitan ekonomi dewasa ini dapat diatasi” in *Perekonomian Nasional*, No. 47, year IV, December 1964, p. 11.
“Tukang2 tjabat jg mau dibasmi dengan mengubah politik harga ketika itu, jaitu menghapus

In other words, according to the Communists, the floating of the currency and the reintroduction of market mechanisms had no effect on eliminating inflation. Carmel Budiardjo argued that the only way inflation could be handled was through a structural incorporation of the working class within the economy: to allow for participation in the management of the companies and the economy. This was what the Communists understood by the idea of social control: a control of the economy by ‘society’. These views clashed very deeply with the expert-managerial and military control that placed ‘society’ on the receiving end. Aidit’s definition of social control was thus to “mobilize the masses and get them to participate through labour union representatives in the management and surveillance of state-owned companies” and this was essential in what he termed Manipolis management.⁶⁸ The success of the effort was shown through the introduction of the 17 April 1964 regulation, which, in principle, reinstated price controls, although the floating rate was maintained.

Guided Democracy and Economists

The earliest economists who played a significant role within the Guided Democracy state had finished their bachelor’s degree sometime in the middle of the 1950s, as the first and most important faculty of economics opened its doors at UI in 1951. The middle of the 1950s was a propitious time for newly graduated economists because of the availability of scholarship in the various old and newly minted foreign academic institutions. The first generation economists, like Mohammad Sadli, Sarbini Sumawinata and Suhadi Mangkusuwondo, started finding their way home to Indonesia by the late 1950s, but it was only from 1962 that there were a significant and increasing number of economists and other social scientists coming back to Indonesia from the United States.

Many of these new economists had good revolutionary credentials. During the independence struggle Suhadi Mangkusuwondo fought in

sistem pengendalian harga dan membiarkan harga2 pendjualan badan2 milik pemerintah menyesuaikan diri dengan harga pasar, bukannya dibasmi, tetapi lebih bekemban karena kegiatan2nja sudah tidak diawasi lagi.”

68 D.N. Aidit, “Management Manipolis. Dekon menolak monetary approach tapi mengutamakan production-approach” in *Perekonomian Nasional*, no. 50, year V, March 1965, p. 9-10.

the same student army company as Widjojo Nitisaastro.⁶⁹ When the older generation of economists faded away, the new generation was able to take up official positions in the state. None of them advocated a direct application of a market-based approach toward economic policy-making and, especially during the Guided Democracy, they were quite supportive of the idea of a state-led economy that gave a prominent role to state-owned companies. “During the period of Guided Democracy and Guided Economy in the early 1960s, our attention was focused on the question of how to operate a planned economy based on socialist principles, in which state-owned enterprises (SOEs) were to occupy the ‘commanding heights of the economy’ and to be its driving force. As economists, we were concerned that the market mechanism be allowed to operate in a planned economy based on socialist principles. Hence, Oscar Lange’s views on a socialist market economy became the model for our own views on how to run Indonesia’s Guided Economy.”⁷⁰ This Polish economist was famous for introducing a model of market socialism. Keynesianism had to be worded differently so that it could conform to the *Revolusi* ideology. By early April 1960, Parliament banned continued university affiliation with Western counterparts in the social sciences, although affiliation in natural sciences was deemed permissible. Sukarno would no longer allow the teachings of Keynes in Indonesian universities.⁷¹

R. Soerjadi, who had worked in the Central Bank as Director for Economic Planning and Statistics presented a paper at an HSI meeting in August 1963, which provided the basic philosophical stance of that period. He focused much on the perceived similarity between the extremes of Communist and capitalist society and in which socialism existed within the entire continuum of these extremes. The assumption lay in the fact that neoliberal economists like Von Mises, Ropke, Hayek and Simons all assumed government intervention admissible in the economy to control the market. Reading the socialist economist A.P. Lerner’s *The Economics of Control*, he argued with Lerner’s conclusion on the concept of pragmatic collectivism: “Pragmatic as contracted with domestic collectivism is very close to the

69 Suhadi Mangkusuwondo, “Recollection of my Career” in *Bulletin of Indonesian Economic Studies*, Vol. 32, No. 1, April, 1996, p. 34.

70 Suhadi Mangkusuwondo, “Recollection of my Career” in *Bulletin of Indonesian Economic Studies*, Vol. 32, No. 1, April, 1996, p. 36.

71 Rosihan Anwar, *Sukarno, Tentara, PKI*, p. 15.

point of view of the liberal capitalist, who is in favour of state activity, where ever the liberal capitalist ideal of perfect competition cannot be made to work.”⁷² He then proceeded quote the Dutch economist J. Zijlstra in his book *Economische Orde en Economische Politiek*: “If the thoughts of Simons, Hayek and Ropke, who call for government intervention in the economy is acceded, then the thoughts of Hayek and Ropke will reach the conclusion that the Government must intervene in the matters of ‘work opportunity, monopoly and the allocation of national income, which are the three subject that according to Lerner require attention within a ‘controlled economy.’”⁷³

Soerjadi’s paper meant to show that economic system was not automatically tied to an ideology. The overlapping thoughts evinced by socialists and neoliberalists showed the fragility of this fallacy. “As a result, it can be said that a society can have more than one characteristic. This means that for instance liberal societies cannot be identified using just one characteristic, for instance ‘an economically free society’ and a Communist society cannot be identified by using just one characteristic, for instance ‘a Guided Economy society’ ... “On the contrary, one cannot say that a Guided Economic society is not identical with Communism. In other words, the guided economic system can be combined with other characteristics that do not exist in Russia. This is the case in Indonesia, when the implemented economic system is a guided economic system. But its ideology is that of Pantjasila in a society that is familiar with *musjawarah*, *gotong rojong*, ownership rights with social functions, etc.”⁷⁴

72 Quoted by R. Soerjadi, “Sistim Ekonomi Terpimpin dibidang Moneter”, speech given at the HSI Economic Seminar, 20 July 1963, p. 6. ANRI, Roeslan Abdulgani, Inv. Nr. 1082.

73 Quoted by R. Soerjadi, “Sistim Ekonomi Terpimpin dibidang Moneter”, p. 6.

74 Quoted by R. Soerjadi, “Sistim Ekonomi Terpimpin dibidang Moneter”, p. 9. “Dengan demikian dapat dikatakan, bahwa suatu masyarakat itu mempunyai lebih dari satu tjiri sadja. Ini berarti, bahwa mialnja masyarakat Liberal itu, tidak dapat kita beri identifikasi, dengan menyebut satu tjiri sadja dari padanja, umpamanya: “masyarakat ekonomi bebas, dan masyarakat Komunis itu tidak dapat kita beri identifikasi dengan menyebut satu tjiri sadja daripadnja, misalnja “masyarakat ekonomi terpimpin.” And “Sebaliknya dapat dikatakan, bahwa sistim ekonomi terpimpin itu tidak identik dengan komunisme. Dengan pertakaan lain, sistim ekonomi terpimpin itu dapat dikombinasikan dengan lapangan2 lain yang sifatnja berlainan dengan yang terdapat di Rusia. Demikianlah, di Indonesia telah ditetapkan, bahwa sistim ekonomi yang hendak dijalankan, ialah sistim ekonomi terpimpin, dasar negara ialah Pantjasila, masyarakat yang mengenal *musjawarah* dan *gotong-rojong*, hak milik yang mempunyai fungsi sosial, dsb.”

Since no Indonesian economist ever claimed belief in a purely neo-liberal market approach to Indonesian development, including the foreign economists working for Indonesia during the 1950s, there were never any real contradictions in the research and paper they presented, when they focused on a state-centered economic development similar to the approach taken by Communist and Third World countries everywhere.

The Study of Socialist Economies

From 1960 onwards, economists in various universities started researching state-led models in Eastern Europe and China and tried to develop strategies for the Guided Democracy state. The LPEM and other research institutions started conducting surveys in various countries abroad and conducted research visits to far-flung parts of the archipelago to obtain the knowledge necessary to develop an Indonesianized-version of a mixed economy. The edited volume titled “Indonesian Socialist Economic System” was perhaps one of the most important; in it economists from UI compared and analyzed the economic system of Indonesia and its East European equivalent.⁷⁵ Other works include Widjojo Nitisastru, who conducted a series interviews with Polish planning elites and found that their consumption pattern projections were based on West German consumption patterns.⁷⁶ Panglaykim’s book broadly discuss various managerial approaches in a variety of Eastern European countries and the People’s Republic of China,⁷⁷ Wahju Sukotjo wrote about Yugoslavia’s worker’s management council and socialist democracy in the magazine *Ekonomi*, while Mohammad Sadli and Subroto wrote about Yugoslavia’s socialist economic system in the same magazine. R. Sardju Ismunandar and Soehardiman went on a study-trip to Yugoslavia, Czechoslovakia and Poland and wrote about the economic structure and state enterprises of the three countries in the magazine *Perusahaan Negara* in May 1961.⁷⁸

75 Suhadi Mangkusuwondo (ed.), *Tata Perekonomian Sosialis Indonesia*, (Jakarta: LPEM, 1962).

76 Mohammad Sadli, “Masalah Penentuan Produksi dan Masalah Bentuk Perusahaan dalam Sistem Sosialisme Indonesia” in Suhadi Mangkusuwondo (ed.), *Tata Perekonomian Sosialis Indonesia*, (Jakarta: LPEM, 1962), p. 107-108.

77 Panglaykim, “Beberapa Aspek Struktur Management/Organisasi pada Beberapa Negara Sosialis” in Suhadi Mangkusuwondo (ed.), *Tata Perekonomian Sosialis Indonesia*, (Jakarta: LPEM, 1962), p. 126-296.

78 Sardju Ismunandar and Soehardiman, “Struktur Ekonomi dan Perusahaan Negara di Jugoslavia, Czechoslovakia and Polandia” in *Perusahaan Negara*, no. 5, Year I, May 1960, p. 2-6.

Panglaykim's studies showed that even socialist states entertained possibilities for such capitalist forms as private enterprise. His study on Chinese and East German state capitalism explained it as a transitional phase that compromised its socialist ideals through the formation of public and private ownership of government companies. His discussion on the Soviet model of national planning occurred at a period after Khrushchev's proclamation of its sixth five-year plan (1956-1960), which focused on efficiency and the deference of greater managerial independence to regional bodies and companies.⁷⁹ Widjojo Nitisastro suggested an active import of Western ideas within the prism of socialism, by looking at what other socialist countries imported, such as input-output analysis and various programming techniques. "For the analysis of the problems of income distribution, the development of a variety of economic systems, and others, the direction is for the development of an economic science as a political economy, which can only be approached as an inter-disciplinary study amongst the present social sciences."⁸⁰ The Keynesian Harrod-Domar model of development which focused on savings and foreign investment as central to the push for economic growth was also studied.⁸¹

Papers written by some of the most important technocrats of the New Order showed their effort to integrate Western theories and socialist institutions into a harmonious system. Although Sadli claimed that the prime importance of the market was realized later on,⁸² there were efforts to understand how other socialist countries used the market. The study of socialist institutions showed how socialist societies came to terms with the problems of distribution, pricing and incentives in ways that allowed them to mix Western models. For instance, the Polish use of the West German

79 Panglaykim, "Beberapa Aspek Struktur Management/Organisasi pada beberapa Negara Sosialis", p. 125-182.

80 Widjojo Nitisastro, "Beberapa Persoalan Harga", p. 102. "Untuk penelaahan persoalan pembagian pendapatan, perkembangan berbagai matjam sistim2 ekonomi dsb., arah jang ditempuh kiranya ialah pertumbuhan suatu ilmu ekonomi dalam arti political economy, jang hanja dapat disusun sebagai suatu usaha inter-disciplinary study diantara ilmu2 pengetahuan sosial jang ada."

81 Kaptin Adisumarto, "Scope and Limits of the Harrod-Domar Equilibrium Formula with respects to various Economic Models and their policy implications" in *Laporan Kongres Ilmu Pengetahuan Indonesia Kedua, 1962, Djilid ke-sembilan, Seksi E-3 (Ekonomi)*, (Bogor: Archipel, 1962), p. 209-232. The focus on domestic savings and foreign investment was central to the 1956-1960 Development Plan of the Planning Body (BPN).

82 Mohammad Sadli, "Recollection of My Career", p. 27.

consumption model showed that even within a relatively developed socialist economy, “markets and price mechanics still work and determine production volume.”⁸³ Sadli and Soebroto attended a seminar on Marxism and Socialist Development in Belgrade from 5 to 22 September 1960 and commented on the Yugoslavian socialist system; “in the 1950s the basic policy of a state-led nationalist economy was changed. The Russian model was left behind because it was considered inefficient and unfit for Yugoslavian characteristics. Market and price-based stimuli were reintroduced.”⁸⁴

The role of private enterprises in various Communist countries was also discussed; in Russia “private enterprise is allowed to exist only in branches of production which can be operated as one-man industries.”⁸⁵ Whereas in Poland, private enterprise “is given the widest latitude in the field of production to augment the available consumption goods, to open new fields of production which have never been developed before, to give employment to more people and to increase the prosperity of the country.”⁸⁶ What were perhaps the most characteristics in the trope used by FEUI economists was the assumption that the Communist and capitalist world represented a difference in degree and not in kind and that the Communist world itself was composed of different countries with varying degrees of the institutional application of socialism within their economy. A better understanding of socialist societies helped to demystify their image and made way for less drastic action and more rational approaches, using Communist countries as examples.

The focus on studying East European socialism was encouraged by Mohammad Sadli and indicated the need for experts on the subject. Batara Simatupang, an assistant lecturer at the FEUI, was part of the second batch

83 Mohammad Sadli, “Masalah Penentuan Produksi dan Masalah Bentuk Perusahaan dalam Sistem Sosialisme Indonesia” in Suhadi Mangkusuwondo (ed.), *Tata Perekonomian Sosialis Indonesia*, (Jakarta: LPEM, 1962), p. 110.

84 Mohammad Sadli and Soebroto, “Tata Ekonomi Sosialis Yugoslavia” in *Ekonomi*, p. 84. “Dalam tahun 1950 dasar kebijaksanaan negara untuk mengusahakan ekonomi nasional diubah. Model Russia ditinggalkan sebab dipandang tidak efisien dan tidak tjotjok dengan keadaan2 yang terdapat di Yugoslavia setjara chas. Sistem perangsang dikembalikan dengan penggunaan sistem pasar dan harga (bebas).”

85 Subroto, “The role of private enterprise in the framework of Indonesian socialism” in Johnson J. Rossel, Mohammad Sadli and Subroto (eds.), *Teachings in Business Administration and Economics*, (Jakarta: LPEM, 1961), p. 26.

86 *Ibid.*

of economics students from UI who, along with Emil Salim, was sent to study in the United States. Studying in Stanford under, among others, Paul Baran, Simatupang studied neo-Marxist ideas that were precursors to the dependency theory of the 1970s. There was thus recognition within the FEUI that socialist ideas on economic planning and development should be studied. Simatupang was then sent to Yugoslavia where he studied the country's Planning Board. Thereupon he went to Poland to pursue a PhD.⁸⁷

Regional Development and the Military

The problems related to regional development were apparent to those researching on the integration of former rebel areas in places like Northern Sumatra. J.E. Ismael's visit to the area between October 1961 to February 1962 highlighted the enormous problems related to integrating national development planning with regional government capabilities. "In Indonesia the National Overall Development Plan has become a reality. Various projects will be built throughout the regions, some are not yet explicitly detailed, others will be built complementary to other projects. As a result the National Overall Development Plan functions as an index in the initial phase similar to Russia's Gosplan development plan, all of which in the end will form an 'integrated regional development plan'."⁸⁸ Mohammad Sadli said that "regional development was an 'ideological commitment' of socialism, at least within the socialism that was practiced in countries ruled by Communists."⁸⁹

87 Batara Simatupang, *Otobiografi DR. Batara Simatupang*, (Jakarta: Del, 2012), p. 63-76. After the fall of the Guided Democracy, Simatupang was not allowed to return to Indonesia and immigrated to West Germany instead.

88 J.E. Ismael, "Beberapa Aspek Institusional dalam Pembangunan Nasional dan Daerah" in *Laporan Kongres Ilmu Pengetahuan Indonesia Kedua, 1962, Djilid ke-sembilan, Seksi E-3 (Ekonomi)*, (Bogor: Archipel, 1962), p. 130. "Di Indonesia sekarang ini PPNSB sudah menjadi kenyataan. Proyek2 yang akan dibangun tersebar didaerah2, ada yang belum lengkap terperinci, dan ada pula yang perlu dikomplemenkan. Dengan demikian maka: PPNSB menjalankan fungsi sebagai index dalam permulaan proses penjurusan rentjana pembangunan oleh Gosplan di Sovjet Rusia, atas dasar dan sekitar mana daerah menjusun rentjana pembangunannya, yang kesemuanya akhirnya harus berwujud menjadi suatu "integrated regional development plan."

89 Mohammad Sadli, "Beberapa Segi Masalah Pembangunan Daerah di Indonesia" in *Laporan Kongres Ilmu Pengetahuan Indonesia Kedua, 1962, Djilid ke-sembilan, Seksi E-3 (Ekonomi)*, (Bogor: Archipel, 1962), p. 97. Pembangunan daerah juga merupakan suatu "ideological commitment" dari sosialisme, setidaknya sosialisme seperti yang diamalkan dalam negeri2 yang dewasa ini diperintah oleh kaum komunis."

There was a deep realization that economic problems in socialist society were a political-economy problem. The problem of justification within the acuteness of economic rationality of the economic model had to be solved. Mohammad Sadli asked the question: “to an economic expert the problem is a question of conscience (*gewetensvraag*), meaning does he need to find a ‘justification’ to all the deviation from resource allocation in accordance to pure economic consideration in a way that the decisions can be accounted for by an economic perspective? Or should he consider these deviations as an unwarranted but unavoidable aspect of his economy, as part of the social cost of economic development, as a necessary waste?”⁹⁰ The answer, according to Sadli, lay in the creation of a development leadership. Yet, instead of pointing the finger to the nascent managers, he pointed out the obvious leaders of the regions during the period: the military.⁹¹

“The military men of the present have power over a wide area. Although they admit to the importance of regional development, they are often unable to collect the funds and forces needed to start this development. Even so, because they are the most powerful group at the present, their potential to play a role in development leadership is great. Of course, the mental capabilities and understanding, the tools and will-power must be attended to. At the moment and as was the case in the last couple of years, they occupy a dubious position. They are in charge of security but not in direct charge of welfare. But increasingly there has been greater awareness

90 Mohammad Sadli, “Beberapa Segi Masalah Pembangunan Daerah di Indonesia”, p. 94. “Bagi seorang sardjana ekonomi masalah demikian merupakan suatu “*gewetensvraag*”, artinja haruskah ia mentjari suatu “justification” untuk penjimpangan2 dari resource allocation menurut pertimbangan2 ekonomi jang murni sedemikian rupa sehingga achirnja keputusan2 ini dapat dipertanggung-djawabkan djuga dari segi ekonomi? Ataukah ia harus bersikap bahwa penjimpangan2 ini sebetulnja tidak dapat diharapkan kefaedahan ekonominja tetapi harus diterima sebagai bagian dari “social costs of economic development”, yakni jang bersifat “waste” (tetapi “necessary waste”).”

91 According to Mrazek, the year 1959 was an *annus mirabilis* whereby the military began to enter into the politics of various young states and, more importantly, when the academic community began to entertain the possibility of supporting military managers as modernizers. Rudolf Mrazek, *The United States and the Indonesian military*, p. 14. Peter Dale Scott put the year 1958 as an important year when new mandarins like Edward Lansdale and Guy Pauker started selling the military as a possible candidate for modernizers. Peter Dale Scott, “Exporting military-development”, p. 210. Bradley Simpson put the year 1963 when military modernization theory became widely accepted in policy-making circles in Washington. Bradley Simpson, *Economists with guns*, p. 71-72.

amongst them that regional security cannot be separated from the welfare of the people and that this cannot be separated from economic development. Thus, lately they have been more responsible for the welfare and wealth of the region. Security is a complex issue and is not purely a military or police problem. If the problem of security has become such a complex issue then everyone is responsible for the general welfare; even in time of military law (SOB), it is not purely the responsibility of the military, as it is not purely the responsibility of civilian during peacetime. It requires a collective sense of responsibility, at least between the military and civilian groups on the matter of security, welfare and economic development. Does that mean that the military and civilian, the green and white shirts become pioneers of regional development? The concept of such leadership is autocratic and may not be effective in the long run, but such an autocratic approach may be strong enough to create a momentum to kick-start development.⁹²

The argument that military autocracy was necessary to regulate the immediate problems of the political economy was one that was openly expressed by economists during the period. Sadli's views were congenial to

92 Mohammad Sadli, "Beberapa Segi Masalah Pembangunan Daerah di Indonesia", p. 118-119. "Kaum militer dewasa ini sering mempunyai kekuasaan yang tersebar didaerah. Walaupun mereka ini mengakui pentingnya pembangunan daerah, namun sering merekapun merasa tidak mampu untuk menghimpun „funds and forces“ untuk memelopori pembangunan ini. Walaupun demikian, justru oleh karena golongan ini dewasa ini adalah yang paling berkuasa, maka potensiil merekalah yang paling mampu untuk memainkan peranan development leadership ini. Sudah tentu mentale instellingen, begripnja, peralatannja dan kemauannja harus dipupuk terus. Pada saat ini, serta djuga dibelakang hari, posisi mereka agak dubious. Mereka bertanggung djawab atas keamanan, tetapi tidak langsung atas kemakmuran. Akan tetapi, lambat laun telah timbul suatu keinsjafan dikalangan mereka bahwa keamanan daerah tidak dapat dilepaskan dari kesedjahteraan rakjatnja, dan ini tidak dapat dipisahkan dari pembangunan ekonomi. Maka achir2nja merekapun merasa bertanggung djawab atas kesedjahteraan dan kemakmuran ini. Akan tetapi, dengan demikian maka soal keamanan mendjadi masalah yang kompleks, tidak hanya berupa masalah militer atau polisionil. Kalau masalah keamanan mendjadi demikian kompleksnja maka sebetulnja semua fihak bertanggung djawab terhadap masalah kesedjahteraan pada umumnya; dalam masa SOB-pun bukan fihak militer sadja, dan dalam masa damai bukan fihak sipil sadja. Ini memerlukan rasa tanggung-djawab kolektip, setidaknya antara kaum militer dan kaum sipil terhadap masalah keamanan, kesedjahteraan dan pembangunan ekonomi. Apakah lalu kaum militer dan sipil ini, kaum badju hidjau dan badju putih bersama2 dapat mendjadi pelopor dalam pembangunan daerah? Konsep pimpinan demikian masih tetap otokratis dan mungkin tidak akan efektif untuk masa yang pandjang. Akan tetapi approach yang serba otokratis ini mungkin tjukup kuat untuk menimbulkan suatu momentum untuk permulaan pembangunan."

the military elite; enough for Colonel Soewarto of the Seskoad, an old friend of Sadli from his Yogyakarta days, to invite him and his economic friends at FEUI to teach there.⁹³ They saw this as a rational answer to an intractable societal problem. Economic planning and military leadership, or at least military participation, had assumed large importance within the Guided Democracy state. It was not certain whether the extent of the contribution to corruption by military involvement was understood amongst economists. The reports of the Bapekan, for instance, may not have been public amongst intellectuals.

Importantly, the idea was not purely of military rule, but a rule between the green and white shirts. In connection to the earlier chapter on elite authority, what was assumed here was an extension of military authority to protect the managerial elite, at least in the initial phase in kick-starting economic development. Thus the regulation of regional planning by presidential decree no. 655/1961 recreated regional governance within a *Tjatur Tunggal* system that put the military regional commander on the pedestal of power, at least for the duration of the military emergency. The idea of civic action and development was thus very much intertwined. Ibrahim Adjie said this about the army's connection to development: "war is not the goal of the military, the goal of the military is to uphold the welfare and honour of the nation so as to be at level with the most advanced nations in the world."⁹⁴

Where were the managers in this picture, then? Was there such a deep distrust in the capability of Indonesian management that some economists like Mohammad Sadli put their trust in the military men? Panglaykim's study of the Soviet system puts management in the hands of an eventual leadership. Although he refrained from speaking about the Indonesian condition, his discussion on the managerial societies pointed to a real understanding of the discussion on managerial power as was first described by James Burnham in *The Managerial Revolution*.⁹⁵ In discussing the Soviet managerial elite, Panglaykim noted two distinct generations, a politicized managerial elite—what Joseph Berliner called the "Red Directors", who obtained their position through their political affiliation and role during the revolution and a new,

93 Mohammad Sadli, "Mohammad Sadli" in *Recollections*, p. 125

94 Ibrahim Adjie, "TNI dan Civic Mission" in *Manager*, Year IV, no. 37, April 1963, p. 13

95 James Burnham, *The Managerial Revolution*.

educated elite who were products of the new education system and had a professional attitude toward management. “In my viewpoint, the executives that were trained during the revolution and those that have obtained formal education are very different. Those that obtained formal education are educated to put their energy and mind in the interest of the state and are interested in creating the largest industrial nation on earth. With an education, this is a very worthwhile corps.”⁹⁶

Communist Views

The international context of the Cold War was understood clearly by both military-leaning and PKI-leaning economists and intellectuals. PKI sympathizers like Carmel Budiardjo and J.B.A.F. Major Polak, a former PSI-member politician, discussed openly the Cold War front and the dangers of Kennedy’s shift of emphasis on politicized foreign aid and his obsession with guerilla warfare as explained by Stewart Alsop.⁹⁷ The threat of the Bretton Woods institutions and the Alliance for Progress was voiced after the IMF-influenced *Deklarasi Ekonomi* in 1963. Aidit warned about the dangers of American neo-colonialism through aid and pointed to the case of Brazil.⁹⁸ In an article in the Communist newspaper, *Harian Rakjat*, he commented on the statement “the philosophy of imperialism is pragmatism”, that “Pragmatism is always praised as a ‘practical’ philosophy and that the ‘practicality’ of pragmatism has an evil but practical role for the imperialist.”⁹⁹

96 Panglaykim, “Beberapa Aspek Struktur Management/Organisasi pada beberapa Negara Sosialis”, p. 173. “Menurut pandangan kami memang berbeda sekali para eksekutif yang telah dilatih pada masa revolusi dan mereka yang telah memperoleh pendidikan (172) formil. Mereka yang memperoleh pendidikan formil memang terdidik untuk mentjurahkan tenaga dan fikiran bagi kepentingan negara dan berkehendak mentjiptakan suatu negara industri yang terbesar didunia. Dengan modal pendidikan, mereka merupakan suatu corps yang berharga sekali.”

97 J.B.A.F. Major Polak, “Pembahasan Atas Prasaran ke-II”, in *Untuk Pelaksanaan Dekon. Hasil-hasil Seminar Ekonomi yang diselenggarakan oleh Lembaga Ilmu Ekonomi HSI*, (Jakarta: Departemen Urusan Research Nasional, 1964), p. 174-192.

98 *Harian Rakjat*, 29 January 1963.

99 *Harian Rakjat*, 27 March 1963. “Filsafat imperialis adalah pragmatisme, jaitu filsafat yg mengukur segala sesuatu dari sudut apakah akan membawa keuntungan2 bagi saja atau tidak.” Pragmatisme selalu dipudji2 sebagai suatu filsafat yang ‘praktis’ dan ternjata bahwa sifat ‘kepraktisan’ dari pragmatisme memang mempunyai peranan yang djajah tetapi praktis benar bagi kaum imperialis sendiri.”

This was an attack against what he saw as Indonesia's appeasement toward the IMF and its rehabilitation program.

The shift toward experts during the late-period Guided Democracy highlighted a period of intellectual feuding between American-trained economists and PKI-affiliated economists. Mohammad Sadli commented, "Within FEUI there was a political struggle with Carmel Budiardjo and other leftwingers in the Faculty."¹⁰⁰ The Himpunan Sardjana Indonesia (HSI) or Indonesian Intellectual Community became a contender for the LPEM, publishing works which focused on the dangers of American intervention and included intellectuals like F. Runturambi from Sobsi, Professor Ernst Utrecht and Drs. Soerjadi, Minister for Budget Affairs.

An examination of Aidit's speeches and paper on the Dekon and the economy in general provides a picture of the position of Communist ideas vis-à-vis those of the experts who were trained in the US. It was all about the application of what they termed a production policy against monetary stabilization advocated by FEUI economists.¹⁰¹ There was no doubt an intense dislike of these expert economists by the Communists. "It has occurred for a long while that Indonesian economics experts took on a position of ignorance toward political issues and tried to present the problems of the economy as merely a technical matter, with laws that 'are assumed to apply for all ages', stemming from a subjective viewpoint and ignore the objective reality that exists within society."¹⁰² The criticism of the assumption of objectivity was meant to support the viewpoint that economic policy-making should be derivative of the political process and the national goal of *Revolusi*. "The viewpoint that socialism can be implemented without first dealing with the

100 Mohammad Sadli, "Recollection of my Career" in *Bulletin of Indonesian Economic Studies*, Vol. 29, No. 1, April, 1993, p. 38-39.

101 According to CLM Penders and Ulf Sundhausen, *Abdul Haris Nasution*, p. 164, "the PKI had nothing to gain from an improvement of the living conditions of the masses; it would have diminished its opportunity to mobilize them for its purposes and, moreover, would have brought back the "PSI-leaning" technocrats into positions of economic power." Even if it were so, it would seem too hasty to dismiss communist ideas on economic development.

102 D.N. Aidit, *Pemetjahan masalah ekonomi dan ilmu ekonomi Indonesia dewasa ini*, (Jakarta: Jajasan Pembaruan, 1964), p. 4. "Sudah terlalu lama kaum sardjana ekonomi Indonesia pada umumnya mengambil sikap masa-bodoh terhadap masalah politik dan berusaha membahas masalah ekonomi sebagai masalah yang bersifat teknis melulu, dengan hukum-hukum 'jang berlaku untuk semua zaman' jang bertolak dari pandangan-pandangan subjektif dan mengabaikan kenjataan objektif jang hidup didalam masyarakat."

national-democratic effort, i.e. the ending of the residues of imperialism and feudalism, is intolerable.”¹⁰³

The ending of imperialism and feudalism was propounded in the support of the Communists for two laws introduced in 1960: the Regulation on the Agreement of Joint Sharing (*Undang-undang Perdjudjian Bagi Hasil* – UUPBH) and the Regulation on Basic Agrarian Principles (*Undang-undang Peraturan Dasar Pokok Agraria* – UUPA). According to Communist interpretation, the UUPBH would disallow direct foreign investments by diverting it to joint sharing projects. This was a victory against imperialism by limiting the roles of foreign enterprises in the country. The continued nationalization of British and American-owned enterprises during the period 1963-1965 was also part of this anti-imperial strategy. The UUPA would destroy what was called the landlord class of the agricultural community though the redistribution of land. Land-reform was the anti-feudal strategy.

The clash of ‘Western’ versus Communist economists lay in these strategies. Aidit accused Sumitro of siding with imperialists and feudalists by blaming Indonesian poverty on the lack of savings by the population. This was part of the reigning Harrod-Domar model which saw the root of the cycle of poverty as a result of the subsistent nature of the economy and the lack of reinvestment to increase production, i.e. growth occurs when the rate of savings is greater than the capital output ratio and the growth of the labour force.¹⁰⁴ The answer they propounded was through an injection of capital by direct foreign investment or loans and the provision of incentives for Indonesians to start saving their income.

It was an analysis that according to Communists lacked a social component and misunderstood the nature of Indonesian rural society. According to them the reason for the lack of savings lay not in the lack of propensity to save by the Indonesian farmers and labourers, but the result of the rent-seeking activities of bureaucratic capitalists, foreign enterprise owners and landlords in the villages. The main criticism against Western-educated

103 D.N. Aidit, *Pemertjahan masalah ekonomi dan ilmu ekonomi Indonesia dewasa ini*, (Jakarta: Jajasan Pembaruan, 1964), p. 6. “tidak dapat ditolerir lagi pendapat bahwa sosialisme bias diselenggarakan tanpa menjelesaikan lebih dahulu perjudjuangan nasional-demokratis, jaitu tanpa menghabiskan lebih dahulu sisa-sisa imperialisme dan feodalisme.”

104 Robert M. Solow, “Growth theory and after” in *The American Economic Review*, Vol. 78, No. 3 (Jun., 1988), p. 307-317. Solow’s work contributed to the theory by putting in technology as a factor that pushes productivity growth in a work he published in 1957.

economists was that they harboured non-political assumptions. "The most significant contributor to this evil analysis is Sumitro, a person who is famous and well known to be rebellious and traitorous to the Republic, but whose equally traitorous and heinous economic theories have not yet been properly disrobed and are given an important place in our universities and still colour the thinking of the officers that man our economic policy apparatuses."¹⁰⁵

The PKI always had an ambiguous position in relation to experts and intellectuals. In many Communist movements outside of Indonesia, the intellectuals represented a major part of the Communist movement, yet in Indonesia this was not the case. The lack of expertise in the nation meant that the vast majority of university graduates had an almost assured position in government jobs and there was no pool of unemployed intellectuals.¹⁰⁶ In the early 1950s, the Communists still regarded intellectuals as an important part of the movement, but aside from Lekra—an artist and writer's organization—there was no prominent intellectual organization within the PKI. The attack on intellectuals was accentuated by the conservative nature and 'reactionary' position taken by non-political Indonesian economists. As a result, the PKI supported a non-expert, participatory approach toward economic problems. The failure of the rehabilitation program known as the May Regulation supported this idea "... this signified the triumph of the Indonesian people, because for the first time our people can directly and actively determine government policy on economic matters, a field that has for long been considered to be beyond the ken of the people, a field that was said can only be thought and discussed by certain experts, whose expertise has failed us in dealing with the economic and monetary issues at hand."¹⁰⁷

105 D.N. Aidit, *Pemetjahan masalah ekonomi dan ilmu ekonomi Indonesia dewasa ini*, (Jakarta: Jajasan Pembaruan, 1964), p. 12. "jang paling 'berdjasa' dalam menjebarkan analisa jang djahat ini ialah Sumitro, seseorang jang sudah terkenal dan sudah telandjang bulat sebagai pemberontak dan pengchianat terhadap Republik, tetapi jang teori-teori ekonominja jang sama chianat dan sama djahatnja belum tjukup ditelandjangi, masih mendapat tempat dalam perguruan-perguruan tinggi kita dan masih mendjiwai pegawai-pegawai tinggi dalam aparatur ekonomi kita."

106 Donald Hindley, *The Communist Party of Indonesia, 1951-1961*, (Berkeley: University of California Press, 1964), p. 183-184.

107 D.N. Aidit, *Dekon dalam udjian*, (Jakarta: Jajasan Pembaruan, 1963), p. 8. "...ini menggambarkan suatu kemenangan bagi Rakjat Indonesia, karena dengan ini berarti bahwa untuk pertama kalinya Rakjat kita setjara langsung dan aktif ikut menjusun politik Pemerintah dibidang ekonomi, jaitu sudatu bidang jang selama ini dianggap sebagai bidang terlarang untuk Rakjat, suatu bidang jang katanja hanja dapat difikirkan dan

Aidit conducted studies on the rural condition of Indonesia and attacked Western-trained economists for their misunderstanding of the real conditions of the rural areas. 250 local Communist leaders and mass organizations put into the field 3000 ‘researchers’ (*petugas*) between the months of February and May 1964 to conduct research on the rural condition in 124 districts (*kecamatan*) in Java. The research came up with seven archetypes of rural class enemies, the so-called seven village devils (*setan desa*).¹⁰⁸ They included landlords and money-lenders, but also local notables and capitalist bureaucrats. The research group saw a feudal rural structure composed of notables and bureaucrats and proposed a thorough application of retooling in order to rid the bureaucracy of ‘evil elements’ and the implementation of land redistribution, which until then had been sabotaged through the machination of landlords in cooperation with officials. Social scientists who obtained the research material of the Communists after the destruction of the PKI in 1965 were amazed at the sophistication of the social research of the party.¹⁰⁹

The PKI was quite supportive of the local capitalist class and was especially protective of the Chinese business community.¹¹⁰ Aidit has stressed that support for national capitalists had always been an important component of Communist policies, starting from the Sixth National Congress in 1959.¹¹¹ Aside from their support of national capitalist, they also supported private ownership of the land. Thus, hostility for the Indonesian entrepreneurship did not come from the PKI.¹¹² Instead of focusing on control, some Communist economists, like Runturambi, called for an expansion of participation. Even

diperbintjangkan oleh tenaga-tenaga ahli tertentu jang sudah terbukti sama sekali tidak berhasil mengatasi kesulitan-kesulitan ekonomi dan keuangan selama ini.”

108 Tuan tanah, lintah darat, tukang idjon, tengkulak djahat, kapitalis birokrat, penguasa djahat and village bandits. The Communist’s rural offensive started in 1963 contributed to serious conflict that was important to understand the scale of violence inflicted upon their members during the 1965-1966 Communist killings. John Bresnan, *Managing Indonesia*, p. 19-20, Guy Pauker, “Political Consequences of Rural Development Programs in Indonesia” in *Pacific Affairs*, Vol. 41, no. 3, Autumn, 1968, p. 386-402.

109 Ruth McVey, “Teaching modernity. The PKI as an educational institution” in *Indonesia*, no. 50, Oct. 1999, p. 5-27. For more on the research, read D.N. Aidit, *Kaum Tani Mengganjang Setan2 Desa*, (Jakarta: Pembaroean, 1964).

110 D.N. Aidit, *Kibarkan Tinggi Pandji Revolusi*, (Jakarta: Jajasan Pembaruan, 1964), p. 22-23.

111 D.N. Aidit, *Dekon dalam udjian*, (Jakarta: Jajasan Pembangunan, 1963), p. 24-28.

112 Benjamin Higgins, “Introduction” in Benjamin Higgins (ed.), *Entrepreneurship and Labor Skills in Indonesian Economic Development: a Symposium*, p. 35.

population control was considered a bad thing. “Neo-Malthusian officials and theoreticians who always blame the people for having too many children, so as not to allow enough production of food stuff, need to understand the basic economic strategy according Dekon”.¹¹³

The idea of production policy thus belittles the problems of inflation and the monetary approach. Keynesianism was the target of recrimination for both Sukarno and the Communists. Yet, the attacks on Western-educated experts like Sumitro Djojohadikusumo had a strawman quality. Carmel Budiardjo’s idea on fair practices for small agricultural producers and better access to capital and foreign-markets,¹¹⁴ was not received particularly harshly by people like Widjojo Nitisastro, who had also focused much on small agricultural producers.¹¹⁵ As Runturambi of the Communist-affiliated labour union organization¹¹⁶ said “... the believers in these economic theories ruminate night and day to find a ‘new theory’ that is not Russian, not Chinese, not totalitarian and with the formulas commonly used by anti-Communist and Anti-Nasakom lecturers within and outside the country. When they find it too hard to call their theories socialist, they use the American term “people’s capitalism.”¹¹⁷ That economic policy means nothing

113 Runturambi, “Potensi Ekonomi dan Kekuatan Politik sebagai Landasan Pelaksanaan Deklarasi Ekonomi” in *Untuk Pelaksanaan Dekon. Hasil-hasil Seminar Ekonomi yang diselenggarakan oleh Lembaga Ilmu Ekonomi HSI*, p. 40. “Pedjabat2 atau teoritikus2 neo-Malthusianis yang selalu menyalahkan Rakjat yang katanja terlalu banyak melahirkan anak sehingga produksi sandang pangan tidak tjukup untuk memenuhi kebutuhan Rakjat, perlu menjadari akan strategi dasar ekonomi menurut Dekon.”

114 Carmel Budiardjo, “Perdagangan Luar Negeri: Segi Dalam Negeri (Produksi dan Marketing) dan Segi Luar Negeri (Neratja Pembayaran)” in *Untuk Pelaksanaan Dekon. Hasil-hasil Seminar Ekonomi yang diselenggarakan oleh Lembaga Ilmu Ekonomi HSI*, (Jakarta: Departemen Urusan Research Nasional, 1964), p. 71-101.

115 What is now termed as “pro-poor” policy focused much on rural agricultural development, an important component for the success of New Order development. Jan Kees van Donge, David Henley and Peter Lewis, “Tracking development in Southeast Asia and Sub-Saharan Africa: the primacy of policy” in *Development Policy Review*, vol. 30, s.1, February 2012, p. 12-16.

116 SOBSI

117 Runturambi, “Potensi Ekonomi dan Kekuatan Politik Sebagai Landasan Pelaksanaan Deklarasi Ekonomi”, p. 29. “Apalagi kalau penganu teori ekonomi itu seperti siang dan malam hanja berfikir bagaimana bisa menemukan ‘teori baru’ yang bukan Rusia, bukan RRT, bukan totaliter dan matjam2 rumus yang lazim digunakan oleh lektur anti komunis dan anti Nasakom didalam dan diluar negeri. Malahan kalau sudah terlalu sulit memalsu sosialisme dan terpaksa harus menggunakan istilah kapitalisme dipililhlah istilah ‘kapitalisme kerakjatan’ model Amerika Serikat.”

without political control was understood by both sides; Runturambi's article was titled "Economic potential and political power as the foundation for the implementation of the Dekon." Along with the belief in an agricultural approach to development it represented ideas that were held across the board. The struggle was mainly a political struggle of authority and legitimacy rather than that of basic economic theory.

The major difference of opinion was related to the idea of the 'people.' The Communists were very much attuned to see the people as an important component in development. It was, of course, much easier for Communists to hype the people's participation when the Communists had no real power. One might wonder how long such sentiments would have lasted once the Communist had gained control of the managerial component of government. Attacking 'theoreticians' and their 'reactionary Malthusian beliefs' signaled however strong disagreement on some points. Population was thus conjoined to national power and so was the quasi-attack against 'mismanagement', another *toverwoord* (magic word) this time used to attack the other side.

It is of interest that not much Communist writing actually engaged with national planning and other aspects of Communist governments of Eastern Europe or China. The relationship with the outside world was much more confined to the fear of an American hegemony fraught with the dangers of empire. This duality between the masses and manager figured large in the period in which Wertheim has called a period of evolution and revolution, between control and emancipation.¹¹⁸ The idea of participation required a deep faith in the ability of emancipated people to work with one another, as deep as the economists' the faith in the market.

There is a problem of what one may term nowadays as moral hazard in the state-society ideas of both Communist and 'Western-educated' economists and this was quite apparent in the taxation system. The system had not gone through significant revamp since the early 1950s. The largest component of taxation during the period was levied initially on export (43% of total tax revenue in 1952) and after the Korean War boom, on imports (up to 51% in 1956 when export tax shrank to just 3%). Since the colonial period, the economic sector was divided between the capital intensive and the labour-intensive sectors, which traditionally denoted racial ownership.

118 Wertheim, W.F., *Evolution and Revolution. The Rising Waves of Emancipation*, (Harmonsworth: Penguin, 1974), p. 35-60.

During the colonial period, the labour-intensive sector contributed to 43% of total taxation in 1929 just before the Great Depression and it went down to 40% by 1939 and further to just 36% by 1952. Because of structural retrogression, the labour-intensive sector of the economy had grown from 68% of total gross product in 1939 to 76% in 1952. Yet in the same year, the capital-intensive sector, which made up to 24% of the total gross product provided 64% of the total tax revenue. If export taxes were included, taxation pumped out 22% of income in the capital-intensive sector in comparison to only 4% in the labour-intensive sector. According to Paauw's analysis, the average take-home pay of worker in the urban capital-intensive sector got less than that of the rural labour-intensive sector.¹¹⁹

No doubt, part of the answer lay in the difficulty of taxing the informal sector especially in rural areas, a phenomenon that continues today. One of the most significant tax policies of the colonial period, the land tax, was discontinued because of its association with colonial oppression.¹²⁰ The deterioration of bureaucratic capability also contributed, but during the entire period, there had been almost no voice that placed greater taxation on the common people, *the rakyat*.

In Sukarno's paternalistic view, the people would be guided and sustained by the state. Although the slogan of Guided Democracy included together the 'funds and forces' of the people, there had been few efforts to actually collect them other than the Bamunas's attempt to pilfer from the nascent 'capitalist class.' Like the absence of decentralization in the bureaucracy, the protection of the people from taxation constituted a moral hazard that reduced the incentive of the wider society to support the success of the system. The Communists' effort to bring expanded participation did not provide incentive to create a personal sense of participation. In the meantime, the 'Western-educated' economists adopted a paternalistic attitude that saw the masses as an almost inanimate object to be guided by the wisdom of the technocrats. In that sense, it could be argued that both approaches took on a paternalistic attitude that saw the people as peons instead of legitimate, participating individuals.

119 Douglas Paauw, *Financing Economic Development*, p. 200-227.

120 Sa Myung Park, *The State, Revolution and Development: A Comparative Study of the Transformation of the State in Indonesia and the Philippines*, (PhD Dissertation State University of New York, Buffalo, 1988), p. 133.

Conclusion

The series of institutional reforms that was conducted throughout the Guided Democracy state resulted in several significant developments. First, the failure of corporatism to conduct national planning as exemplified by the Depernas pushed for the inclusion of experts and managers with the authority of managing national and regional policies. Second, Bappenas-Baperdep-Bakopda structure allowed for the potential of greater centralized control. The Bakopda conforming to the Tjatur Tunggal structure meant that regional government was finally recreated within the authority of regional planning agencies in which the managers; military and civilian were able to take part. Instead of decentralization, the New Order state did away with regional democracy and regional government. It instituted a form of national and regional military control with the cooperation of both the *pamongpradja* and managers.

From the early 1960s, Western-trained economists put their sights into studying and understanding the institutional development of socialist institutions in Communist countries. Their goal was to create a socialist model by using the examples available in various Communist countries that would allow for some inclusion of market mechanisms, market incentives, decentralization, de-concentration and the general reduction of state intervention in the economy. The PKI attacked their focus on the problems of inflation and the usage of monetary and fiscal policies as being part of a larger Western conspiracy to derail the Revolution. The monetary policy was considered to merely support the corruption of the capitalist bureaucrats, the term used to attack managers, especially military managers. Instead, the Communists advocated greater inclusion of workers in what they called a production policy.

Kees van Donge, Henley and Lewis proposed that the success of the Southeast Asian economic policy during the second half of the twentieth century lay in macro-economic stabilization, pro-poor policies on the rural poor and economic liberalization.¹²¹ Two of these policies at least were promoted by the two approaches of the FEUI economists and the Communists. The difference between the two approaches lay in the

121 Jan Kees van Donge, David Henley and Peter Lewis, "Tracking development in Southeast Asia and Sub-Saharan Africa: the primacy of policy" in *Development Policy Review*, Vol. 30, No. 1, (February, 2012), p. 5-24.

matter of authority and participation. Western-trained economists saw the importance in reducing the participation of the 'people' and handing over authority toward the experts, especially the military managers of the country. Communists believed that the problems of the country could only be solved if workers, farmers and other parts of the people could be pushed to work through expanding their participation and authority to all sorts of productive units. These institutional and theoretical developments during this period were seminal for the New Order state but led to great confusion.

