IN SEARCH OF INDONESIAN ECONOMIC VISION

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This thesis is dedicated to my parents, Harry and Anneke Wongkaren, and my mother-in-law, Desanka Stojanovic. They all passed away during the time I was writing the thesis.
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This thesis discusses four different economic visions that have been put forward by four Indonesian leaders: Mohammad Hatta, Soekarno, Widjojo Nitisastro, Bacharuddin Jusuf Habibie. Each discussion is done by looking at the biography of the leader. Hatta’s and Soekarno’s visions are influenced by socialist ideas, while Widjojo’s and Habibie’s visions are influenced by capitalist ideas. In addition, three other visions, namely: Green economics, Islamic economics, and *Pancasila* economics are also discussed.
# TABLE OF CONTENT

Acknowledgement ....................................................................................................................................... v

Abstract .................................................................................................................................................. vi

List of Figure ......................................................................................................................................... x

Chapter 1 Introduction .......................................................................................................................... 1

Chapter 2 Overview of the Society, the Economy, and the Economics of the Late Colonial Period ................................................................................................................................. 12

  2.1 Plural Society .................................................................................................................................. 12
    2.1.1 The Natives ............................................................................................................................... 13
    2.1.2 The Europeans ......................................................................................................................... 14
    2.1.3 The Chinese ............................................................................................................................ 15
    2.1.4 Other Foreign Asians .............................................................................................................. 16
    2.1.5 Social Structure ....................................................................................................................... 17

  2.2 Economic Visions of Colonial Dutch ............................................................................................ 18

  2.3 Boeke and Dualistic Economics ..................................................................................................... 23

  2.4 The Rise of Nationalism Movements ............................................................................................ 29

Chapter 3 The Founding Fathers ......................................................................................................... 32

  3.1 Mohammad Hatta ......................................................................................................................... 32
    3.1.1 Religious Socialism .................................................................................................................. 32
    3.1.2 Hatta's Economic Vision ........................................................................................................ 43

  3.2 Soekarno: The Great Leader of Indonesian Revolution ................................................................. 51
    3.2.1 Nationalist Leader ..................................................................................................................... 51
3.2.2 Soekarno’s Economic Visions .......................................................... 62

Chapter 4 Capitalist Visions .............................................................................................. 68

4.1 Widjojo Nitisastro ............................................................................................ 69

4.1.1 Primus Inter Pares among the Technocrats ....................................... 69

4.1.2 Widjojo’s Economic visions ............................................................. 77

4.2 B. J. Habibie: Technologist Par Excellence ..................................................... 84

4.2.1 Engineer ............................................................................................ 84

4.2.2 Habibie’s Economic visions ............................................................. 93

Chapter 5 Green and Islamic Economic Visions ............................................................... 99

5.1 Green Economic Visions ................................................................................. 99

5.1.1 The Uprooted Movement ................................................................. 101

5.1.2 The Grass Root Movement: Walhi ............................................... 106

5.1.3 The Meeting of Uprooted and Grassroots? .................................... 109

5.2 Islamic Economics ......................................................................................... 110

5.2.1 Political Islam and Islamic Economic Institutions .......................... 110

5.2.2 Characteristics of Islamic Economics ............................................. 115

Chapter 6 Ekonomi Pancasila ........................................................................................ 120

6.1 State Ideology ................................................................................................ 120

6.2 Mubyarto and Debates on Ekonomi Pancasila .............................................. 122

6.3 Cooptation ...................................................................................................... 128

Chapter 7 Conclusion ....................................................................................................... 131

Glossary ........................................................................................................................... 146
LIST OF FIGURE

Figure 1 Merchandise Export and Import, Netherland Indies, 1925-1939 .................. 27
Figure 2 Netherland Indies Government Expenditure and Revenue, 1900-1939 ..........28
Figure 3 Real Income, Netherland Indies, by Groups of Population (1929=100) ........29
CHAPTER 1
INTRODUCTION

May 1998. Soeharto had just stepped down from being a president for more than three decades. Vice President Habibie was elevated to become the new president. Students returned to their classrooms after being on the streets, protesting against Soeharto’s regime. The economic crisis that started to hit Indonesia a year before had really put people in a very challenging situation. Now that Soeharto was gone, everybody was excited, hoping for a new beginning that might result in a better condition than the one they were in at the time.

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It has been almost a decade since Soeharto’s regime fell. To date, four presidents have occupied the State Palace after Soeharto: B.J. Habibie, Abdurrahman Wahid, Megawati Soekarnoputri, and Susilo Bambang Yudhoyono. Politically, there have been many changes in the country: the constitution has been amended, power has been relatively decentralized compared to before, the press has been able to function with more freedom, the number of provinces has expanded from 27 to 33, and East Timor is not claimed to be part of Indonesia anymore.

Economically, however, things are not very different. While the GDP growth—that experienced a drop from about 5 percent per year in the mid 1990s to minus 13 percent in 1998—has only recently reached its pre-crises level, practically the way

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1 Ironically, Soeharto came into power after similar situation in 1966: a student protest, a call for new paradigm in Indonesian development, and a fall of a strong leader (Soekarno).
Indonesians 'develop' remains the same as it was during the time Soeharto was the president.

During the Soeharto regime, also known as the New Order regime, everything was geared toward 'development'. Critics argued that by development the government only implied economic growth without efforts for the betterment of other areas of life such as social justice, environment, etc. (see Heryanto 1988). They argued that development should have been carried out based on the 1945 Constitution, which contains the desired condition of the state of Indonesia: independent, united, sovereign, just and prosperous. This desired condition clearly has more than merely high economic growth. The government answered this criticism by stating that the goal of creating a just and prosperous society had always been part of the development, and high economic growth was simply needed to achieve the goal. They argued that the development policies, indeed, had already touched every aspect of life, not only economic. However, critics—from inside and outside the country—were not satisfied. Throughout the Soeharto period, many people kept questioning the direction of the development.

After the fall of Soeharto, the calls for a new direction of development that would confirm the creation of a just and prosperous society became stronger. As before, each government post-Soeharto claims that their policies are geared toward that direction. Yet, not unlike before, people keep questioning the direction of 'development.'

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2 Indeed, the standard language of the New Order for the purposes of development were ‘... to achieve a just and prosperous society (masyarakat adil dan makmur), and to develop a fully developed Indonesian (manusia Indonesia seutuhnya).’
Apparently, part of the problem is in the understanding of the concept ‘a just and prosperous society’ itself. Like many other big words, there is no single understanding of what it means. This allows people—including those in the government—to offer their own interpretation, and make policies based on their interpretation. Indeed, we have seen several economic visions that are offered as the ‘correct’ interpretation of the constitution, including those from the founding fathers. Yet, even here, among the founding fathers, we find various interpretations.

There are many definitions of the term ‘vision.’ The one that I found most complete and most relevant for our purpose, however, is the definition offered by James Collins and Jerry Porras (1996). They suggest that a vision should have two components: core ideology and envisioned future. As this thesis is about vision, I will briefly elaborate each component.

Core ideology, which holds the company together as it grows and changes, includes the organization’s core values and core purpose. Core values are the basic tenet of an organization that needs no external justification. They are values that are important to the people in the organization. Meanwhile, core purpose is the organization’s reason for being. Here, purpose means something to aim for, but people can never reach it (as opposed to goals, which can be related to targets).

Envisioned future includes achievable goals and means to achieve them. Here, we can have long-term goals that are more like stage of developments. It also includes a vivid description of what it will be like to achieve the goals. Collins and Porras cited Henry Ford’s envisioned future:
I will build a motor car for the great multitude... It will be so low in price that no man making a good salary will be unable to own one and enjoy with his family the blessing of hours of pleasure in God's great open spaces... When I'm through, everybody will be able to afford one, and everyone will have one.

With such a comprehensive definition, one may be tempted to look at various visions in Indonesia (or other places) and build a taxonomy of Indonesian economic visions based on criterions developed from the above definition. However, I decided against taking that road for two reasons. First, I do not want to create boxes and simply pigeonhole what Indonesians said about their visions and derive conclusion based on the distribution of the elements of visions. Second, I intend to discuss—albeit briefly—the genealogy of some of the visions so that we can apprehend the context in which those visions were developed.

Some of the visions will be presented in a biographical manner, that is, I will use a brief biography of the most influential individual that is considered a representative of a vision. The use of biography may be puzzling for some people. However, this is not something new. John M. Keynes, an economist whom we will discuss later, described the economic theory of Alfred Marshall in a biographical manner (Keynes 1924). Later on, Robert Skidelsky (2005) described Keynes' economic visions in a similar way. Attributing a vision to a person, however, is always a difficult task. Not only because a vision may be held by more than only influential person, but also because in general people do not state their 'vision' explicitly. As such, my task is to select which parts of a person's writings, speeches, etc., can be taken to make a coherent vision. When I discuss an individual's vision, I always try to go to the original sources from the individual (books written by them, compilation of speeches, etc). This is an effort to keep the
meaning and intent of the writings or speeches of those people and to avoid misreading ideas or incorrectly attributing them to specific individuals.

Walker (1993) described four classes of data that together would form a person's biography and that can be used in analyzing their economic thoughts: personal, professional, environmental, and bibliographic biography. Personal data includes where and when the person was born, was raised, went to school, family influences, personal traits, etc. Professional data includes the person's academic, governmental, or business positions that she or he may have held, her/his professional relationship with other important people, etc. Environmental data includes social, economic and political conditions, and finally, bibliographic data includes the person's writings. In writing this thesis, I try to include those four classes of data in discussing the individuals below.

The organization of this thesis is as follows.

I first discuss the social and economic situation of the Dutch Indies in the early 20th century, which provided the context in which many Indonesian economic visions were formed, especially those that influenced the nation's founding fathers and important governing documents. In the same chapter, I also discuss the economic visions that were dominant during the Dutch Colonial Government up to its end in the 1940s.

In the next two chapters, I discuss four prominent individuals that personify four main ideas in Indonesian economic history since its independence. They are Mohammad Hatta, Soekarno, Widjojo Nitisastro, and Bachruddin Jusuf (B.J.) Habibie. Two criteria are used in choosing them. First, the choice is based on their ideas, not on their official position. For this reason, only two presidents, Soekarno and Habibie, made the list. The
other presidents are not highlighted because they did not offer a distinct economic vision. Soeharto, for instance, despite serving as the country’s president for more than three decades, did not have an independent economic vision that can be attributed to him.\textsuperscript{3} Economic policies during his presidency were mostly prescribed by groups of people that served as his ministers, notably by Widjojo Nitisastro (for the first part of his presidency) and B.J. Habibie (toward the end of his presidency). The same can be said about Abdurrahman Wahid (Gus Dur), Megawati Soekarnoputri, and the current president, Susilo Bambang Yudhoyono. Meanwhile, the four highlighted persons offer consistent views of the economy. The second criterion is that their views were implemented as the official policy of the country at a certain point in time. For this reason, many people who offer strong economic visions, including the proponents of Islamic economics and Green economics, do not make the list. Their visions will be discussed in a later chapter.

Chapter 3 starts with a discussion on Mohammad Hatta, a leader of the independence movement who later became the country’s first vice president. His influence on the Indonesian economic vision is very strong as his ideas formed the basis for many economic articles on the country’s 1945 Constitution, which is still in effect today. A Dutch-trained economist, Hatta had ideas that were for the most part a combination of socialist ideas, his strong religious belief, and his understanding of the social-economic structure of Indonesian society prior to the independence. Hatta’s ideas were particularly prevalent during the early period of the country (1945-1959), although

\textsuperscript{3} Some people, however, argued that Soeharto should have been given the credit for both Widjojo’s and Habibie’s visions (see Wibisono 1993).
lately there have been efforts among Indonesians to ‘return to basic vision’, which usually refers to Hatta’s economic vision embodied in the 1945 Constitution.

The second person is Soekarno, the first President of the new Republic. Soekarno was a charismatic leader who could hypnotize thousands of people with his speech. His main economic ideas also stem from socialism but with a more revolutionary tone than those of Hatta’s. For him, the national revolution would never end. As a result, his economic vision has to be seen as part of his political vision. During the last period of his presidency, Soekarno insisted on the implementation of *Ekonomi Terpimpin*, or Guided Economy. The idea is that Indonesia can be seen as a big family with himself as the head, providing guidance to every aspect of life, just as a father would guide every member in his family. The implementation of *Ekonomi Terpimpin* led the country to economic disaster in the mid 1960s, culminating in the overthrow of Soekarno and the rise of Soeharto as the country’s next president.

In Chapter 4, the first discussion focuses on Widjojo Nitisastro, an economics professor from the University of Indonesia who held many cabinet positions under Soeharto. An activist since his student days in the University of Indonesia and in the University of California at Berkeley, Widjojo is seen by many as the main proponent of market-liberalism that led the country into a more capitalistic economy after the economic disaster in the mid 1960s. This view, however, is not completely accurate as Widjojo’s policies reflects the influence of Keynesian economics (which calls for the government to influence the market) rather than emphasizing market liberalism (which in general does not support any government intervention)—apart from the cases of pure
public good such as national security or some necessities such as building bridges). Widjojo’s ideas were prevalent particularly during the first 25 years of Soeharto’s presidency. Observers of the Indonesian economy may raise a question about the inclusion of Widjojo instead of Soemitro Djojohadikusumo, another economist from the University of Indonesia who also served under Soeharto, first as the Minister of Trade, and later as the Minister of Research and Technology. While Soemitro was a more senior economist and also held many positions both in the 1950s and early years of Soeharto’s regime—so prominent that some people called him ‘Begawan Ekonomi Indonesia’ (Begawan is a Javanese term for a Hindu Reverend)—his contribution to the economic vision is different from Widjojo’s. As a Dean of the Faculty of Economics University of Indonesia (FEUI), Soemitro opened the door for Widjojo and established a strong academic institution in FEUI, but during a political conflict in the late 1950s he fled to West Sumatra and subsequently to Singapore where he stayed until Soekarno’s regime fell. In the New Order period, while people still consulted with Soemitro on a lot of matters, it was Widjojo who had Soeharto’s ear; that is, until Soeharto started listening to Habibie more than to Widjojo.

The fourth person, B.J. Habibie, is an aviation engineer by training. He was living in Germany and serving as a vice president of MBB (Messerschmitt-Bölkow-Blohm, Germany’s aircraft company) when Soeharto asked him, in the mid 1970s, to return to Indonesia and become the minister of research and technology. His main vision is a technological-based industry which would create the highest value added to the economy. Because at one point he also served as the President of the Indonesian Muslim Scholars
Association (ICMI), people sometimes mistakenly attribute certain a version of Islamic economics to him. When Soeharto stepped down in 1998, Habibie became Indonesia’s third president.

In Chapter 5, I discuss two economic visions that have been part of the economic discourse in Indonesia, but so far have not become mainstream economic visions in the country. They are Green economics and Islamic economics. This does not mean that they have not contributed to the economic policies, however. Unlike in the previous two chapters, discussions in this chapter are not using biographies of their main proponents because there is simply no single individual that can represent them.

The next chapter, Chapter 6, discusses *Ekonomi Pancasila*. Claiming to be based on Indonesian state ideology, *Ekonomi Pancasila* can be seen as an effort to formulate an economic vision that is grounded on Indonesian society.

The last chapter contains the conclusions of the discussions in the previous chapters.

Studies on Indonesian economic visions, or ideas in general, are limited, which is unfortunate because ideas are important in understanding a process of change, whether it is big change such as regime/political change or ‘smaller’ change such as policy change. 4 Sometimes, ideas come from only one individual or a very small group of people but result in big changes. Ideas from Adam Smith about coordination through the market (a process called ‘invisible hand’) of which he wrote in the *Wealth of Nations*, for instance,

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4 A dissertation has been written by Mallarangeng (2002). However, his dissertation only covers the New Order period under Soeharto with special emphasis on the process of the acceptance of market liberalism in 1986-1992.
changed the way many European countries organized their economy. Similarly, the impacts of Karl Marx's social and political ideas, which focused on liberation, were not only profound but encompassed different aspects of life (Simon 1994). The same can be said, albeit to a smaller degree, about the impact of the ideas of John M. Keynes on economic policies (Hall 1989). This is not to say that the structural conditions of a society (such as social, economic and power structures) or individual's actions do not matter. In fact, ideas may be born out of a necessity given a certain structural conditions.

The objectives of this thesis are to provide a brief history of economic visions in Indonesia and to identify the features of alternative economic visions proposed thus far. This is not a thesis about Indonesian economic history. This is a thesis about Indonesian economic visions. I recognize that there have been several books written on the topic, which may make one question whether this thesis brings something new to the table. My answer to that question would be yes.

First, most—if not all—of the existing literature is in the form of anthology, where an editor has compiled people's writings (see among others, a series of books published by the Indonesian Economists Association in 2005, edited by Susastro et al). While the editor usually provides an introduction to the volume, this model prevents us from understanding the issue in a broader context outside what is written on the text itself. Second, the unique feature of this thesis is the presentation of some of the visions in a biographical manner: it provides not only the context in which a vision arises, but also the individual background with whom a vision is associated the most. Third, the scope of the discussions goes back to the economic vision before the nation-state of
Indonesia was established. This will give us a complete picture of various economic visions in Indonesia.

However, this thesis will not offer any prescription about which vision the country should take. It is the author's wish that looking back at what has been placed on the table, this thesis can facilitate a better evaluation of those visions, so that one day it may be possible to develop the most suitable economic vision for Indonesia—providing such a thing exists.
CHAPTER 2

In order to understand the different visions for the Indonesian economy, we need to see the situation prior to independence. This chapter will briefly discuss the society, the economy, and the economics of the Netherlands Indies during the late period of Dutch colonial government. Even during the colonial period, there was a variety of economic visions. What happened in this period—including the social structure—would become important for the formulation of economic visions after independence, not only because events provided the context, but also because some seeds of the vision offered later were already found during this period.

2.1 Plural Society
At the dawn of the 20th century, the Dutch Colonial Government had been established in the Indonesian archipelago for more than a century. Most parts of the territory of current Indonesia were under the Dutch, with the exception of some areas, such as Aceh in Sumatra, which were still mounting a strong insurgency.

The The Netherlands Indies society was characterized by what J.S. Furnivall, a British officer stationed in colonial Burma, called in his book on The Netherlands Indies—a ‘plural society’. ‘A society, that is, comprising two or more elements or social orders which live side by side, yet without mingling, in one political unit’ (Furnivall 1939: 446). The population of the colony in 1930 was estimated to be around 60 million, which — not
unlike today – was concentrated in Java and Madura.\(^1\) In general, colonial statistics distinguished four categories: the ‘natives’, the Europeans, the Chinese, and ‘other Foreign Asians’.\(^2\) We will briefly discuss each category because, as we will see in later chapters, the division in the society played important role in the setting of the Indonesian economic vision.

### 2.1.1 The Natives

The fact that the Dutch bound the ‘natives’ together as one category is highly significant. This was a new development as prior to the Dutch era, these people were never placed in one category. They belonged to different polities with distinct cultures scattered throughout the region. In terms of language, for instance, it is estimated that more than 300 distinct languages existed in the territory.\(^3\)

The natives also adhered to various religions. Up to the 15\(^{th}\) century, most people in the region adhered to Hinduism, Buddhism, or some indigenous beliefs. With the

\(^1\) The Dutch had conducted limited population censuses since 1795, starting from Java Island, and later expanding to other islands as well.

\(^2\) The ‘natives’ category encompasses all ‘native’ peoples of Dutch-Indies. The Europeans included all people of European descent as well as natives who converted to Christianity. The Chinese included anybody from China as well as the ‘peranakans’—children born in Dutch-Indies of mixed Chinese and native descents. Meanwhile, the ‘Other Foreign Asians’ included the Arabs and the Indians. The Japanese, however, were initially counted as ‘Other Foreign Asians’ until 1899, when they were regarded as ‘Europeans’ (CEL v.11 1991:69).

\(^3\) Prior to the Dutch colonial government, there were many kingdoms in the territory that we now call Indonesia. None of them, however, was big enough to cover the present day Indonesia as a single territory or a single nation. In fact, in many cases, they were fighting against each other. Meanwhile, the Dutch, on their part, held a ‘divide et impera’ or ‘divide and conquer’ policy, to guarantee that there was no party that would be powerful enough to challenge their power. Sometimes, there was sporadic resistance against the Dutch. Prince Diponegoro of Matararn in Java, for instance, waged war against the Dutch from 1825 to 1830. Around the same period of time, Imam Bonjol of West Sumatra led the rebellion against Dutch. The two, however, never considered joining forces against their mutual enemy. Similar resistance also appeared in practically every region in the Dutch territory, which was always successfully crushed by the Dutch. The local leaders never saw beyond their own regions (Ricklefs 2001).
spread of Islam in the region, most Javanese and Sumatrans were Islamized. The spreaders of Islam used local symbols so that the Islamic practices in the region were mostly mixed between Quranic teachings, Hinduism, and other indigenous beliefs. The syncretism of beliefs has been preserved into the 21st century, despite the increase of more sectarian styles of Islam which were brought by the Hajis who returned from the pilgrimage to Mecca (Geertz 1971:68). The remnants of Hinduism can be found in the island of Bali, which some people see as the place where the offspring of the Majapahit nobility, the last Hindu-Buddhist kingdom in Java, went after the fall to Islam. Meanwhile, contacts with the Europeans since the 16th century made many natives adherents of Christianity. Christians were found mostly in the Dutch part of the Netherlands Indies, such as central and northern Sulawesi and Maluku, and in some parts of Java and Sumatra (Widjodjoatmotjo 1942).

### 2.1.2 The Europeans

Since they first came in the 16th century, the role of Europeans had changed from mere ‘trade partners’ to colonizers. Different European nations, mainly Spanish, Portuguese, and British, established trade relations with many native kingdoms, but it was the Dutch who dominated the trade in the area through its Dutch East-India Company (*Verenigde Oost-Indische Compagnie*, or VOC), which in 1800 was replaced by the Dutch colonial government. Some other European nationals, however, also lived in the territory.

European society was divided between those who were born in their home country and those who were born in the colony, although the division was not very strict.
In addition, there was also a division between those who were ‘pure’ Europeans, and those who were born from European and native parents (Eurasians). The former group usually looked down upon the later. In any case, Europeans living in the colony enjoyed many privileges compared to other groups.

2.1.3 The Chinese

Some of the earliest records of Chinese existence in Southeast Asia region date back to before the time of the Srivijaya kingdom in the 6th century. In the early period, the Chinese served as the intermediaries between the Dutch and the local leaders. They held stronger positions in both economics and politics. Two functions, first as landlords and leaseholders, second as revenue farmers, reinforced their importance. As a result, some of the natives saw the Chinese in an unfavorable light.4

4The Chinese used the Indonesian archipelago as a station for trade. They bought local products and sold Chinese goods (such as ceramics) as well as traded goods from India and the Middle East. The Chinese sojourners came in small numbers. However, their number grew when the Dutch VOC established itself in Batavia and invited the Chinese to come and work for them since the Dutch did not trust the indigenous people (who were considered lazy and untrustworthy).

During the 17th – 18th century, many Chinese came to Batavia and its vicinities. They performed different functions such as merchants, provisioners to the Dutch, shopkeepers, harbor collies, artisans, and even food providers. The areas outside the port were used to produce food for the port-city. Batavia, however, was not the only Chinese settlement in Java. The Chinese could also be found along the north coast of Java, particularly in the trading ports such as Cirebon, Semarang, and Surabaya, and, in smaller concentrations, in Pekalongan, Tuban, Rembang and Jepara (Cator 1936).

The Dutch let the Chinese organize themselves, led by a headman who reported to the Dutch. The headmen’s job, among others, was to deal with the behavior of their groups and to collect taxes. In addition, the Chinese also provided the link between the Dutch and the locals, including rural trade. Despite some conflicts, the Dutch generally regarded the Chinese favorably, and considered them important to economic functioning (Phoa Liong Gie 1992). The Chinese were free to settle wherever they wanted in the island of Java, or other islands in the Dutch Indies area. Being Dutch protégés, the Chinese had better status, and it changed the nature of their relationships with the natives.

By the time the Dutch-Indies Government took over, the Chinese had established communities in many areas, and held strong economic and political positions. Over time, however, the government’s opinion of the Chinese evolved. Responding to allegations of power abuse in revenue farming, many policies that were dear to the Chinese were reversed. In the early 20th century, the government established the Ethical Policy, which basically was an effort to directly improve the situation of the indigenous people.
By the 1800s, the Chinese community was divided into two: those who were ‘pure’ Chinese (called the *totoks*) and those who were born from a Chinese and a native parent (called the *peranakans*). The two groups did not mingle with each other, and later the *peranakans* developed their own subculture, which was distinct from that of the Chinese or the native cultures.

The period of the early 20th century also saw the rise of *kongsi*, the Chinese limited liability companies, usually run by a family. The most famous *kongsi* were those led by Oei Tiong Ham (1865-1924) of Semarang, Central Java, and by the Tjong family in Medan. These two family businesses reflect the emergence of Chinese business despite strong competition from the Dutch companies during the late 19th and the early 20th century. In the same period, the Chinese Chambers of Commerce also emerged. They were dominated by the *totoks*, who established relationships with their counterparts in China (Suryadinata 1988).

2.1.4 Other Foreign Asians

Other foreign Asians were mostly Indians and Arabs who came to Indonesia as traders or as Islamic religious teachers. Since the Arabs shared the Islamic faith with the majority of the native people, they were accepted easily compared to the Chinese. Many of them married native women, and their offspring were absorbed by the native community.

The Government started to look at the indigenous people to fill their lower-level bureaucracy and dealt with them directly in many issues, instead of using the Chinese as an intermediary. By the beginning of the 20th century, the relationship between the Chinese and the natives was not as smooth as before the advent of the Europeans.
2.1.5 Social Structure

The differences in the history of these peoples influenced their positions in the society. The Dutch (and the European in general) held the highest positions, followed by the Foreign Asians (including the Chinese), with the natives at the bottom of the social structure. As in other colonial societies, however, in practice the categorization was not always rigid. We see some Dutch who were more acceptable to the natives than some natives themselves. In addition, we find many natives who absorbed Dutch culture; a parallel can be found in Memmi’s observation of the French colony of Algeria.\(^5\)

The discrepancy between the ethnic groups could be seen from the difference in their per capita income. In 1930, the per capita income of the natives was only 59 Fl, while for the European it was about 2,500 Fl. It means that on average, Europeans received more than 40 times the income of the native. The per capita income of ‘Foreign Asians’ was about 310 Fl, or about 5 times that of the natives.

In general, most Indonesians (‘natives’) worked as traditional farmers. According to the 1930 Census, about 12 million Indonesians worked in the traditional agriculture sector, which accounted for almost 60 percent of Indonesian labor. Many Indonesians also worked in the plantation and textile industries: about 1.3 million and 0.8 million respectively. The rest of the Indonesians worked in other sectors such as manufacturing and government. Many Europeans worked on plantations, although in a different capacity from the natives. Plantation workers accounted for about 16 percent of the European

\(^5\) In his short but influential book, *The Colonizer and the Colonized*, Albert Memmi observed that some native Algerian were behaving just like the French. At the same time, some French might feel a strong negative feeling toward his country’s colonialism (Memmi 1965).
workers, followed by the government and trade sectors, which each accounted for about 12 percent.

Wertheim and The Siauw Giap describe the situation of the early 20th century Netherlands Indies as follows.

About the turn of the century the whites were firmly entrenched in a position of complete supremacy. Together with the socially somewhat inferior Indo-Europeans (Eurasians) they formed the 'European’ group occupying all key-positions in government, including the civil service, the army, the police force and the judiciary. In private enterprise even Indo-Europeans were hardly to be found in higher staff functions. Intermediate and clerical functions in government offices and private firms were also largely occupied by Indo-European staff, owing to their advantage in the educational field. Intermediate trade of a middle-class character was mainly concentrated in the hands of ‘Foreign Orientals’; among whom the Chinese group was by far the largest. The great majority of the ‘native’ population group was relegated to small farming or to menial work as cheap labor in Western plantation or in urban sectors, such as public works or industry (Wertheim and The Siauw Giap 1962:229).

These groups were not only different in economic situations, but also in their vision regarding how the society should be organized with regard to the economy.

2.2 Economic Visions of Colonial Dutch

The Dutch colonial state began in January 1, 1800, when the Dutch East-India Company (Verenigde Oost-Indische Compagnie, or VOC)—which represented Dutch interests in the area for almost two centuries—was dissolved. The government was led by a

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6 The VOC was established in 1602. Slowly, the company captured several main trade-ports such as Ambon and Banten and established itself as the dominant player in the region. Technically, the VOC was a private, not a government company. However, in practice, it represented the Netherlands’ interests in the region; not only in economic affairs, but also in other areas as well, such as in military and religious affairs. With the rise of the European economy, international trade in the region became focused on the trade between the VOC and the Europeans, replacing the long-held relationships of the locals with the Middle East and China.
Governor-General who resided in Batavia, the capital city. Just as in VOC times, the focus of the government was still on Java and Madura.

The first and most important policies undertaken by the colonial government was the establishment of the Culture System (Cultursteelsel) in 1830, by which the natives were forced to grow specific products to be sold in the Netherlands. It gave the natives remission of land taxes in return for their cultivation of government-owned export crops on one-fifth of their fields. The intention was to increase revenue from the colony as well as to improve the living standards of the natives by substituting the existing two-fifths of land-rent tax. However, the later intention never materialized. Contrary to the original intention, in Java the land rent tax was maintained, and the natives still had to provide corvée labor services (Houben 2002: 64). The Culture System boosted production for the world market, as exports of coffee and sugar increased. Clifford Geertz (1963) argues that the Culture System was the beginning of institutionalized economic dualism in the country; that is, dualism between Western-driven modern-capitalist sector and the traditional native agrarian sector. Other writers, however, have suggested that we look at specific avenues of modernization (Dick 2002).

By the late 17th century, the VOC had occupied a vast territory and had a strong presence in Java—where it intervened with local politics to make sure that their interests were served well. The VOC involvements in the Javanese affairs was so deep that it had a say on who could become the kings in Javanese kingdoms. It established Batavia (the Dutch-given name of the modern Jakarta) as its headquarters. In the mid 18th century, however, the company started to face serious financial problems. Corruption, mismanagement, and other scandals in all levels of the VOC had made the Dutch government investigate the Company. The situation in Europe, with a series of wars involving the Netherlands, did not help the VOC either, as the military force was needed at home to defend the country. Finally, in January 1, 1800, VOC was dissolved and its possessions became the property of the Dutch government, and the era of the Dutch-Indies colonial state began (Ricklefs 2001: 144). The territory was not always under the Dutch. The British also occupied the area for a while, until the two countries signed an agreement that Sumatra would lie within the Dutch sphere of influence, while the Malay Peninsula would be within the British sphere.
The second major development in the 19th century was the rise of liberal ideas, both in politics and in economics, in the Netherlands itself. This development affected the colony as well. Many politicians and academics supported the abolition of the oppressive Cultursteelsel.\(^7\) In 1870, a new Agrarian Law was enacted in the Netherlands Indies. The new law made it possible for Westerners to get land for plantations on which they could grow commercial crops, either by renting it from the natives or leasing from the government. The law also prohibited natives from selling their lands to non-natives, so— theoretically—they could work in the plantation as free laborers (Indonesian Economics 1961: 3).

In economics, liberal ideas flowed through neoclassical economics by one of Netherlands' most prominent economists, Nicholaas Geraard Pierson. Pierson, who held both a bureaucratic and an academic position, was a strong proponent of classic English liberal thought.\(^8\) He was against the cultivation system, both on ethical and practical grounds. In his series of lectures, *Cultivation System*, given in 1866-67, he argued for more private enterprise for the colony and the use of economic incentives to increase the natives' agricultural productivity. The underlining assumption was that native farmers would respond similarly to their European counterparts.

The view was that development in the colony would follow European patterns, i.e., that the evolution of native landownership into private ownership, from home

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\(^7\) There were also some [literature] books by Dutch writers that were critical to the situation in Dutch-Indies during the Culture System. Among others was *Max Havelaar, or, The Coffee Auctions of a Dutch Trading Company*, by Eduard Douwes Dekker (penname: Multatuli), who once served as a Dutch officer in the colony.

\(^8\) He was once a managing director of Dutch Central Bank. See A. Heertje (1992) for a discussion on Pierson's biography in the context of Dutch's history of economic thought.
production into production for market, would improve the situation of the natives (Prince 1989a:5). The result of the private initiative was obvious. The colonial government took a back seat and let private enterprise enter the crop industries, such as sugar, coffee, tea, tobacco, copra. For a while, private production stimulated a boom in output. Between 1870 and 1885, for instance, the output of sugar cane in Java was more than doubled (Houben 2002: 68). The annual volume of export grew from 2.0 percent in 1840-73 to 5.5 percent in 1871-84 (Booth 1990: 273).

Liberal policies, however, were challenged, both in Europe and in the Netherlands Indies. In Europe, the late 19th century world recession raised questions about laissez-faire practices. The recession was felt in the colony too, as Netherlands Indies exports grew by only by 0.3 percent per annum for the period of 1885-94. In addition, private enterprise did not seem to be successful in improving the situation of the natives. In fact, as argued by a Dutch parliament member, C. Th. Van Deventer, the welfare of the natives during the last decades of the 19th century was diminishing (Deventer 1961(1902)).

The third development in the late 19th and early 20th century was the introduction of the Ethical Policy. In 1901, the poor situation of the natives was acknowledged by Queen Wilhelmina, and the government started what later was known as the ‘Ethical Policy’. The policy covered not only economic matters, but other aspects of native life as well. It dealt with irrigation, emigration, road building, agricultural credits, encouragement of certain industries, and education (Prince 1989a: 209). Despite all of these, however, the main credo of the colonial government’s economic policy was still
liberal laissez-faire. The ethical policy was aimed only at improving the natives’ economic condition, not the vision of how the whole economy worked.

Hence, despite the increase of government involvement in the welfare of the natives, in general the hands-off policy toward the private sector was maintained. In fact, Western industrialists supported the Ethical Policy because they expected that the improved situation of the natives would result in higher purchasing power, which in the end would bring a bigger market for them. The entrepreneurs in the colony, too, did not object to the policy as long as their businesses were not touched.

Meanwhile, after a quarter century of recession, the world economy started to pick up steam in the early 1900s. For the period of 1895-1913, the volume of exports from the Netherlands Indies grew by 4.2 percent per year. This made it easier for the government to undertake a welfare policy for the natives and a non-intervention policy toward the western capitalist sector at the same time. However, the government could not maintain its market liberalism principles consistently. Now and then, the government had to intervene in the market, especially when it came to the rice market, the most important commodity for the natives. In 1911, when the world rice price increased as a result of bad harvests in Japan and China, the Netherlands Indies increased its exports. This resulted in a shortage on the domestic market, which led the government to impose a ban on exports. When the rice price increased again in 1918 as a result of World War I, the government took the role of distributor. When the price decreased, however, the government let the market govern itself again (Prince 1989b).
2.3 Boeke and Dualistic Economics

The fact that the application of neo-classical economics in Java, at that time called 'theoretical economics,' did not bring the expected results was observed by a young Dutch economist by the name of Julius Herman Boeke. In 1910, Boeke defended his doctoral dissertation at the University of Leiden. In his dissertation, he argued in favor of a separate theoretical approach to deal with a tropical economy like the Netherlands Indies. The neo-classical economics, he argued, did not work because its basic assumption was wrong. His reason for a separate approach lies in his distinction between economic needs and social needs.

Now what is the difference between social and economic needs? Since social needs find their origin in norms set by the social collectivity, it follows that the means (material goods or services) gratifying those needs will not provide satisfaction merely by meeting the personal standards set by the person producing or rendering them, but only if and to the extent that they come up to the general norms which society imposes on such goods or such services.

Economic needs, on the other hand, are those which man does not feel in his quality as a member of the collectivity, but as a separate individual, so that the goods by means of which such demand have to be met can gratify the person desiring them only if they meet his individual requirements they are measured by his criteria (Boeke 1961(1910): 69).

Boeke did not think that the two needs were completely separate, but argued that they needed to be distinguished. The tropical climate, he suggested, made life easier for people to survive, so they did not have to compete as hard as the people who live in non-tropical climate areas. As a result, natives living in tropical areas saw social needs as more important. In non-tropical societies, however, where the climate requires inhabitants to find warm shelter, and security, economic needs occupy a more important place.
Neo-classical economics, Boeke argued, is rooted in non-tropical societies that put the greatest emphasis on economic needs. Its operation in economic policy, such as providing incentives for the individual to act, only works in non-tropical societies, but not in a tropical society like that of the Netherlands Indies. Therefore, to improve the natives’ situation, he called for a new approach, which at the time he called ‘colonial economics’.

He wrote,

Hence we come to the conclusion that from the point of view of theoretical economics we may—and must—speak of a separate discipline of colonial economics: (1) because much that is axiomatic in the abstract-theoretical or deductive method must be recognized as non-existent in the economic mentality of the natives; (2) because even in case it might be possible to accept a certain measure of economic inclination, the economic problems coming to the fore in a colonial society are so specific in nature that there is a little scope for applying the principles derived from Western conditions to any great extent. (Indonesian Economis 1961: 11)

For Boeke, what was needed was not merely a reform on the economic policy of the Netherlands Indies, but a completely different set of policies based on different assumptions. His attack on the abstract deductive method of neo-classical economics shows that his objection was not simply based on theoretical grounds, but was already drawn from philosophical viewpoint.

In his dissertation, however, Boeke did not elaborate on how the new approach should translate to economic policy of the Netherlands Indies.\(^9\) Part of the reason is because he had never been there. Only later did he go to the Netherlands Indies and worked in many different positions before taking a job as a professor of economics at the Batavia Law School.

\(^9\) A more elaborate suggestion on how dualism economics translate into economic policy was provided later by Boeke in 1953 in his book ‘Economics and economic policy of dual societies’.
Boeke’s call for colonial economics did not generate much response, although in 1919 the Netherlands School of Economics in Rotterdam founded a lectureship called ‘colonial economics’. The professor who taught the subject, G. Gonggrijp, however, did not share Boeke’s view about the need for a new approach. Gonggrijp was a strong follower of the Austrian School, led by Von Bohm-Bawerk and Carl Menger. He gave an inaugural lecture called ‘Colonial and Theoretical Economics’, in which he addressed Boeke’s concern by stating, ‘... my position would be that a special economic policy is necessary, but not that special laws of colonial economics need to be found (Gonggrijp 1961(1919): 84)

Interestingly, Gonggrijp cited the Chinese as important players who brought ‘theoretical economics’ into practice. He wrote,

Now, I believe that the presence of the Chinese in the Dutch Indies and the prominent place they occupy in economic life there constitute two chief reasons why Western theoretical economics will prove highly serviceable in explaining many colonial economic phenomena. The Dutch Indies is integrated in the system of world trade, supplying products and absorbing them; the Western capitalistic system spans and encompasses the archipelago, and the Chinese are the scouts and the vanguard of this system that exerts its influence on the entire country, including its native masses, which are compelled to react to it, for all their economic inferiority (Gonggrijp 1961(1919): 86).

Another attack on Boeke’s thesis came from J. van Gelderen, the director of the Netherlands Indies Statistical Bureau, who in the late 1920s was invited to give lectures on Tropical-Colonial Economics in the University of Leiden. He argued that pure economic theory is simply a methodological tool. As we test economic theory against reality, we will find that the effect of economic ‘laws’ is obscured by many non-

10 Later, Gonggrijp became the teacher of Mohammad Hatta, the future vice-president of Indonesia (see Chapter 3).
economic factors. To be useful, it has to be adjusted. Since this process applies even when we apply economic theory to a Western society, it would work for tropical societies as well (1961(1927)). Van Gelderen also suggested that dualism in the economy is only a passing phase. When the close economic condition of the natives changes into an open economy, the heterogeneous societies will become a homogenous one (Indonesian Economics 1961: 13).

In 1930, Boeke returned to the Netherlands to take a position as the professor of tropical-colonial economics at the University of Leiden. Unlike his previous situation, however, he now had experience that seemed to confirm his views. In his inaugural address, titled Dualistic Economics, he again proposed the need for a new approach. He attacked the idea that the Western economics can be applied to The Netherlands Indies:

Now I do not want to push this attitude to the extreme by denying Western theory any value at all for dualistic economics. Its methodology, its system of classification, its concepts and formulas, its analysis of individual, personal economic phenomena will also be of value, and in fact indispensable for dualistic economics... The bricks and blocks of Western economic theory may be usable, but the structure built with them is not a suitable accommodation for Eastern economic practice (Boeke 1961(1930):176-177).

This lecture, and the fact that Boeke was now serving as a professor in the Netherlands, spurred a debate among Dutch economists.\(^{11}\) The debate about economic dualism, however, only took place in the academic arena. Later, it spread to non-Dutch economists as well.\(^{12}\) In the public arena, the Netherlands Indies government maintained its Ethical Policy as a welfare policy for the natives and Market Liberalism as the general

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\(^{11}\) See Indonesian Economics (1961) pp. 10-29 as well as Prince (1989b) for details.

\(^{12}\) Two influential books on Dutch-Indies economy written in English, by Furnivall (1939) and by Broek (1942) include a discussion on Boeke.
economic vision (Hart 1942). When it was needed, the government would intervene in the economy. The interventions, however, would be very selective (Lindblad 2002: 117).

Figure 2.1
Merchandise Export and Import, Netherland Indies, 1925-1939

![Graph showing merchandise export and import, Netherland Indies, 1925-1939.]

Source: CEI v.5: 99

Market liberalism, of course, faced a great challenge when in the 1930s the world plunged into the great depression. Demand for Netherlands Indies commodities in the world dropped, which led to a drop in the prices. The values of total export of the Netherlands Indies fell from 1269.3 million Guilders in 1929 to 405.7 million Guilders in 1933 (Neytzell de Wilde 1936: 25). The values of export and import would stay low throughout the decade of 1930s, even though in 1937 they started to increase slightly (see Figure 2.1).

A decrease in exports meant a decrease in government revenue. While the government tried to trim government expenditures, the colonial government suffered a
budget deficit, which lasted throughout the 1930s (see Figure 2.2). This put a pressure on colonial policies such as those programs related to the Ethical Policy, which grew to many aspects of life since it was put in place in early 1900.

The Great Depression affected various groups of Netherlands Indies society differently. The impact on the natives seemed to be mild, as the real income remained flat during the period. The Foreign Asian group experienced some shock until the mid decade, but their real income started to increase again afterwards. For the Europeans, however, the Great Depression had a stronger impact. Their real income dropped almost by 20 percent, and only started to increase again at the end of the decade (see Figure 2.3). It was the modern-capitalist sector, connected to the world’s economic situation through export and import, that was most affected by the Great Depression, but this was
the sector from which most Europeans drew their income. Meanwhile, most of the natives worked in the traditional agriculture sector, which was relatively insulated from the world's influence.13

**Figure 2.3**
Real Income, Netherland Indies, by Groups of Population (1929=100)

Source: CEI v.5: 81

### 2.4 The Rise of Nationalism Movements

At the beginning of the century, the natives started to think about the idea of independence. Several outside events, such as the Japanese victory over Russia in 1905 and the Chinese revolution in 1912, helped many native leaders think about nationalism. The big ideas of the day, such as the modern nation-state and Marxism, together with religious and ethnically-based ideas, heavily inspired the local and religious leaders and

13 Not surprisingly, Boeke found vindication in the Great Depression situation. In 1934, he wrote an article in *Pacific Affairs* explaining why the effect of the Great Depression was different among different ethnicities in Dutch-Indies. The same line of argument was later used by Mubyarto in arguing for the dualistic nature of the Indonesian economy in the 1990s (see Chapter 4).
simulated the nationalist movement. The earliest Indonesian nationalist movement whose target reached beyond a specific region was Boedi Oetomo, an organization of Javanese medical students in 1908. However, since its focus was more oriented towards a Javanese cultural movement, Boedi Oetomo’s overall role in the nationalist movement was modest.

In 1911, Syarekat Dagang Islam (Islamic Trade Union) was established in Solo, Central Java as an organization of Muslim Batik traders to compete with Chinese traders. It changed its name into Syarekat Islam a year later when the focus shifted from trade into political awareness about Indonesian nationalism (Ricklefs 2001: 210-211). The organization spread to other cities in Java and Sumatra in the mid 1910s under the leadership of Oemar Said Tjokroaminoto. Another Islamic organization, Muhammadiyah (The followers of Muhammad), was established in 1912. Unlike Syarekat Islam, the focus of Muhammadiyah was on education.

Some political parties were also established during the 1910s such as the Indische Party (Indics Party) in 1911, and the Indische Sociaal-Democratische Vereeniging (Indies Social-Democratic Association, ISDV) in 1914. Both parties were based on socialist ideas, which called for Indonesian independence.

It is noteworthy that the political aspirations of those organizations were related to economic affairs. When the Dutch created the Volksraad (people’s council) in 1917, where natives were allowed to be members, some natives demanded better economic conditions. Yet their demands were still under the framework of the Ethical Policy or other frameworks provided by the Governor Generals of the Netherlands Indies. Despite
a strong socialist influence among the nationalist leaders at the time, the neo-classical influence was still strong. When during the depression era the governor proposed economic planning, the Volksraad (which by then already more than 40 percent native members) voiced its concern that it would create too much government intervention in the economy (Neytzell de Wilde 1936: 93).

The 1920s and 1930s saw the rise and fall of many nationalist organizations, such as the Indonesian National Party and the Indonesian Communist Party. The following chapter will develop a further discussion about the Indonesian nationalist movement, where we will address the economic visions of two of the nation’s founding fathers: Mohammad Hatta and Soekarno.
CHAPTER 3
THE FOUNDING FATHERS

3.1 Mohammad Hatta

3.1.1 Religious Socialism

Hatta was born in Bukittinggi, a small city in the Minangkabau area of West Sumatra on August 12, 1902. His childhood was spent in an extended family where boys had to go to an ordinary school in the morning and Islamic school in the evening. Hatta did this until his teen years. From the beginning, it was already obvious that he was a child prodigy.¹

The culture of Minangkabau was to some degree a continuation of the culture of the old kingdom of Pagaruyung (c. 14th century). It later received some influence from Islam, which came around the 16th century. These two cultures, local custom (adat) and Islamic, lived side by side, although not without tension. The arrival of Western culture, brought by the British and Dutch traders at first, and later by the Colonial Government, brought another influence to the society. In general, however, the Minangkabau chose to be pragmatic. They were strong in Islam, but at the same time took some practices from the custom. Deliar Noer, a Hatta biographer who was also a Minangkabau, wrote, ‘... the Minangkabau take advantage of everything, including colonialism itself... [as a result] the area was not isolated, either in religious affairs—specifically in Islam—or in international trade.’ (Noer 1990:12). Related to this, it was customary for a Minangkabau young man to leave his parents’ house in his teens to acquire more knowledge and experiences from the outside world. The practice is known as merantau. Another element

of Minangkabau culture was the relative lack of hierarchical structure compared to the one that we could see in Java. A Dutch Minister of Colonies, J.C. Baud, wrote that the rule of non-interference ‘must be scrupulously followed until the democratic principle which is the reigning one practically everywhere in the Padang highlands, has been supplanted by the aristocrat principle.’ (Rose 1987: 5). As we will see later on, all of those elements—the openness to new ideas through contacts with other people while at the same time keeping older values, pursuing life outside his parents’ house, and predisposition toward more democratic principles—can be found in Hatta’s ideas.

Hatta’s biological father was Haji Muhammad Djamil, son of Syekh Batuhampar, a famous Islamic teacher in the region. However, according to the culture of Minangkabau, which is matrilineal, a child is raised by his uncle from his mother’s side. For this reason, Hatta was not close to his biological father who died when he was ten years old. Nevertheless, Hatta was always in contact with the relatives on his father’s side as he often spent time in the Syekh’s Islamic school. When the old Syekh died, one of his uncles, Syekh Arsjad, became the new Syekh of Batuhampar. The Syekh was among a few Islamic leaders in West Sumatra that advocated a modern strand of Islam, based on the teachings of Egypt’s Mohammad Abduh. Unlike some more conservative strands of Islam, the group allowed ‘European modern knowledge’ to be taught in their schools.

The original plan by the family was for Hatta to go to public school first and later follow the Syekh on his trip to Mecca so he would study Islamic teachings, if possible even continue with studies in Cairo, Egypt. But the plan was changed. He first went to local public elementary school from the age of 6 to the age of 8, and later transferred to
the public school for Dutch children. In the meantime, he also went to the Islamic school in the evening. An incident between the Minangkabau and the Dutch in 1908, when the Dutch did not honor an agreement with local leaders, and which led to the arrest of one of his uncles, left an important mark in the mind of young Hatta. At the time, he even considered Dutch to be evil people (Memoir p.10.) In the school for Dutch children, Hatta did well, although he sometimes had heated debates with his Dutch classmates. When the First World War erupted in 1912 for instance, where Turkey was defeated by Italy, most of his classmates were pro-Italy, while Hatta was pro-Turkey. When he asked the Syekh why Islamic Turkey, despite having a great history, was defeated, the Syekh answered that it was because the Turkish leaders had become arrogant and did not follow God’s path anymore.

In 1913, he entered MULO (Middle School level) in Padang, the capital of West Sumatra. In Padang, he lived with his stepfather, Haji Ning, a local businessman. During his stay in Padang, he kept receiving Islamic lessons from a local teacher. In 1918, a leader of the Jong Sumatran Bond (JSB), Nazir Dt. Pamontjak, came to Padang and gave a speech that moved Hatta. The Jong Sumatran Bond was a group initially formed in the Netherlands by Sumatran students whose goals were to prepare Sumatran students to be future leaders, and to introduce Sumatran culture to its youth. In achieving its goals, however, the organization stressed the importance of Indonesian nationality and was against the strong ethnic affiliation that existed among many people. When the local students met to establish the JSB Padang Branch, Hatta was elected Treasurer. His
interest in Indonesian nationalist movement was strengthened when Abdoel Moeis, a member of *Volksraad* (People’s Council) in Jakarta, came to Padang.\(^2\)

In 1919, after finishing MULO, Hatta went to Batavia to study in Prins Hendrik School (High School level). At first, his Syekh uncle objected to this decision, but Hatta’s mother convinced him that Hatta would not stop receiving Islamic lessons. In this school, Hatta started to learn about accounting, management, and other economic-related subjects. During his study in Batavia, Hatta met a successful Minangkabau businessman, Ayub Rais, whom Hatta called Ma’ Etek Ayub. Later, Hatta lived in Ayub’s house. It was Ayub who gave Hatta three sets of books that would leave strong impressions on him: First, an economic textbook, *De Staathuishoudkunde*, by the famous Dutch economist, N.G. Pierson (see previous chapter.) The second was the 6-volume *De Socialisten* by H.P. Quack. Considering his later economic vision, one may argue that this book may have been *the* most influential book for Hatta. The third book was a utopian novel, *Het Jaar 2000*, by American journalist Edward Bellamy.\(^3\)

Hatta really enjoyed reading *De Socialisten*, a series of books about history of socialism up to the end of the 19\(^{th}\) century, which according to the author, Quack, started from the Ancient Greeks. He discussed the topic when at one occasion he met a more senior nationalist movement leader, Agus Salim, another member of *Volksraad* who was also a leading Muslim scholar. Salim convinced Hatta that socialism did not contradict Islamic teachings, a theme that would be crucial point in Hatta’s economic vision.

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\(^2\) As mentioned in Chapter 2, the Dutch Colonial Government in Batavia established the *Volksraad* with some natives as members.

\(^3\) The English title of the novel is *Looking Backward: 2000-1887*. The novel is about a Bostonian from 1880s Victorian Era who wakes up from his sleeping in the year 2000 and finds a different society from when he went to sleep. There is no war, famine, or other social problems.
After graduating from the Prins Hendrik School, Hatta was offered a job in KPM, a Dutch company. After consultation with many people, including his teachers in Prins Hendrik School, he declined the offer and decided to continue his study in the Netherlands. In 1921, he received a partial scholarship to study economics in Handelshogenschool Rotterdam.

A little background about Dutch economic thought at the time is appropriate here. For several decades, from the 1870s to the first decade of the 20th century, liberal economics (which started to have a strong marginalist and mathematical flavor) was the main approach in many Dutch universities, with its proponent, N.G. Pierson, as the most influential economist in that country (see previous chapter). After Pierson died in 1909, the dominant approach gradually shifted to the Austrian School’s version of the marginalists, with C.A. Verrijn Stuart as the leading Dutch economist (Elzas 1992: 80). Verrijn Stuart not only dominated the academic economists but also was involved in public policies. Another economist under the Austrian School was de Vries, although he later—following the great depression—abandoned the position. At first, economics was taught in the Faculty of Law. Only in 1913, with the opening of Rotterdam School of Economics, was economics taught as a separate subject in a separate faculty (equivalent to a department in the U.S. university system.) As such, students not only learned about economic theory but also about sociology, law, politics, etc.

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4 The Austrian School here refers to economists such as Carl Menger, Friedrich von Wieser, and Eugen von Bohm-Bawerk. They were also the proponents of marginalist approach, which focused on an individual’s choice at the margin. One main contribution of the Austrian School was Bohm-Bawerk’s theory about interest. According to him, interest exists because—among other things—people put more emphasis on the future. (See Oser 1970).
It was against this backdrop that Hatta came to study in Rotterdam. He studied, among others, under Prof. G.M. Verrijn Stuart (a former director of Bank voor Indië, in Batavia, a son of C.A. Verrijn Stuart who shared his father’s approach, and taught money, credit, and banking), Prof. F. de Vries (who taught economics theory), and Prof. Gonggrijp (who taught colonial economics – see chapter 2).

Being in an academic unit where the economics curriculum was still designed mostly by law professors, Hatta had to read a wide variety of books. He learned marginalist theories such as those of Herman Gossen, Alfred Marshall, Eugene von Bohm Bawerk, and John Bates Clark. He also learned socio-historical economic theories such as by Max Weber, Joe Schumpeter, and Warner Sombart. This ensured Hatta’s writings were well informed. It is noteworthy that Hatta used and combined various theories in his writings. In explaining the importance of economic planning according to the socialist Sombart, for instance, Hatta used the marginalist Gossen theory (1985(1967):113).

In Rotterdam, Hatta was active and later became the president of the Perhimpunan Indonesia (the Indonesian Association), a student organization whose goal was to help Indonesia achieve its independence. The organization published a magazine called Hindia Poetra (Son of Hindia), where Hatta’s writings frequently appeared. In one article, he challenged prominent Dutch economists who wrote about Indonesia—some of them were his own professors. He argued against Boeke’s thesis, which says that Indonesians needed a different kind of economics from those of Europeans. At the same time, he also doubted Gonggrijp’s argument that there was no principle difference
between European and Indonesian way in the matter of economy. Hatta argued for an explanation offered by F. de Vries who divided economics into two aspects: economic 'law' and socio-economic organization. The first was more abstract, being independent of time and space; while the second one was historically relative, since it depended on time and space. Hatta believed that the colonial economy should be analyzed from these two aspects (Memoir p. 130).

Being a student leader in the Netherlands provided Hatta with opportunities to make contacts with different parties in Europe. He went to several international conferences, including the League against Imperialism, against Colonial Oppression, and for National Independence congress in Brussels, in February 1927, where he met the future Indian leader, Jawaharlal Nehru. The two later met again when they attended the International Women's League for Peace and Freedom, held in Gland near Lake Geneva.

While enthused by Marxism, Hatta was never a member of any communist party, either in Indonesia or in the Netherlands. One reason for this was his dislike of the Soviet Union’s dictatorship (see Memoir p. 137), although he maintained a good relationship with many communist leaders. After a failed uprising against the Dutch Colonial Government by the Indonesian Communist Party, Hatta met with Semaun, one of their leaders who was in exile. Semaun was also a member of Communist International (Comintern). At the end of their meeting, Hatta and Semaun drafted an agreement ('convention') that the Indonesian Communist Party would later develop under Perhimpunan Indonesia to form a new party (Memoir p.206-207). Because of this,

\footnote{See Chapter 2 for the disagreement between Boeke and Gonggrijp.}
Semaun was expelled from the Comintern by Lenin and was forced to publicly renounce the agreement.6

Hatta’s involvements in many leftist international organizations did not sit well with the Dutch Government. When he returned from the International Women’s League conference in 1927, he was served a letter of arrest, together with three other PI leaders. They were charged on three accounts: being a member of a banned organization, being involved in rebellion, and influencing people to overthrow the state. Immediately, two Dutch lawyers from the Dutch Socialist Workers’ Party offered their service to defend him. Hatta accepted the offer, but he also insisted on defending himself. As a propagandist of Indonesian independence, he saw an opportunity to present his case to the general public in the Netherlands (Rose 1987: 38). During the trial, Hatta delivered his defense with a powerful speech he called Indonesia Free, a political statement of the Indonesian nationalist movement against imperialism. The judges found the defendants not guilty and they were freed.7

The news of the arrest and acquittal of the Indonesian students was received very well in Indonesia by nationalist leaders but—understandably—not by the Dutch Colonial Government. The latter strengthened its grip on the nationalist movement. At the time, Perhimpunan Indonesia was seen as one of the pillars of the Indonesian nationalist movement. Hatta’s writings often found their ways to the nationalist meetings and were adopted by their leaders in Indonesia—including Soekarno who at the time had been the

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6 Another communist leader with whom Hatta frequently met was Tan Malaka (Memoir, p. 137).
7 Rose wrote that Hatta seemed to be very impressed by the fact that he could get a fair trial in the Netherlands, and this strengthened his belief in a parliamentary system that protected judiciary independence (Rose 1987: 43).
leader of *Partai Nasional Indonesia* (Indonesian National Party, better known by its abbreviation, PNI). Hatta and Soekarno had started to correspond with each other, although they had never met in person. Now and then, Hatta also made criticisms of the PNI if he believed it was necessary (Rose 1987: 48). Among other things that he noted was his disappointment that PNI became a party of the mass instead of a party of cadres.

After finishing his study in 1932, Hatta returned to Indonesia. Now he had to deal with the various factions in the nationalist movement. At one point, he led a party called *Pendidikan National Indonesia* (Indonesian National Education, but in Indonesian language the abbreviation is also PNI, so they called themselves *PNI-baru* or New PNI), which focused on the creation of strong cadres. He also kept writing articles in newspapers and magazines about the Indonesian nationalist movements, which sometimes included harsh criticism against the colonial government. As a result, Hatta, together with two nationalist leaders, Bondan and Sjahirit, was arrested in 1935. At first, he was being held at Glodok prison in Jakarta; then he was sent to Boven Digul in the island of Papua; and later to Banda Neira in Maluku Islands. During his exile in Banda Neira, Hatta was not allowed to be involved in political actions, but he was allowed to write and to correspond with other people. He also used his time to teach local people or fellow prisoners.

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8 Hatta’s criticisms were not uncommon. For long, he was always known as a brave, an open but calm person. He never hesitated to defend his opinion but at the same time always respected other people’s opinions (Widjaja 1988: 154).

9 Some of his writings from this period can be seen in his selected writings (1958, 1972).

10 Several Indonesian leaders were also put in Banda Neira, including Sjahirit—Hatta’s close friend from the Netherlands, Dr. Tjipito Mangunkusumo—a Javanese who was among the first to receive medical degree among the natives, and Mr. Iwa Sumantri, another former *Perhimpunan Indonesia* activist.
Hatta was in exile until the Dutch Colonial Government was replaced by the Japanese in 1942. The Japanese Military Government, in their efforts to win the hearts of the Indonesians, offered a position to Hatta. From the outset, Hatta had predicted that the Japanese would lose the war; hence, he thought, their occupation in Indonesia would not last long. Realizing how difficult the situation would be if he refused to work for them, and hoping that he could use his position to help advance Indonesian interests, Hatta accepted the position. He officially became an Advisor of the Japanese Military Government in Indonesia (Noer 1990: 185-186).

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By early 1945, the Japanese sensed that they might lose the war, so they allowed the Indonesians to form an independence planning committee called the Body to Investigate Indonesian Independence (in Indonesia, this body is known for its abbreviation, BPUPKI). The committee was chaired by Dr. Rajiman Wediodiningrat, a Javanese aristocrat who had been the leader of the nationalist organization Boedi Oetomo. Both Soekarno and Hatta were members. The committee's task, among others, was to draft a constitution for the would-be country.

In one of the debates in the committee, Soekarno suggested that the new constitution should be void of any hints of individualism. According to him, colonialism started with capitalism, capitalism started with economic liberalism, and economic liberalism started with individualism. Hence, any hints of individualism in the

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11 *Boedi Oetomo*, founded in 1908, is considered the first modern Indonesian nationalist movement despite its focus on Western-educated Javanese aristocrats.
constitution could result in the new country going in a wrong direction (Yamin 1959: 292-293). Hatta rejected Soekarno’s suggestion. He argued that,

> We are establishing a new country based on gotong royong [mutual assistance] principle and joint endeavor... My concern is that if there is no guarantee for the people in the constitution with regard to the right to voice their opinion... we may get a form of country that we do not want... Let us consider the conditions so that our country does not become an authoritarian country... Therefore, it would be better if in one of the chapters, for instance in the chapter about citizenship, [we] also mention the rights of the Indonesian citizens, so that they are not afraid to voice their opinion. Also, the rights to gather, to meet, or to write, and so on... it would be good if the people are guaranteed their rights to think freely. This may sound a little bit like individualism, but, as I mentioned, it is not individualism... In the collectivism also there are rights for the members to tell their feelings to make the collective body better.' (Yamin 1959: 299-300, Author’s translation).^{12}

The committee later accepted the argument of Hatta rather than Soekarno. Hatta’s ideas also found their way into the country’s first constitution when he was appointed to the chair of finance and economic committee.

On August 15, 1945, the Japanese Commander in Indonesia surrendered. Two days later, on August 17, Soekarno and Hatta proclaimed Indonesian independence on behalf of the Indonesian people. The events galvanized the committee to finish up their work. On August 18, 1945, the draft for the new constitution was approved. In the same meeting, the members also elected Soekarno as president, and Hatta vice president.

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^{12} Hatta’s biographer Deliar Noer, however, asserts that some of the minutes from the meetings have been edited by Moh. Yamin (Noer 1990: 222).
3.1.2 Hatta’s Economic Vision

Because of his background, an intellectual who was trained in economics, Hatta’s economic ideas ranged from theoretical to practical daily life. His vision for the nation’s economy, however, is best represented by what he proposed (and which was accepted) to be included the 1945 Constitution. In 1967, in his inaugural lecture when he was given a professorship by Padjajaran University, Bandung, Hatta reviewed his economic vision, which he said was embodied in the constitution. He referred to three parts of the constitution. The first part was Article 27 pt.2 (‘Every citizen has the right to work and to a living befitting human beings’), the second part was Article 33, which will be discussed in greater detail below, and the third part was Article 34 (‘The poor and destitute children shall be cared for by the State’) (Hatta 1985(1967): 61-63).

Article 33, under the Social Welfare section, has been a source of debates for a long time. It says,

1. The economy shall be organized as a common endeavor based on the principle of family spirit,
2. Branches of production which are important for the state and that control the life of the mass of the people, shall be controlled by the state;
3. The land and water and the natural resources contained therein shall be controlled by the state and utilized for the maximum prosperity of the people (Hatta 1981: 186).

Unfortunately, documents about the discussions inside the Committee on Finance and Economics, which Hatta chaired, are missing. Yamin’s book on the drafting of the constitution does not contain that part (Noer 1990: 220).

There are many other articles in the 1945 Constitution that are related with the economy, such as Article 23 (the legislative’s right to veto the budget).

This is the original version of the article as it was written in 1945. In 2001, the People’s Consultative Assembly has amended two additional points to the article, which we will discuss in the next chapter.
The article comes with a note of clarification at the end of the constitution, which says that the type of enterprise that is compatible with the article is cooperative. Still, the language of the article is sufficiently vague to open the door for many interpretations.\textsuperscript{16}

Hatta later explains that in the spirit of the 1945 Constitution, the economy is a \textit{joint effort} of all the components in the economy, so it should not be dominated by certain groups only (1985(1970)). The idea behind this was to get rid of the economic structure of the 1940s. Hatta was very concerned with what he saw as social injustice among different ethnicities in Indonesia. He thought the class division in Indonesia was different from the one in Europe. In Europe, all three classes were of same race. In Indonesia, the economy was divided into three levels: the highest level was that of the Europeans, who dominated exports and imports, the second level was that of the oriental (especially the Chinese) who dominated trade and commerce, and the lowest level was that of the indigenous people, who were mostly in the subsistence sectors or small scale trades.\textsuperscript{17}

Hatta saw the cooperative as the enterprise that is compatible with the economic system he envisioned. The reason is that with its one-man one-vote system, the cooperative stresses the joint efforts and the solidarity of its members. This, according to Hatta, is compatible with the traditional \textit{gotong royong} principle. Hatta then suggested

\textsuperscript{16} Because it was often debated, several times Hatta tried to clear up what he meant when he wrote the article (see Hatta 1977, 1981, 1985(1970)).

\textsuperscript{17} Hatta's concerns about the influence of the Chinese stayed throughout his life. In the 1960s, when the city of Jakarta was constructing an office and market building, he made a suggestion to the Governor of Jakarta to allocate office and market spaces based on ethnicities, and to differentiate the rent among them, with the Chinese paying more than the natives (Noer 1990: 665).
that the cooperative should be the pillar of the economy, which would support the economy from ‘below’.

Meanwhile, the state, according to Hatta, has to produce rules that smooth out the economic growth, but at the same time it also has to protect the weak groups. It does not mean, however, that the state has to be the entrepreneur, as it would bureaucratize the whole economy. The state deals with the big issues, such as the provision of public utilities: building electric powers, roads, etc., so it supports the economy from ‘above’.

Between the cooperative effort from below and the state activities from above, there are still some areas that can be carried out by private enterprise, whether owned by Indonesians or jointly owned with the foreigners. However, private enterprise cannot operate freely without any restriction from the government, for their needs to be an assurance that they will contribute to the common interests. By accomplishing all of these, Hatta argues, the national resources can be utilized to build the national economy.

Because cooperative plays a central role in Hatta’s economic vision, a brief discussion is warranted. Hatta’s fixation in regard to cooperatives started when he visited Scandinavian countries in 1925, during his study in Rotterdam. He was impressed by the way the cooperative provided different kind of goods to its members (Memoir p. 178). For him, cooperative had a twofold function: as a vehicle to develop solidarity and an institution to achieve social justice (1987). He argued that Rochdale principles needed to be kept by Indonesian cooperatives: (1) independence, (2) one man one vote, (3) open

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18 Hatta thought cooperatives in Indonesia should cover different aspects of the economy: consumption, credits, production, and distribution.
19 The Rochdale Principles are a set of ideals for the operation of cooperatives. They were first set out by the Rochdale Society of Equitable Pioneers in Rochdale, England, in 1844, and have formed the basis for the principles on which co-operatives around the world operate to this day.
membership, (4) distribution of profit proportion to member’s activity, and (5) promotion of education (1987: 37). Yet he also said that the Indonesian cooperative was different from its Western counterpart. According to him, cooperatives in the West only stressed the economic aspect: people collected their capital together and gained some returns from it. In Indonesia, beside the economic aspect, the cooperative also paid attention to social causes, included building schools, doing charitable works, etc. (Noer 1990: 552).

How does Hatta’s vision on cooperatives in Indonesia compare to other collective organizations that existed in socialist countries? Hatta liked the cooperative ideal, among others, because its decision-making structures belong to its members. In this regard, it was similar to the ‘social ownership’ system in Yugoslavia (Estrin 1991). This decentralization aspect is also what attracted Hatta to the cooperative and—at the same time—made the Soviet’s Kholkhoz collective farm less favorable to him. Hatta argued that real cooperative could never be developed in a communist country where the decision of concerning production came from above, not from its members (Hatta 1981: 87). However, Hatta never addressed the implementation of cooperatives in China after the decentralization policies under Mao.20

One important difference between those organizations and Hatta’s cooperative is in the enforcement. While Hatta clearly viewed the cooperative as the best way to organize the Indonesian economy, he never argued for a forced collectivization policy. For him, the cooperative should always be based on the goodwill and freewill of its

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20 In what usually called as ‘late Mao period’, Mao divided the ownership of state firms among the central, provincial, and county governments and communes. According to Riskin, this policy failed because Mao did not pay attention to macro-economic factors (Riskin 1987).
members, not forced by the government. He believed that positive endorsement of the cooperative and restrictions on private companies would be the best way to accomplish this.²¹

While he was against Soviet-style central economic planning, Hatta did believe in the importance of planning in the economy, and endorsed the principles of economic planning as suggested by Sombart: First, the plan should be comprehensive and maintain a balance among five aspects of economy: production, distribution, money circulation, transportation, and consumption. Second, it should be a unified plan: only one major plan from which other plans follow or adjust to accordingly. Third, the plan should include a plan on how to implement it. This, according Hatta, included education about the plan (Hatta 1985: 92-93). For Hatta, the type of plan best suited to Indonesia was planning-by-direction. By this, he meant economic planning by enacting laws and regulations with regard to production, consumption, distribution, etc. He did not think planning inducing the market through fiscal and monetary policies would work in Indonesia.

Reading Hatta’s economic vision, one would easily find a socialist flavor in it. Hatta said his attraction to socialism was mainly because of its call for social justice, ‘...all kind of socialism call for a life where there is no oppression and exploitation and for each person, a guaranteed wealth and life.’ (Hatta 1963: 12). He saw socialism as a powerful idea that could be used to challenge Dutch colonization in Indonesia. At the same time, he also saw socialism as the goal of the new country. From reading De

²¹ He did, however, believe that since the cooperative has been mandated by the constitution, the government is compelled to develop cooperatives.
Socialisten, he was aware that socialist ideas had been floating around long before Marx, but he accepted that Marx’s clearer version could make socialism reality instead of a mere utopia.

Following Marx, Hatta believed that socialism would replace capitalism, although nobody could tell how it would look exactly, as it would be born under the historical situation of the future. He also understood that for Marx capitalism would not fall before it reaches its maturity, and socialism would not arise before its supporters were born, developed, and arose inside capitalism. This prediction, Hatta believed, was not based on wishful thinking. He wrote, ‘Socialism is not achieved by constructing future ideals, but by understanding the social history that develops under dialectic.’ (Hatta 1963: 7).

Being a devout Muslim, however, required Hatta to reconcile his socialist thinking with his Islamic faith. He found it in the concept of property. In Islam, the world belongs to God. Men are not to own the world, God’s property, but to take care and to leave it to the next generation in a better condition than when they received it (p.13). Hatta compared this Islamic teaching with Marx’s writing in Das Kapital (see Das Kapital III part 2). This similarity was enough for Hatta to argue that the socialism endorsed by Marx, stripped of its atheistic element, was compatible with Islamic teachings. Hatta wrote:

From a deep study of the principle of Islam, one is absolutely led to socialism. Because with a starting point that he follows the will of Allah, then a Muslim serve his life and struggle for the brotherhood of men and justice among them. Because that can only be done in a socialistic society, then for a Muslim a struggle for socialism is like God’s command that cannot be escaped. (Hatta 1975(1940): 43, author’s translation).
Hatta’s religious and democratic predispositions prevented him from being a Marxist or a communist. In the opening of an article written to answer a Dutch communist’s attack, Hatta quoted Karl Marx, ‘I am not a Marxist,’ which can be understood as the position that he took. (He preferred the term ‘socialist’). He criticized Marxists who followed Marx’s and Engel’s teachings as if they were written in stone. He was aware that Karl Marx’s writings were interpreted differently by many people. Historical materialism, for instance, could be interpreted from three aspects: as scientific method, as a political theory, and as a worldview. For the dogmatic Marxists, he wrote, ‘Marxism is inseparable from materialism. One would not be considered a ‘pure’ Marxist if he does not share the materialist world view... When a worldview is given energy and spirit as a faith, then religion would not have any place in it.’ (Hatta 1975(1940): 42).

Hatta realized that not all conditions of socialism suggested by Marx existed in Indonesia. Indonesia at the time was an agricultural society, and the colonialists would not allow Indonesia to move to an industrial society, let alone to a mature capitalist society—a precondition for socialism. Moreover, the class struggle in Indonesia was so

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22 In his lecture when he was granted an honorary doctorate from Gadjah Mada University, Hatta stated that his understanding of ‘democracy’ was not the same as Western democracy. He was critical of the overt emphasis on individualism in Western democracy, which according to him led to capitalism. Hatta argued that democracy should include both political and economic democracy, which interestingly, he called ‘social democracy’. Again, his ‘social democracy’ does not necessarily have the same meaning as the one in the West. He wrote,

If we examine it more carefully, there are three sources that inspired the social democratic spirit of Indonesian leaders. The first one was the Western socialism, which was attractive because of the humanistic principles. The second one was the Islamic teachings that call for Divine truth and justice in the society as well as brotherhood of people as God’s creation. And the third one was the knowledge that Indonesian society was based on collectivism (Hatta 1985(1970): 6-7).

Hatta went on to list five democratic practices that he claimed were found in traditional Indonesian society: (1) meetings, (2) consensus, (3) gotong royong (mutual cooperation), (4) rights to hold collective protest, and (5) rights to replace the leader. Hatta cited a Minangkabau expression to support the claims. It is unclear, however, whether what he said is found in all or a majority of traditional societies in Indonesia.
complex it would take an inordinate period of time to reach socialism in Indonesia if one simply followed Marx's suggestions. So, while admiring Marx, Hatta also looked at other theories that he thought would be more relevant to Indonesian or the international situation at the time, such as those of Sombart.  

In order to have strong socialism, Hatta argued, Indonesians have to look at their own lives, and try to find the root of socialism in their way of life. He then pointed to the collective spirit that was reflected in the practices of the villagers in many places in Indonesia. The villagers only had the rights to use, not the rights to own. An individual could use a piece of empty land for supporting his family, even for generations. However, the land still belonged to the village. Once the family stopped working on the land, the village could take it back and give it to somebody else. Another village practice that showed collective spirit was when they helped each other in doing their work, especially those that could not be done by one family only, such as working on the paddy field, building a house, etc.

Hatta also referred to some legal studies in many traditional Indonesian societies at the time that showed no separation between public and private laws. In his Memoir, Hatta also argued that in his own culture, Minangkabau, there is no private individual property, only private family property.

Yet Hatta claimed that he was not blind to the fact that the process of individualization had occurred at that time. Nor did he want Indonesia to be a static

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23 Werner Sombart was a German economist/historian. Like Weber, he also argued that capitalism needed to be studied as a part of cultural history. At first, he was very much influenced by Marx's works although there was always predisposition toward nationalism. At the end, he ended up as a Nazi (Oser 1970: 195-196). See also Brocke (1996).
society that kept looking back. So, there had to be some way to connect them. For him, not surprisingly, the answer was found in the form of cooperatives.

3.2 Soekarno: The Great Leader of Indonesian Revolution

3.2.1 Nationalist Leader

Soekarno was born on June 6, 1901 from a Javanese Muslim father and a Balinese Hindu mother. Both his parents were members of the elite class in their respective societies. The father, Raden Sukemi Sosrodihardjo, was a priyayi, a Javanese aristocrat, while the mother was of Brahmin caste.²⁴ They lived in Surabaya, the capital of Eastern Java, when they had a daughter and a son. The son was named Soekarno.²⁵

The Javanese culture in which Soekarno grew up goes back to at least the first millennium. The island of Java was influenced by many major religions and philosophies that came from India and China (see Coedes 1968). The encounter with the Europeans also brought some influence of Christianity and European culture, although it mostly only influenced the kings and the nobles. Because of this history, Javanese culture is heavily influenced by Hindu, Buddhist Chinese, as well as Islamic cultures. However, it does not mean that there is no contribution from the indigenous cultures. The acculturation brought about a distinct culture that could not be found in India or China. Javanese

²⁴ Sukerni, a teacher, was stationed in Singaraja Bali when he met Idayu Nyoman Rai. At the time when ethnic identity was still very strong, they could not married normally, so they had to elope. A police chief provided a refuge for the couple. Realizing that their lives would not be easy if they stayed in Bali, Sukerni requested to be moved to Java. The government granted his request and they were moved to the city of Surabaya in East Java. Surabaya was a port city that was considered (and still is) the second largest city in Indonesia after Jakarta.

²⁵ The prefix Soe means good in Javanese, while the name Kamo was from a character in Mahabharata, son of the Sun God, Surya.
wayang kulit puppetry, for instance, is likely to be genuinely Javanese. The performances usually use the narratives from the Mahabharata or Ramayana epics with some adaptations, including the introductions of some important characters (such as Semar and the other punakawans, divine servants).

In Javanese culture, the boundary between one thing and another is not always clearly defined. What is being considered ‘right’ or ‘wrong’ is not fixed, it depends on the situation and the persons in question. For this reason, Javanese also often look for a synthesis, especially when there is a conflict between two ideas. One cultural idea that comes from the mix is the idea of a messiah, or in Javanese term, the Ratu Adil (the Just King). The messianic belief has manifested in different forms and at different times, but usually the concept refers to the prophesy of Jayabaya, a king and a prophet who made prophesies to the Javanese people about the disasters and humiliation they must suffer before they could have power and esteem (Dahm 1969: 3). Anytime there is a great suffering, the Javanese would look forward to the coming of a ruler who would bring justice to them. Situations in the 19th and early 20th centuries were examples of such events. The introduction of the Cultivation System to Java in the early 19th century brought suffering to most of the Javanese (see Chapter 2). By the beginning of the 20th century, their waiting for the Just King was ripe. All of these beliefs and events, as we can see later, helped Soekarno define himself.

When Soekarno was about six years old, his father was promoted to be a mantri-guru (a native school-master, one of the levels for teachers) and moved to Mojokerto, another city in East Java. Soekarno grew up in that city. His father was a Theosophist
who kept a small library in his home, where little Soekarno often came and read.\textsuperscript{26} Even though his parents were relatively well born, maintaining the family and household was not easy. In his \textit{Autobiography}, Soekarno described his childhood experience as being, ‘...so poor [that] we could barely eat rice once a day.’ (Soekarno 1965a: 23).\textsuperscript{27} These privations are probably exaggerated, since Soekarno was able to attend an elementary school where the majority of the students were Dutch children. Soekarno told a story how he was often discriminated against by Dutch boys during the soccer matches.

As a \textit{mantri-guru}, the father knew many important people, so when Soekarno finished elementary school, the father sent him back to Surabaya. There, Soekarno lived with an acquaintance of his father, O.S. Tjokroaminoto, the leader of \textit{Syarekat Islam} (Islamic Union, known by its abbreviation, SI), a religious organization that also was related to the Indonesian nationalist movement.\textsuperscript{28} It was in Tjokroaminoto’s house that Soekarno developed his nationalist ideas through readings and meetings with many Indonesian political leaders, including Agus Salim (an Islamic leader, member of the \textit{Volksraad} or People’s Council), Soewardi Soerjaningrat (who later became Ki Hajar Dewantara, a founder of an educational reform movement), and Hendrick Sneevliet (a

\begin{footnotesize}
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\item \textsuperscript{26} Theosophy is a set of beliefs that claims to be in existence since the time of ancient Greece. The adherents believe in ‘Divine Wisdom’ such as that possessed by the Gods, whether Greek Gods or Hindu Gods. Their motto is ‘There is no religion higher than truth.’ Some of them try to reconcile every system of religion by appealing to similar part of those religions, such as in ethics (see Blavatsky 1896).
\item \textsuperscript{27} John Legge considers the description to be something of an exaggeration because Soekarno’s father was not only a \textit{priyayi} but also a \textit{mantri-guru}, a position that would make him relatively well off compared to many ordinary people (Legge 1972:19.).
\item \textsuperscript{28} \textit{Syarekat Islam} was Established in 1911 as \textit{Syarekat Dagang Islam} (Islamic Trade Union), was initially a Javanese Batik trader cooperative set up to compete with Chinese traders. Later, it developed into an Indonesian nationalist movement where the term ‘Islam’ reflected more about the general awareness that the members were Muslim while the Chinese and the Dutch were not (Ricklefs 2001: 210). By the end of the 1910s, the organization claimed to have more than two million members, spread from Java to other Islands, although the base was still in Surabaya.
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Dutchman, founder of the Indies Communist Party) (Legge 1972: 54). Discussions with such prominent leaders helped build young Soekarno’s mind. Soon, he was actively involved in the national movement, starting with being a member of Tri Koro Darmo, (a subsidiary organization of Boedi Otomo—the first nationalist movement), and later becoming a contributor to Oetoesan Hindia (Messanger of the Indies), Syarekat Islam’s newspaper published in Surabaya.

In 1921, Soekarno finished high school and left Surabaya to enter the Technical College at Bandung. There, he further developed his political ideas in discussions with some political activists such as Tan Malaka (a communist leader) and Douwes Dekker. Soekarno was interested in Dekker’s approach to Indonesian nationalism, which rejected Syarekat Islam’s religious base as well as Communist’s doctrinaire approach.

At the time, the issue of Islam versus Marxism had become a thorn in the flesh of the nationalist movements. After a period of working together in 1910s, some Islamic leaders—including Tjokroaminoto—started to express their concern about the influence of Marxism in Islamic organizations. In fact, Tjokroaminoto’s organization, the Syarekat Islam, was split into several factions; some of them were sympathetic to the communists. The movements were also marred by tension between different social classes. Many Javanese leaders—including those who served in the Volksraad were of priyayi class, and preferred a gradual change in relations with the Dutch. Meanwhile, the more radical groups, mostly the young, preferred immediate independence.

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29 He was a Eurasian who was sympathetic to Indonesian nationalism. His grandfather, E.D. Dekker, was the author of the book Max Havelaar, written under the pseudo-name of Multatuli.
Soekarno's gift as a charismatic person was something that the would-be nation badly needed, a call that he was happy to fulfill. His first endeavor was helping to form the General Study Club, a forum where radical political activists met and discussed their ideas. Most of the members were opposed to the idea of gradual changes in relations with the Dutch. The Club later published its own newspaper, called *Suluh Indonesia Muda*. Soekarno frequently wrote articles for the newspaper, sometimes under the pseudonym of Bima—another character from the Mahabharata. After receiving his engineering degree, he became even more active in the nationalist movement.\(^{30}\)

Soekarno's political conviction was shown clearly in a series of articles he wrote in 1926, entitled *Islam, Nationalism, and Marxism*. In it, he argued that despite their differences, the three big ideologies of the time—nationalism, Islam, and Marxism—actually were facing the same enemy: Western capitalism and imperialism. Hence, he argued, the leaders of those three groups must work together. Instead of calling for people to put aside their differences, he called for their collaboration through a new understanding of each other.

Soekarno appealed to the concepts of nationalism offered by Ernest Renan and Otto Bauer, which defined a nation not based on religious, linguistic, or geographical characteristics, but on similar aspirations and understanding that make people part of one group. He made a distinction between 'Western' nationalism, which he thought was a nationalism based on self-interest and led to imperialism, and 'Eastern' nationalism, which he argued comes from humanity (Soekarno 2000(1926): 7, 14). The aspiration of

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\(^{30}\) Per his own admission, he never felt he would be a good engineer because he was not good at mathematics (Soekarno 1965a: 66)
Indonesian nationalism was to reach peace with other nations; but the goal would not be reached as long as the Western imperialists were still dominant. For this reason, he called the nationalists to work together with the Muslims and the Marxists in fighting against the Western imperialists.

To Muslims, he appealed to a part of Koran where Muslims are called to work for and love the country they live in (which in this case, would be Indonesia). He also argued that Marxist hostility to religion was actually hostility toward Christianity based on their mutual history in Europe, not necessarily to other religions. To Marxists, Soekarno pointed out that in order to be successful, they needed a new strategy in Asia, different from that which had prevailed in Europe. In Indonesia, for example, Muslims were struggling against the colonialists so Marxists needed to work together with them. Soekarno wrote, 'Syarikat Islam Party, Minahasa Federation, Indonesian Communist Party, and so on... each has nationalist spirit, Islamic spirit, or Marxist spirit. Can't those spirits, which are under colonial politics, work together to be one big spirit, the spirit of unity?' (Soekarno 2000(1926): 6). The theme of unity against Western imperialism became the main concern in his political life.

The Study Club later attracted leaders from other factions in the nationalist movement, including those who had just finished their education in the Netherlands and members of other organizations, such as the Syarikat Islam. In 1927, they formed a new organization called the Perserikatan Nasional Indonesia (PNI, Indonesian Nationalist Association) with Soekarno as its chairman. The organization later evolved into the Partai Nasional Indonesia, which maintained its abbreviation, PNI. The party became
Soekarno's main vehicle in the political arena, up to the 1960s. In the same year, the nationalist organizations also formed PPPKI (*Permufakatan Perhimpunan Politik Kebangsaan Indonesia*, Consensus of Political Associations of Indonesia), which basically was a federation of different movements.  

Soekarno was a charismatic speaker who could hypnotize his listeners whenever he gave a speech. He used this gift to spread the idea of nationalism to different communities, persuading the masses to accept the idea of Indonesian independence. His political activism led to his arrest in 1929, together with three other PNI members. They were kept in Banjeuy prison in Bandung, where they awaited for the trial in 1930. The charges against them were basically that PNI created disturbances that threatened public order and tranquility. Some PNI members who were professional lawyers assisted in the trial, but Soekarno chose to defend himself. The speech, called 'Indonesia Accuses', was modeled after Hatta's defense in the Netherlands a couple years before. Soekarno also used the trial to lay the case for the Indonesian national struggle. First he talked about the relationship between capitalism and imperialism, appealing to Lenin's thesis on capitalism  

Then, he moved to the condition in Indonesia at the time where he discussed the Jayabaya prophesy about *Ratu Adil* that would come to bring justice to the Javanese. It was in this light, he argued, that PNI was revolutionary, but not dangerous (Legge

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31 The term 'Permufakatan' was used because of Soekarno's suggestion. It refers to the way traditional Javanese village communities make decision, which was not based on majority rule but was based on *mufakat* system. In this system, different parties would discuss their differences and try to find a compromise. Once the compromise is reached, that is when everybody is said to agree or *mufakat*. Soekarno tried to use the system on the modern political parties (Dahm 1968: 82. See also Soekarno 1972(1959): 111).

32 Lenin argued imperialism exists when high-stage capitalists are running out of market in their own countries so that they have to go to another country (Lenin 1939).
1972: 110-116). Unlike Hatta, who was tried in the Netherlands, where the judges received more pressure to be fair, Soekarno was tried in Bandung where such pressure was lacking. As a result, while he was successful in arousing nationalism among Indonesians, he failed to convince the judges to free him. The four PNI activists were convicted with different sentences. Soekarno received four years. He was kept in Sukamiskin prison. His professional lawyers, however, appealed to the Supreme Court of Justice in Batavia (currently Jakarta), and they managed to secure a reduced sentence for Soekarno. He was freed in late 1931.

The result of the trial was serious. Thinking that the PNI would not be able to operate freely any longer, its leaders decided to dissolve the party. A new party was created, called *Partai Indonesia* (Partindo).\(^3\) In the 1930s, however, it was clear that Soekarno's efforts to synthesize different strands of Indonesian nationalism were not achieving what he wanted. Still, he kept trying to raise nationalistic feelings by speaking at mass meetings. As a result, in 1933 Soekarno was again arrested. This time, he was sent to Endeh in Flores, and then to Bengkulu in Sumatra. In exile, Soekarno returned to his study of Islam, specifically the issue of the state-religion relationship. His position was that Islam needed to accept modernity. He sharply criticized Muslim leaders who labeled everything from the West 'kafir' (infidel) (Soekarno 1959:438-451). He was also allowed to contribute writings to the newspaper or magazines. In one of his writings, he wrote about himself, and asked a question: 'What is Soekarno? A nationalist? An

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\(^{33}\) As discussed previously, Hatta, who at the time was still in the Netherlands, was not amused with developments in Indonesia. He later formed a new party called *Pendidikan Nasional Indonesia*, with the same abbreviation, PNI. To distinguish themselves with the 'old' PNI, they usually added qualifier 'new' PNI.
Islamist? A Marxist? Readers, Soekarno is a mixture of all these isms.' (Legge 1972: 142). He was still in exile when the Japanese took over the Indies.

During the Japanese occupation, Soekarno was often in a dilemma as to whether to cooperate with the Japanese or not. However, unlike Hatta, Soekarno firmly believed that the Japanese would win the war. Soekarno’s predisposition about Asian unity against the imperialist West seemed to influence this view.

In 1945, when the Japanese formed the Body for Indonesian Independence Preparation, he was appointed one of its members. In one of the meetings, somebody asked what the foundation for the new country would be. It triggered a debate between those who wanted Indonesia to be an Islamic country, and those who wanted it to be a secular country—this side comprised of the nationalists and the non-Muslim groups, especially those who were from the eastern part of Indonesia. Soekarno suggested a middle ground: the country would not be based on the Islamic principles; yet it would not be a secular one either. He suggested five principles that consisted of (1) nationalism, (2) internationalism, (3) democracy (musyawarah /deliberation), (4) social justice, and (5) belief in One God (Soekarno 1965a: 197). Later he called these five principles Pancasila (from Sanskrit words, Panca = five, and sila = foundation/principles). The committee accepted his suggestion with some adjustments, and Pancasila has remained the official state ideology of Indonesia until today. Later on, the Committee also chose Soekarno as the country’s first president and Hatta as its vice president.

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34 The accepted and official words and order of Pancasila itself, which appears in the Preamble of the 1945 Constitution, were different from Soekarno’s.
Even though Soekarno and Hatta proclaimed the independence of Indonesia in 1945, it was only in 1949 (at the end of an international conference known as the Round Table Conference) that the Netherlands and many other countries finally recognized Indonesia as an independent country. In 1950, the country replaced the 1945 Constitution with the 1950 Provisional Constitution. According to the new constitution, the Indonesian governmental system became parliamentary with the president as the head of the state and a prime minister as the head of the government.

During the liberal parliamentary system, political parties often clashed with each other, which resulted in several short-term governments as none of the prime ministers held this position for a long period of time. In 1955, the country held elections to elect members of parliament as well as members of the Konstituante or Constitution Assembly, a body to draft a new constitution (to replace the provisional one). However, no party won a substantial majority. Soekarno’s party, the Indonesian National Party (which had been re-activated following independence), received only about 22 percent of the votes; two Islamic parties, the modern-oriented Masjumi and the traditional Javanese-base Nahdatul Ulama received 21 percent and 18 percent respectively; while the Indonesian Communist Party received about 16 percent. The number of parties in the parliament increased from 20 to 28 (Ricklefs 2001: 304). As a result, the political stalemate continued.

During that time, Hatta was still a vice president (and a prime minister in the early 1950s), but his relationship with Soekarno became strained. Soekarno’s willingness to use (or at least approve) authoritarian measures to advance his agenda, such as silencing
political opponents, upset Hatta (Lubis 1986). Finally, he resigned from the vice presidency in 1956. Soekarno did not try to find a replacement.

Meanwhile, Soekarno brought his fight against imperialism and capitalism to the international arena. He organized the first Asian-African Congress in 1955, which was attended by leaders from 29 countries, included Nehru of India and Chou En Lai of China. His position in the international arena was rising. Soekarno was seen as one of the leaders of the Third World.

Inside the country, the political situation following the elections was marred by many internal conflicts. Divisions among parties, among regions, and among different groups led to several attempts to break away from Jakarta. Soekarno tried hard to solve the conflicts with the help of the military and his allies in the parliaments, including the communists. He also became disillusioned with the parliamentary system and called for a different system. He argued that liberal democracy was a Western import, unsuited to Indonesia’s needs. Indonesia’s traditional procedures, he argued, were based on deliberation to reach a consensus, not 50 percent plus one vote as in liberal democracy (Legge 1972:3).35

In 1959, impatient with what he perceived as slow progress on the part of the Constitution Assembly, Soekarno announced a Presidential Decree that dissolved the Constitution Assembly and proclaimed that the country would return to the 1945

35 Soekarno often made a reference to the ‘village community’ as a model of political and economic organization of the country where decisions were made through consensus after deliberation. He acknowledged, however, that with the size of the country, some representative system was needed. This view was reflected in one of the principles in the official state ideology, Pancasila. The fourth principle says, ‘Democracy guided by the inner wisdom in the unanimity arising out of deliberations amongst representatives.’
Constitution. A year later, when the parliament refused to approve the budget he submitted, Soekarno dissolved the elected parliament and formed a new parliament with people of his choice (Ricklefs 2001: 324). This is the official beginning of the ‘Guided Democracy / Guided Economy’ era, although the seeds had been sown since 1956 (Mintz 1965: 163).

During the Guided Democracy/ Guided Economy, Soekarno again pushed for the idea that he had espoused since the 1920s: that the nationalists, the Muslims, and the Communists must work together. He formalized the idea in the concept of Nasakom (nationalism, agama/religion, and communism).

3.2.2 Soekarno’s Economic Visions

Compared to Hatta’s, Soekarno’s economic ideas were not systematic. Still, we can find two major related themes in his ideas. They are Marhaenism and the Guided Democracy/Guided Economy.

According to Soekarno, a Marhaenist, ‘...is a person with small means; a little man with little ownerships, little tools, sufficient to himself. Our tens of millions of impoverished souls work for no person and no person works for them. There is no exploitation of one man by another. Marhaenism is Indonesian Socialism in operation.’ He claimed that he got the idea in the late 1920s after meeting a Sundanese farmer named Marhaen (Soekarno 1965a: 63.)

Soekarno often made a claim that Marhaenists were the Indonesian proletarians. In a short article that appeared in Fikiran Rakyat newspaper, Soekarno wrote: ‘Marhaen is
Indonesian proletariat, poor Indonesian farmers and other poor. *Marhaenism* is socio-nationalism, socio-democracy. *Marhaneism* is a way and principle that want to erase capitalism and imperialism’ (Soekarno 1959:253). The categorization was not correct as Marx considered independent peasants petty bourgeois, not proletariats. However, for Soekarno the majority—if not all Indonesians—were *Marhaens* who suffered under the Western capitalist-imperialist. Hence, for him the struggle of Indonesian independence to get independence is parallel to those of proletariats’. The last point underlines Soekarno’s all-time obsession: a complete elimination of capitalism and imperialism from earth.\(^{36}\)

This brings us to Soekarno’s second economic vision: the double-edged Guided Democracy/ Guided Economy. Since capitalism and imperialism still existed, for Soekarno the Indonesian revolution had to continue.\(^{37}\) For this reason, Soekarno asked Indonesians to keep the struggle; part of it was economic struggle. In one of his speeches, he said,

Perhaps somebody would ask, why does the president always ask the leaders to be in the revolution? Hasn’t there been enough suffering from the revolution? Why does the president always suggest: continue the revolution, while everybody knows that revolution is a suffering, sacrificing when it is needed, toiling, without any guarantee that the promise of the revolution would hold? If anybody said that to me, I would answer: so long as no mother comes to me, and blames me, that her son is continuing the revolution; so long as no mother accuses me of making her son struggle, suffer, and sacrifice; so long as no

\(^{36}\) By this, he did not mean only in Indonesia. He was very sympathetic to Trotsky’s argument that communism could not be contained in Russia only, that it had to be spread to other places as well since it would not be possible to fight against international capitalism in one country.

\(^{37}\) This is the opposite of Hatta who saw the economy as the goal of the political struggle. He said, ‘The form of all politics is to improve the lives of the poor.’ (Noer 1990: 160). As for revolution, in 1956, he wrote, ‘It is wrong for people to say that our national revolution has not finished... Revolution shakes the floor and the hinges, it loosen the bolts and the pillars ... That is why the duration of the revolution cannot be long, not more than several weeks or months. After that, (revolution) has to be controlled, come the consolidation period to bring the results of the revolution into realization’ (Noer 1990).
mother says such a thing to me, I would keep saying: the Indonesian revolution has not ended. (Soekarno 2001(1960): 165).

On the anniversary of the Indonesian independence proclamation, August 17, 1959, he declared the ‘Rediscovery of Our Revolution.’ In the speech that he called ‘Manipol’ (Manifesto Politik, a reference to Marx’s Manifesto), Soekarno made a reference to Dante’s Divine Comedy, where the character had to go through hell to reach heaven.38 While he did not mention it explicitly, this was also a reference to the idea of Ratu Adil who was believed to come after a period of suffering.

In the next several years, Soekarno kept using different jargon and symbolism to underline national power and prestige. He built the Indonesian military from an insignificant state in the mid 1950s to become a strong one (albeit second class) in the early 1960s. He built a stadium to host the 1962 Asian Games, and also to host the 1963 New Emerging Forces, something he envisioned to be the counterpart of the Olympic Games. He also built the National Monument that was meant to be higher than the Eifel Tower. Moreover, Soekarno started Confrontation Politics, first to free West Papua, and then against Malaysia; all of which took significant resources of the country (see Feith 1967).

This is not to say that Soekarno did not try to improve the economic situation. As his vision was based on a socialistic idea, he relied on planning. In 1959, he formed the National Planning Board, which in 1961 produced the National Overall Development

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38 Soekarno said, ‘... I feel like Dante in Divine Comedy. I feel that our revolution also had to suffer tortures from Hell and later, by returning to the 1945 Constitution, we are in the process of purification. In the purgatory... so that later after being cleaned, we can enter the happiness of a just and prosper society Heaven.’ (Soekarno 1959).
Plan, an 8-year plan that covered not only an economic plan but also a social plan.\(^{39}\) It was based on Soekarno’s *Manifesto Politik* and his five other main points that he called USDEK.\(^{40}\) The massive plan was seen as a blueprint of Indonesian development. However, a blueprint alone, Soekarno argued, would not work without people who are well organized under an effective leader. In December 1960, the Provincial People’s Assembly gave Soekarno a new title: the Great Leader of Indonesian Revolution.\(^{41}\) With it, every important piece in the narrative of Guided Democracy/ Economy was now completed: (1) The idea that Indonesia’s revolution had not ended but was still going on, (2) a blueprint that was agreed upon by the people—through various national bodies and committees—on how to carry out the revolution, and finally, (3) a great leader to guide the nation in implementing the blueprint.\(^{42}\)

Fully aware of his position, Soekarno said, ‘...Then I call for all people, including the members of the Provincial People’s Assembly, to follow, to implement my lead. Suppose I were an Army general, then I would expect all soldiers to follow the general’s lead!’ (Soekarno 2001(1963): 212).

It was now obvious that Guided Democracy/ Guided Economy was a democracy or an economy guided by him. However, as Legge noted, Soekarno’s Guided Democracy/Guided Economy does not necessarily follow the typical dictatorship we saw in Latin

\(^{39}\) In his speech to the National Planning Board, August 28, 1959, he said, ‘... your job is not only making a plan for one area. No! The Board does the overall planning, a universal planning, which covers all areas: economy, culture, mental, etc.’ (Soekarno 2001(1959): 91). This was not the first time Indonesia made a national plan. In the early and mid 1950s such attempts were made (see Zahri 1969).

\(^{40}\) USDEK is an acronym that refers to five things: the 1945 Constitution, Socialism a la Indonesia, Guided Democracy, Guided Economy, and Indonesian Identity (Mintz 1965: 162).

\(^{41}\) It was continued with the appointment of Soekarno as President for life in 1963.

\(^{42}\) Soekarno put these 3 pieces together and called it Re- So – Pim (*revolusi, sosialisme Indonesia, pimpinan nasional, or revolution*, Indonesian socialism, and national leadership). (Soekarno 1961).
America where no opposition is allowed. Soekarno allowed opposition, and sometimes he let the opposite sides clash so that he could come and become the ‘savior’ that all sides had to accept. Soekarno himself preferred to see his role as a conductor in a symphony.

In short, Soekarno put the economic vision under political vision (the common term used by Indonesians to describe Soekarno’s vision was ‘Politics as Commander’). For him, while important, the economic vision should be placed under the big umbrella of continuing revolution. By revolution, he meant the fighting against imperialism and capitalism. In 1963 he issued an Economic Declaration, the economic counterpart of the Manifesto Politik. In it, he divided the revolution into two stages: the first stage was the elimination of all elements of imperialism in Indonesia, and the second stage was the realization of socialism a la Indonesia. At that time, he argued, Indonesia was still in the first stage. Only two years later, he declared that Indonesia had entered the second stage.

As the Great Leader of the Revolution, he got to choose the priorities and strategies, even if it was against the blueprint that had been decided beforehand.

Like Hatta, Soekarno’s goal of Indonesian development was a Just and Prosperous Society, which for both seemed to be the same as achieving socialism. Their starting points for development were also the same: the rich natural resources and size of the Indonesian population. However, while both Soekarno and Hatta called their vision ‘Socialism à la Indonesia,’ there are some differences in the way they understood the term. Soekarno’s vision relied on the political situation. He would not object to achieving a socialist society through state control with one ruling party (or very few) as in communist countries such as China or Soviet Union. Meanwhile, Hatta was always
consistent in his vision: achieving a socialist society through the cooperative. In Hatta’s view, communism contradicts the cooperative because the former relies on dictatorship and the latter on democratic principles (Hatta 1981: 87).

The difference between these two leaders may be attributed to the differences in their background. Hatta’s background (religious upbringing, a more egalitarian Minangkabau culture, academic experience, and residence in the Netherlands for about a decade) influenced his vision. While he also supported the existence of national planning (informed by his socialism) so that the nation would not rely on the market, his commitment to liberal democracy prevented him from putting trust in one party, whether it was a political group or a person.

Meanwhile, Soekarno’s background (different ethnic parents, a Theosophist father, a blurry boundaries and the emphasis on harmony found in Javanese philosophy) made him focus more on the unifying aspect of the vision, sometimes to the extent that he underestimated the real conflict that adhered to certain ideas. Hence, Soekarno was more open to communist ideas, something that Hatta opposed.
CHAPTER 4
CAPITALIST VISIONS

Entering the mid 1960s, several years after Soekarno introduced his Guided Economy, the country drifted to the left. Soekarno established the axis of Jakarta-Pyong Yang-Beijing, and stepped up his rhetoric against the West especially in relation to two major conflicts at the time: the West Irian campaign (1960-1963), and the confrontation against the British-supported Federation of Malaysia (1963-1966)—who Soekarno claimed to be advancing imperialist interests in Southeast Asia. Subsequently, in 1965 Indonesia became the first country to withdraw its membership from the United Nations when the country resigned over the objection against the inclusion of Malaysia in the international body. With government support, the Indonesian Communist Party-led actions against foreign companies and Western interests were frequent (Dick 2002: 187-188).

By the late 1965 and early 1966, the economy was in trouble. Inflation was about 900% (Dick 2002: 192). In most big cities but especially in Jakarta, student protests were rampant. In this situation, Soeharto, an Army General, became the facto leader of the country. He would lead the country for the next three decades. Soeharto relied on his ministers in the formulation of an economic vision for the country. Two individuals stood out: Widjojo Nitisastro and B.J. Habibie, whose economic visions will be discussed in this chapter.

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1 Soekarno was forced to step down officially from the presidency in 1967, and was detained under house arrest, where he died in 1970.
4.1 Widjojo Nitisastro

4.1.1 Primus Inter Pares among the Technocrats

Widjojo was born in Malang, a medium-size city in East Java, on September 27, 1927, but grew up in Surabaya, the capital of the province of East Java. Little is known about his childhood except that he came from a nationalist family and that many family members were teachers. His father was a teacher who was also an active member of Partai Indonesia Raya. While Widjojo was in high school in the mid 1940s, the Revolution broke out. He joined Tentara Republik Indonesia Pelajar (Republican Youth Army), and was considered brave by many of his colleagues.

After the war he enrolled in the Faculty of Economics of the University of Indonesia (FEUI). Since the very beginning, it was clear that Widjojo was special and would be a rising star in Indonesia’s economic arena. During his study at the FEUI, he assisted Dr. Nathan Keyfitz, a prominent Harvard demographer, in conducting a study on economic development and population. Widjojo co-authored the report. Hatta was so impressed by the report that he wrote the introduction: ‘An Indonesian with such knowledge of his homeland, has been able to work with a Canadian statistician... formulating his thoughts and writing a book of good quality’ (Keyfitz and Nitisastro 1959). The research marked the beginning of Widjojo’s long involvement in population issues, an area that was not considered important by many economists at the time.3

2 Like many Indonesians, Widjojo Nitisastro goes by his first name; hence, we refer to him simply as Widjojo.
3 Hatta actually had already written several articles on population issues, although his attention was focused on population distribution (Hatta 1960: 154-176). Widjojo claimed that it was Hatta’s writings that attracted him to population issues (Nitisastro 1980: 643).
In 1955, Widjojo graduated from FEUI. That same year, two things happened that would mark him as one of Indonesia’s most prominent economists. First, he replaced Sumitro Djojohadikusumo, another senior economist from FEUI, and became the head of FEUI’s Institute for Economic and Social Research. He was the first FEUI graduate to hold that position. Second, Widjojo engaged in a public debate with Wilopo, a former Prime Minister of Indonesia. The debate was crucial for two reasons. First, it was held a few days before the 1955 General Election, the country’s first election, and three months before the election of the Constituent Assembly, a body whose task was to produce a new constitution. As such, a debate between two intellectuals was likely to provide guidance for the people before going to the voting booth. Second, from this debate we can clearly recognize Widjojo’s vision for the Indonesian economy, a vision that remained unchanged for many years, including the time he was in a decision-making position.

In 1957, Widjojo left to pursue his Ph.D. in economics at the University of California at Berkeley under a Ford Foundation scholarship. In Berkeley, Widjojo often held discussions on social, political, and economic issues with other Indonesian economics students such as Ali Wardana, Soebroto, and Emil Salim. They all later worked together in the Soeharto government. Widjojo graduated in 1961 with a dissertation on the Indonesian population. He returned to Indonesia and was appointed a professor at the University of Indonesia in 1962. Under the Indonesian academic system

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4 Prior to being a prime minister, Wilopo also held various positions such as Minister of Trade, Minister of Labor, etc.
5 His professors in Berkeley included Andreas Papandreou (who later became Prime Minister of Greece) and Harvey Leibenstein, a development economist who was also an expert in population issues.
6 Widjojo was the first Indonesian expert that used formal demography to project the population (see Ananta and Wongkaren 1997).
that followed the European style, someone who was appointed professor had to give an inaugural lecture in a public seminar. Widjojo’s lecture was entitled, ‘Economic Analysis and Development Plan’. The lecture showcased Widjojo’s economic vision: the importance of rational decision based on price mechanism to allocate resources; at the same time, it also underlined his understanding about the need for the government to make a general plan for the economy and to intervene if needed. However, the lecture was quite ‘sterile’, that is, it did not mention any specific event or government policy of that period. It was obvious that Widjojo avoided any direct criticism of Soekarno’s policies.

In 1964, Widjojo was appointed the Dean of FEUI, and resumed his position as the head of Institute for Economic and Social Research. In the same year, he also established the Demographic Institute in the FEUI. Widjojo’s interest in population issues would later clearly influence Indonesian Government policies. Outside FEUI, Widjojo served as the director of Institute for National Economy and Culture (Leknas), a think-tank under the Indonesian Institute of Sciences. This position gave him the opportunity to meet other social scientists outside the economics department.

After a failed-attempt coup by the Indonesian Communist Party (PKI) leaders in September 30/October 1, the situation started to become chaotic. Five Army generals were killed, including the Army Chief, General Yani. This made General Soeharto, then the commander of the Army Strategic Reserve, the de facto Army leader. At that time, it was clear that Soekarno’s attempts in pushing the country to accept his Nasakom (nationalism, agama/religion, communism) had failed. The October event led to a
massacre of communists, mostly by civilians, without any ramification from the police or the military.\(^7\)

In January 1966, President Soekarno was on the brink of his fall. Angry at the economic situation brought about by the Guided Economy, student organizations were holding almost daily protests in Jakarta. When the Action Committee of Indonesian Students (KAMI) held an economic seminar entitled, ‘The Leader, The Man, and the Gun’ which featured several prominent economists, military leaders, and government officials, Widjojo—at the time still the Dean—was one of the speakers. In his presentation, Widjojo laid out fierce criticisms against government actions that raised the price of gasoline and used the state-owned enterprises as its cash cows (Nitisastro 1984).\(^8\)

Under the pressures from the students and the Army, Soekarno gave Soeharto a letter of instruction, which basically allowed Soeharto to take all measures considered necessary to stabilize the situation. The letter, given on March 11, was interpreted by Soeharto as a transfer of power. The first action that he took was to ban the Indonesian Communist Party. Soekarno said that it was not what he meant, but he never rescinded the letter (Bresnan 1994: 35-36).

In the meantime, Widjojo and other young economists from FEUI started to ‘educate’ the political elites, including the parliament members, about the importance of rational economic policies. When the parliament, called the Provincial People’s Consultative Assembly (MPRS), met in June, its tone was very different from that of

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7 There have been debates about the role of the Army in the massacre. For a recent discussion on the issue, see Friend (2003).
8 Widjojo repeated his criticisms about the economic and political situations in a seminar called 'Mencari Tracee Baru' (In Search of a New Path), held in June.
several years before, despite the fact that the many of the members were the same. Now without a single communist member, MPRS broke away from socialist rhetoric. In the statement on the economy, finance, and development, the MPR set up the fundamental change from ‘Politics as the Commander’ into ‘Economy as the Commander’.

Writing a commentary, Widjojo said that the statement was seen as a correction of the deviations from the 1945 Constitution. He listed three deviations that the previous government had committed. First, there was no check and balance on the government’s actions. Widjojo noted that the constitution requires the parliament to monitor the presidency. However, the parliament seemed to concede their power to the government, which led to the abuse of power. This, he wrote, was against the principle of a democratic economy. Second, economic interests were always superseded by politics. The previous government’s vision that viewed ‘Politics as the Commander’ had neglected the economic sector, which had resulted in economic disaster. The third deviation was the neglect of rational economic principles in favor of the cult of personality. Here, Widjojo sharply attacked the practices of using ‘revolutionary slogans’:

Economic principles such as the need for a healthy government budget were considered conventional and text-bookish and should be avoided. Economy is supposedly taken care of by use of the great slogans that sound revolutionary. However, those slogans were only covering up the incompetence, failures, and deviations (Nitisastro 1966: 4).

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9 He was actually involved in a team that prepared the draft of the statement. The draft passed without any major change (Salim 1997: 57).

10 His not-so-subtle attacks were targeted not only towards the way the economy was managed but also towards the political situation during the last years of Soekarno, which had an impact on the school he led. During Soekarno’s Guided Democracy/ Guided Economy period, FEUI was accused of teaching capitalist economics—considered taboo at that time—so some professors and students were hiding books written by non-Marxist authors—including those by John Maynard Keynes. Widjojo and the leadership of FEUI also had to resist the government pressure to appoint more socialist faculty members (Ford Foundation 2003: 64).
Later, in August 1966, the Indonesian Army held a seminar in Bandung and the FEUI economists were invited to discuss the economic situation. The general asked, 'If you had the chance to change the economy, what would you do?' Widjojo answered with a series of plans he had in mind (Ford Foundation 2003: 51). Soeharto was very impressed, and Widjojo became part of his inner circle that provided advice on economic matters.

When Soekarno was officially removed from the presidency and Soeharto was installed as an acting president in 1967, Widjojo was appointed the Head of the National Planning Agency (Bappenas)—a position he held until 1983. Widjojo was also appointed the leader of Soeharto’s economic team. Often called the ‘technocrats’, the team consisted of Widjojo, Ali Wardhana, M. Sadli, Emil Salim, and Subroto. Each of them later held cabinet posts in Soeharto’s cabinets. Later, Radius Prawiro, and J.B. Sumarlin joined this ‘first wave’ of technocrats.

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11 Wardhana received his Ph.D. from Berkeley with expertise in monetary economics.
12 Unlike other technocrats mentioned here, Sadli did not receive his bachelor from FEUI. He received an engineering degree from Gadjah Mada University. Later, he received his Master’s degree from MIT, and Ph.D. from the University of Indonesia. He also studied in Berkeley for a short term. His expertise was in industrial economics (see Sadli 1993).
13 Salim, a Minangkabau like Hatta, graduated from Berkeley. His dissertation, under Harvey Leibenstein (see Salim 1997), was about the role of institutions in economic development. Later, he became the Minister of the Environment.
14 Subroto received his Master’s degree from McGill University, and Ph.D. from the University of Indonesia. He later became the General Secretary of OPEC. The team was sometimes dubbed the‘Berkeley Mafia,’ despite the fact that two of them graduated from different schools. One senior economist, Sumitro Djojohadikusumo (graduated from Rotterdam, like Hatta), was initially also seen as a part of the technocrats, but later he distanced himself from the group. As a more senior economist and professor of other technocrats during their undergraduate education (again, except Sadli who received his bachelor degree from Gadjah Mada University in Yogyakarta), Sumitro might have been hesitant to work as a ‘member’ of the group (Mallarengeng 2002: 73).
15 During the first two decades of Soeharto’s government, the technocrats dominated economic positions in the Coordinating Ministry of Economy, Finance and Industry, Ministry of Finance, Ministry of Trade,
The goals of the technocrats were pragmatic: (1) attracting foreign investments, (2) inviting the western powers and the multilateral financial institutions, and (3) advising the government in economic stabilization and reconstruction. The team succeeded in achieving those goals (Sadli 1997: 243).

Later, Soeharto also appointed Widjojo to various positions in his cabinets, such as Economic and Finance Coordinating Minister (1973-1983), and retained him as the senior government advisor. He even considered Widjojo for the vice presidency, but Widjojo declined the offer (Mallarangeng 2002: 114). Widjojo’s polite Javanese manners, combined with strong analytical skills, made him highly regarded. Even when Widjojo no longer held a cabinet position, the technocrats were still consulting him about economic policies. This remained true of the ‘second wave’ of the technocrats as well.19

The technocrats always tried to run the economy based on what they saw as rational macroeconomic principles. They used the 1970s oil boom for economic development. When money from the oil boom ended in the mid 1980s, they pushed for several packages of deregulation to liberalize the economy so that it could attract more

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16 Prawiro graduated from Rotterdam, like Hatta. In the mid 1960s he was the Governor of the Central Bank. Among the technocrats, he was among the strongest believer in market liberalism (Mallarangeng 2002: 114).
17 J.B. Sumarlin received his Master’s degree from Berkeley, but Ph.D. from the University of Pittsburg.
18 Indonesia was not the only country in Southeast Asia that has a group of technocrats. The Philippines, Thailand, and some other countries in the region also at one point relied on similar group of people (see Milne 1982).
19 The ‘second wave’ of technocrats was not as homogenous as the first wave in terms of alma mater. They consisted of Saleh Affif (FEUI graduate, Ph.D. from the University of Oregon), Adriamus Mooy (Gadjah Mada University graduate, Ph.D. from the University of Wisconsin), Rachmat Saleh (FEUI graduate), Arifin Siregar (bachelor’s degree from Rotterdam, Ph.D. from Muenster University in West Germany), and Sudrajad Djiwandono (bachelor’s degree from Gadjah Mada University, Ph.D. from Boston University). They all, however, regarded Widjojo as their leader (Shimaishi 2006: 13-16)
capital (from inside and outside the country) and strengthen export-oriented industries. Not everybody agreed with the technocrats, however. The challenges for the technocrats came from the protectionists (who often invoked Hatta’s vision about the importance of giving preference to non-Chinese businessmen) and from the engineers who wanted to see a more technologically-based economy to increase the value added. Up to the late 1980s, Soeharto was almost always firmly behind the technocrats (see Mallarenengeng 2002).

In general, the technocrats delivered good results. The real annual GDP per capita growth in mid 1960s was about zero percent but in the early 1990s it was about 5 percent. Hal Hill, an Australian economist with the Australian National University wrote:

A brief comparison of economic conditions and indicators at the outset of the New Order period and more than 25 years later is a useful reminder that, immense though Indonesia’s current economic challenges are, the achievements have been quite extraordinary in many respects. According to virtually every indicator, the improvements between the mid 1960s and the early 1990s have been striking (Hill 2000: 4).

While it was true that international situations, especially the oil crisis in the 1970s, contributed to the success, what the technocrats did in Indonesia was not trivial. Hill compared Indonesia’s economic performance with several groups of countries that share some similarities with Indonesia: Southeast Asia countries, the Asian Giants (China and India), and OPEC (petroleum exporter) countries. He wrote,

Indonesia has performed well by most comparative indicators, economic and social. Its per capita GNP is less than that of most of its East Asian neighbors, at official exchange rates and in purchasing power parity terms, although among the countries selected in the sample it exceeds that of the two Asian Giants (China and India) and Nigeria. From 1965 to 1992 it grew faster than most of them, the exceptions being China, another country which enacted
major reform during this period, and Thailand (with a very small margin). Agriculture played a key role in this superior record, with Indonesia among the top performers both in the growth of output and food production, again exceeded only by the two East Asian stars (Hill 2000: 5).

In the early 1990s, however, Soeharto began considering alternative directions. While still keeping Widjojo in the government as a senior advisor, Soeharto started to listen more to the engineering group, called 'the technologists', under leadership of B.J. Habibie, his Minister of Research and Technology. In the Sixth Development Cabinet (1993-1998), for the first time since Soeharto became president in the late 1960s, few technocrats were appointed ministers. Many economic positions were held by people who were close to Habibie (McLeod 1993: 4-9). This, however, did not deter Widjojo. He still had an office in the Bappenas building (later moved to the Ministry of Finance building) and provided advice to the new team, although now he worked from the background. However, when the 1997 monetary crisis hit, and evolved from an economic into a political crisis, Widjojo was invited back to the foreground to lead the stabilization team. He was seen as a person who had high credibility among the donor agencies and international communities.

4.1.2 Widjojo’s Economic visions

It is noteworthy that Widjojo has never written a memoir from which we can infer his own views about the development of his economic ideas. When in 1997 the FEUI team published a series of books commemorating his 70th birthday, only academic articles or personal impressions of his friends and colleagues, ranging from academicians to
politicians, both Indonesians and non-Indonesians, were included - there was no article about his life (see Anwar, Ananta, and Kuncoro 1997).

Widjojo has written numerous articles, particularly from the late 1950s to the mid 1960s. However, there is almost nothing from the period after that. Two factors may have contributed to this lack of comprehensive writings from the later period. The first one is the environment in which he spent his career. In the Soeharto era, he held various positions that would make it difficult for him to write a complete thesis of his own economic vision without threatening his relationship with Soeharto. The second factor pertains to Widjojo’s personal character. Always a quiet and humble person, he did not like to be the center of attention. His analyses about the economic situation, however, have always been very clear and sharp.

In the debate with Wilopo, Widjojo provided his interpretation of Article 38 of the 1950 Provisional Constitution, which was identical to Article 33 of the 1945 Constitution. The issues were the agent of the economy and the role of the state. Written by Hatta, this article has been the main source of numerous debates, even today.

Wilopo fervently argued against market liberalism, and was in favor of stronger state involvement. For him, the term ‘joint endeavor’ meant no endeavor should be made for private profit. They should all be for the advancement of the society. The state, then, would be the main actor in the economy. Private enterprises should be allowed only if they operated on the principle of joint endeavor, not profit. So, according to Wilopo, the ‘agent’ is the society itself, which is manifested in the state.
Widjojo rejected Wilopo’s interpretation. ‘Joint endeavor’, for him, should be understood as a statement that there are many agents in the economy. The fact that the constitution is against market liberalism does not mean that all enterprises should be conducted by the state. A situation in which private enterprises exist and operate under price mechanisms but still under the control of the state can also mean anti-liberalism. The state simply needs to guarantee that there is an equitable distribution of income. Widjojo also stressed the importance of maintaining the balance between the distribution of income and income growth. This interpretation stayed with him and would be the main position of Indonesian economic policy decades later.

Widjojo’s main vision is his belief in maintaining rational economic decisions in economic policies. In an anthology written by scholars from different disciplines, he wrote:

The solution for each economic problem ought to be based on both technical-economic consideration and political-economic consideration. Current Indonesian economic problems are not merely technical-economic problem, but more importantly are political-economic problem. However, it is important that technical-economic consideration is not ignored. The technical-economic approach shows the inner logic in the economic process and every economic policy that ignores this inner logic would not give us the effects that we expected (Nitisastro 1965a: 23).

In his inaugural lecture for the professorship, Widjojo’s vision was even clearer. On the price mechanism, he wrote:

The consistency issue is related to price, something that receives considerable attention in economic analysis. A price formation system that is based on the meeting of supply and demand would avoid waste. Beside, a price system that ignores supply and demand forces would result in an imbalance that may jeopardize the planning efforts. However, viewed from planning methods, the prices formed in the market may need to be influenced deliberately so that we
can have the allocation of goods and resources that agree with the planning goals (Nitisastro 1965b: 10, author’s translation.)

Here, it is obvious that while advocating the use of price mechanisms, contrary to some criticism, Widjojo was not a believer in a pure laissez faire economy. Not only did he allow government intervention if needed; he also argued for deliberate price manipulation by the government in order to achieve its goals. Indeed, in the other part of the lecture, he elaborated on the role of government in the economy, which was far from an anti-government style of market liberalism. He wrote:

... the role of government in the development process consists of the following. The first task is to (create) a national development plan, which includes setting goals that should be achieved in a certain time period, mobilizing resources, and allocating the resources among alternative uses that would guarantee the achievement of the goals. The second task is to directly invest and lead the production units that result from those investments. The next task is to develop people’s potentials and creativities toward investment and production so that they can help achieve the goals set by the government (Nitisastro 1965b: 11, author’s translation.)

Widjojo’s vision of the importance of the market, while allowing government intervention and national planning, became the signature of the New Order under Soeharto—at least in the first part of his regime.

One way to understand Widjojo’s economic vision is to see the context in which he acquired his education. In the late 1950s, socialism was in its heyday in third world countries. Often, in those countries, socialist ideas were contrasted with the market liberalism as if there was no other choice. When Widjojo went to Berkeley, the Indonesian economic vision was still very much influenced by socialist ideas about planning. In Berkeley, he learned a lot about the importance of the market; so for Widjojo
the two—market and planning—seemed to go hand in hand. His efforts to combine market mechanism and economic planning became the topic of his inaugural lecture for his professorship, in which the only foreign economist he cited was Oscar Lange, an earlier proponent of market socialism.

Following the work of Arthur Lewis on economic planning, Widjojo seemed to use a combination of two types of planning: planning-by-direction (which uses non-price mechanism, such as setting a target for production, etc.) and planning by inducing price through subsidies, taxes, etc. As we have seen, Hatta did not think that the second type would work in Indonesia.

In the meantime, the 1950s also saw the rise of Keynesian economics, based on the ideas of John Maynard Keynes. These ideas are basically about how to achieve economic growth through the market. However, Keynes did not believe in a laissez-faire economy. In the mid 1926, for instance, he wrote that the laissez-faire economy had ended. His main work, the General Equilibrium, was seen as a new paradigm in economics, as it was the beginning of ‘macroeconomics theory’ as opposed to the ‘microeconomics theory’ (Hall 1989a).

According to the classical laissez-faire economics, the market would ‘clear’ itself, that is, the aggregate supply would create aggregate demand, through the invisible hand suggested by Adam Smith. This, however, did not happen in the 1930s, when the world was caught up in the great depression. Keynes argued that while the aggregate supply side was in place (in the form of capacity to produce, workers, etc.), there was no aggregate demand side that would absorb the labor offered by the supply side. He
suggested that the government should stimulate the demand side by increasing the expenditures. Keynes' influences in the United Kingdom and the United States during late 1930s and the World War II, later spread to other countries (See Weir 1989, Hirschman 1989). The dissemination of Keynesian economics, among others, was facilitated by the use of the standard economics textbook written by Paul Samuelson.

In the Indonesian context, Keynesian economics seemed to be confirmed in the 1970s as the government benefited from the high price of world oil. Taking a different road from China or India in the 1960s-1970s, which put stress on the development of heavy industry, Indonesia under the technocrats decided to prioritize the development of agriculture and rural areas. They emphasised the development of a physical infrastructure such as improvement of irrigation, roads, water supply, and sanitation (Salim 1997: 57-58).

Another issue that has always been part of Widjojo's vision is population control. Here, again, we see his emphasis on planning. Informed by Neo-Malthusian ideas, Widjojo saw the importance of reducing population growth as part of economic policies. In contrast to Soekarno, Widjojo did not see the large size of the Indonesian population as necessarily advantageous. In the conclusion of his book on the population of Indonesia, he wrote:

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20 Some people have argued that Keynesianism is not very different from classical (or neoclassical) theories (see Manicas 2006: 191-194). While this may be true, one cannot dismiss the changes that Keynes' works brought to economic policies during the mid to the end of 20th century (see Hall 1989b).

21 When one of the technocrats, Sadli, received his Master's degree from MIT, Samuelson was one of his professors (Sadli 1993: 37).

22 Emil Salim explained that the strategy was chosen because they realized that in the very early stage of development industrialization would benefit the urban center. For this reason, Salim said, he was 'puzzled by the allegation that the technocrats only became concerned about equity at a later stage (Salim 1997: 57-58).
Thus, the high rate of population increase, the large burden of child dependency, the rapid process of urban growth, the heavy concentration on a relatively small island, and the radical rejuvenation of the working-age population, all point sharply to the need for a massive development effort to create expanding employment opportunities, accompanied by a rapid spread of fertility control. (Nitisastro 1970: 238).

Widjojo pushed for a change in population policy, from pro-natalist under Soekarno to anti-natalist under Soeharto (see Ananta and Wongkaren 1997). He also, however, pushed for the continuation of the transmigration program, a program to redistribute population from high-density islands like Java and Madura to other islands. All of this needs planning, although the planning was not as strict as in socialist countries.

Despite of the use of planning in their vision, the technocrats were all pragmatic (see Azis 1997, Sadli 1997). When the oil boom ended in the early 1980s, and the government could not provide money as it had done before, the technocrats started to make adjustments. They embraced free-market liberalism openly by introducing a series of deregulations aimed at mobilizing more resources from the private sector and strengthening the export-oriented industrial strategy.23

The choice of going with liberalism solved the problem of lack of resources after the oil-boom ended. The economy grew with a higher contribution of the private sector (Hill 2000: 110). However, the growth of the private sector, led by many companies

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23 The introduction of the deregulation packages was had connections with developments in the international arena. The elections of Margaret Thatcher in the United Kingdom and Ronald Reagan in the United States show the rise of free-market liberalism. Such slogan as 'Get the Price Right' was the buzzword in the international economic community. For more detail on the deregulation packages, see Azis (1994).
owned by Chinese Indonesians, opened up strong criticisms about the direction of the economy.

At the end, we see that the economic vision of Widjojo and the technocrats was a combination of liberalism, Keynesian, and economic planning. It is fair to say, however, that Widjojo's (and the technocrats') vision pulled the country away from a socialist toward a more capitalistic economy.

4.2 B. J. Habibie: Technologist Par Excellence

4.2.1 Engineer

Bacharuddin Jusuf Habibie was born on June 25, 1936, in Pare-pare, a small city in South Sulawesi. He grew up in Makasar (the capital of South Sulawesi), in a family of eight children, with himself the eldest son. His father was from Gorontalo, a Muslim area in Northern part of Sulawesi, and his mother was a Javanese priyayi.\(^{24}\) Since he was a little child, he was always seen as a serious person who liked to read books and stayed at home to study while other children played outside. His childhood hobby was horse riding—a hobby that stayed with him until he adulthood.\(^{25}\) Like most children in his neighborhood, he also took Islamic courses in addition to his elementary education (Adhitama 1989).

When Habibie was 13 years old, his father died, leaving Habibie's eight-month pregnant mother alone. She made a promise on her husband's deathbed that she would

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\(^{24}\) Habibie's home in Makasar was across the street from the Army's Mataram Brigade. The commander of that brigade was Soeharto, who later became the president of the country. Habibie's parents, especially his Javanese mother, often hosted the Javanese officers stationed there (Soeharto 1989: 78).

\(^{25}\) His father, Alwi Abdul Jalil Habibie, was an officer in the local Department of Agriculture, holding a position as Adjunt Landbouw Consulent. Being a prominent local leader, the father could afford to own several racing horses.
take care of her children’s education. She made good the promise by sending Habibie to Bandung, West Java, for high school education. There, Habibie excelled in mathematics and science, so later on he entered the Engineering Department in the University of Indonesia at Bandung (later known as ITB). However, Habibie did not stay long in ITB. His mother moved to Bandung, and told him the she had been given permission to buy foreign currency so Habibie could go abroad for his study. Habibie chose to go to Technische Hochschule, Aachen, West Germany, because he wanted to study aeronautics and he had learned that the famous aeronautics scientist who developed German military airplanes during the Second World War, Willy Messerschmitt, taught in Aachen (Makka 1999: 44). Habibie went there in 1955.

In Aachen, Habibie was the only Indonesian student who came with private funding. Other Indonesian students received scholarships either from the Indonesian government or the German government. This, according to him, made him study even harder since he only had limited resources and thus he had to finish his study as soon as possible. It does not mean that Habibie did not socialize or become involved in social activities, however. He was active in several organizations, including the Indonesian Students Association (*Perhimpunan Pelajar Indonesia*, or PPI), the school’s Students Body (where he served as a representative of Muslim students), and the UNESCO club (where he served as a president). During the time that he was with the PPI, he organized a conference about Indonesian development. The conference, held in 1959, was attended

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26 The school subsequently became the Bandung Institute of Technology (better known for its Indonesian abbreviation, ITB.) It was the successor of the Technical School from which Soekarno graduated in the 1920s.

27 At the time, permission was needed to buy foreign currency.
not only by Indonesian students in Europe but also by several Indonesian leaders. Hatta—who at the time had already resigned from vice presidency but was still seen as the nation's leader—served as one of the speakers.

Habibie finished his undergraduate degree (*Diploma Ingenieur*) in 1960. After spending a short time in Indonesia, he returned to Aachen to pursue his Ph.D. degree. Married with one child at the time, he had to take an extra job with a train company, where he designed light railway wagons. In 1965 he received his Ph.D. in aeronautics. He was thinking of returning to Indonesia, but since the political and economic situation at the time were not conducive, he decided to stay in Germany and work in the aircraft industry. He obtained a position at the Hamburger Flugzeugbau (HFB) as a scientist, where he worked in the area of light construction. Later on, the HFB merged with other companies and became the Messerschmitt-Bölkow-Blohm (MBB). As a scientist, Habibie produced many scientific papers and was seen as a rising star in his field. His career in the company also advanced fast: first he became the Head of Research Development Department, then a Chief of Methods and Technology for Commercial Airplanes and Military Transport Division, and finally a Vice President Director of Applied Technology (Shiraishi 1996: 165).

In the early 1970s, Indonesia's economic and political situation under Soeharto's government started to stabilize and the country was in need of more brains to develop the country. In 1974, Soeharto personally called Habibie back to Indonesia and appointed him the head of the Advanced Technology Division of the state-owned petroleum
company, Pertamina.²⁸ Habibie kept his ties with MBB by serving as a senior advisor. Beside working in Pertamina, Habibie was also asked by Soeharto to develop Indonesia’s aircraft industry, called the IPTN.²⁹ When in 1978 Soeharto formed his second Development Cabinet, Habibie was appointed the Minister of Research and Technology, replacing Soemitro Djojohadikusumo—the senior economist. He would hold the position for the next two decades. In the same year, the Advanced Technology Division was split off from the oil company and its name changed into the Agency for Assessment and Application of Technology (BPPT, Badan Pengkajian dan Penerapan Technologi), a non-departmental research agency that answered directly to the president.³⁰

Since its conception, the BPPT was meant to be the counterpart of Bappenas (the National Planning and Development Agency), the bastion of the technocrats. Bappenas was responsible for preparing general guidelines of the macro economy while BPPT for making assessment and preparing the detailed micro industrial plan (Soeharto 1989: 280-282).³¹ As the Minister of Research and Technology and the head of the BPPT, Habibie

²⁸ At the time Pertamina was the most powerful company in Indonesia because it had a monopoly of the lucrative oil business in Indonesia, which brought in large revenues with the increase of oil prices following the oil crisis in the 1970s. The company was led by Ibnu Sutowo, a general who was close to Soeharto. Later, however, Pertamina was involved in a huge financial crisis that forced the Technocrats to step in.
²⁹ Indonesia already had a small aircraft factory, dating from the 1960s. At first, IPTN stood for Industri Pesawat Terbang Nurtanio, named after a pioneer in Indonesia’s aircraft industry. Later, the ‘N’ changed into Nusantara, the other name for the archipelago.
³⁰ He was also given responsibility of the Batam Industrial Development Authority. Batam is an island next to Singapore where the government planned an industrial complex to take advantage of its location.
³¹ The BPPT’s responsibilities included: (1) to formulate general policies for consideration by the President regarding programs for the assessment and application of technology requisite for national development, (2) to provide overall and integrated coordination of the execution of programs for the assessment and application of technology, (3) to provide services to both government and private organizations in the assessment and application of technology for national development, and (4) to conduct activities in technology assessment and application which support government policy on the application of technology for development (Shiraishi 1996: 171).
had a say on any program that had something to do with 'technology', including those technologies used in the military (Shiraishi 1996: 172).

Achievement in technology, for Habibie (and Soeharto) was seen as a reflection of the nation’s pride. In an interview with Time magazine, Habibie said, ‘I was asked to create strategic industry in my country, to bring self-confidence to the people of Indonesia, to bring them the confidence that they are as good as the Americans, the Japanese, the Chinese, or the Europeans in technology.’ (Current Biography 1998: 253). This point was demonstrated when the aircraft industry, IPTN, in a joint venture with Spain’s company, CASA, produced its first aircraft, CN-235, a 35-seat twin turboprop. The country held the Indonesian Air Show in 1986 to showcase the plane and other achievements that IPTN had made.

Most of the projects under Habibie cost a lot of money and were criticized by the technocrats. His aircraft industry, for instance, while it might have been beneficial for the nation’s pride, was seen as an inappropriate expensive investment in the face of the country’s limited resources. Moreover, many of the projects, included the IPTN, had never produced complete financial statements. However, Habibie’s closeness with Soeharto overcame the criticisms (Hill 2000: 107, 159).

Despite Habibie’s involvement in so many areas, at least up to the mid 1980s, he was not seen as one of the candidates who might someday replace Soeharto. When people started to speculate about a possible successor for Soeharto, usually they mentioned somebody with a military background. People viewed Habibie as a prominent scientist who dealt mostly with the technological development without any political
ambition. In late 1980s, however, things changed. Slowly, Soeharto increased Habibie’s influence in the economic and political arenas.

In 1989, ten state-owned enterprises that were deemed to be ‘strategic’ for the country’s development (steel, railcar, heavy machinery, telecommunication, weapon, ammunition, and shipbuilding industries) were put under one agency, called the Coordinating Body of Strategic Industries (BPIS, Badan Pengelola Industri Strategis) with Habibie as its head. This new position was in addition to other positions that he held already. He basically headed an unprecedented bureaucratic empire.\textsuperscript{32}

Meanwhile, during that period Soeharto also changed his approach to Indonesian Muslims. Being a military Javanese \textit{abangan}\textsuperscript{33}, in the first part of his presidency Soeharto argued for a more ‘secular’ state based on Pancasila—the state ideology. Muslim activists were often labeled ‘extreme’, and their calls for more implementation of Islamic laws were turned down. By late 1980s, however, Soeharto became more receptive to Islam (Liddle 1996). When some Muslim students initiated a conference for Muslim intellectuals with the intention of forming an organization for intellectual Muslims, they went to Habibie and asked him to be the chairman of the new organization. Habibie went to Soeharto to ask for permission; the president not only insisted that Habibie accept the invitation but he also came and opened the conference. So, in 1990, Habibie was elected the chair of the Indonesian Muslim Intellectuals

\footnote{32 Not all industries were under Habibie, however. The automobile industry, for instance, was given to Soeharto’s youngest son: Hutomo Mandala Putra.}

\footnote{33 Abangan is a term for a religion focusing more on indigenous Javanese beliefs mixed with Hindu Buddhist influences.}
Association (Ikatan Cendekiawan Muslims Indonesia, or ICMI). The organization later became Habibie's vehicle in the political arena.

ICMI became a new force in the Indonesian political landscape. It had Republika, a widely circulated daily newspaper, and CIDES, a new think tank where many Islamic scholars helped Habibie formulate his policies—especially in the areas of economic, political and international relations. In 1992, in an inaugural lecture in CIDES, Habibie talked about his economic vision for the country for the second 25-year development plan. In it, he argued for industrialization based on value-added and high technology. While he said that he did not want to criticize the technocrats, his vision was clearly different from the economists who had been dominating the economic policy since the New Order under Soeharto began in the late 1960s.

In early 1993, Soeharto started to give clear signs that he wanted Habibie to succeed him. He appointed Habibie the Vice Chairman of the Executive Board (Wakil Ketua Dewan Pembina) of Golkar, Soeharto’s party. In the party’s 1993 National Convention, Habibie also was elected formateur—a person who selected the members of the Party’s National Committee (Makka 1999: 194-200).

It was not surprising that, when later that year, the People’s Consultative Assembly (MPR) met to elect the president and vice president, it was speculated that

34 Not all Muslim leaders were ICMI members. The most notable one was the absence of Abdurrahman Wahid, the chair of Nahdatul Ulama, the biggest Islamic organization in Indonesia. Not only did Wahid refuse the invitation to become a member, but he publicly denounced the formation of ICMI (Asianeu 1994). Later, Wahid replaced Habibie as Indonesian President.
35 There was no 25-year plan for the first part of the New Order, only 5-year plans.
36 Soeharto controlled the party through his position as the Chairman of the Executive Board. By appointing Habibie the Vice Chairman who was responsible for the daily implementation, Soeharto basically gave Habibie control over the party.
Habibie would get the vice president position. However, a maneuver by the military resulted in the election of General Try Soetrisno, the Commander of the Armed Forces, to the position. Nevertheless, Soeharto appointed many people who were close to Habibie as cabinet members. Between 1993 and 1998 was the time when Habibie and his group had Soeharto’s ear. Various ‘high-tech’ projects, including the development of several prototypes of commercial aircrafts, were carried out.

In the mid 1997 the country was hit by the Asian monetary crisis that started from Thailand. The value of the rupiah relative to the US dollar dropped drastically, which made it difficult for the government and the private sector to pay off their debts. Soeharto agreed to accept conditions from the IMF for bailing out the Indonesian economy, although he did not completely implement the agreements.

In early 1998, Soeharto was re-elected president with Habibie as his vice president. Soeharto appointed several people who were viewed negatively by the public—including his daughter and his golf-mate and timber tycoon—to the cabinet. Seeing that the government did not have a sense of crisis, the businessmen dumped more rupiahs, further lowering its value and deepening the monetary crisis. The monetary crisis turned into an economic crisis, and soon, into a political crisis. Inflation was high, and people did not have the purchasing power to buy goods they needed. Students held daily protests in Jakarta and other big cities in Indonesia.

The fatal shooting of several university students by the military in Jakarta, followed by the riots and rapes of Chinese women in May 1998 marked the turning point for the Soeharto regime. The head of the MPR gave an ultimatum to Soeharto: resign or
be forced to step down. Soeharto chose to resign. On May 22, 1998, Soeharto resigned from his presidency and—following the 1945 Constitution—was replaced by his vice president, Habibie. As a new President, Habibie acted quickly by forming a new cabinet. His new cabinet, however, included many members from Soeharto’s last cabinet. Unlike the transition from Soekarno to Soeharto in 1966, where Soeharto was not seen as part of Soekarno’s inner circle and thus could be considered as a fresh leader, the transition from Soeharto to Habibie involved an insider who had been part of the Soeharto team for more than three decades. Habibie had practically been Soeharto’s right hand for the past six years. Because of this, people did not see the transition as a full-fledged reform.

In the political sector, President Habibie surprised everybody when he announced that he would give East Timoreans the right to choose, a reversal from Soeharto’s position that East Timor was part of Indonesia. He also announced that the country would hold a new election the following year. In the economic sector, however, he did not do anything that eased the country’s economic crisis.

In 1999, the country held an election where the opposition party, the Democratic Party of Indonesia – Struggle (PDIP) – led by Megawati Soekarnoputri (Soekarno’s daughter), won the plurality of the votes. In the People’s Consultation Assembly, the representatives handed Habibie a non-confidence vote, which practically ended his presidency. However, through backdoor bargaining, Megawati was not elected president. The majority elected Abdurrahman Wahid, the leader of Islamic organization Nahdatul Ulama, to be the new president.

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37 Later on, in his autobiography, Habibie claimed that he actually was not interested in seeking a second term (Habibie 2006).
Habibie returned to the private sector and in 1999 he established the Habibie Center, a think tank that focuses on democracy and human rights in Indonesia.

4.2.2 Habibie’s Economic visions

Since the 1980s, Habibie has now and then talked about what he thought about the economy. However, nowhere was his economic vision clearer than in his Inauguration Lecture of the establishment of CIDES (Centre for Information and Development Studies), a think tank under the Indonesian Muslim Intellectuals Association that he led, in 1992.

In his lecture, Habibie made a distinction between the comparative-advantage-based development and value-added-based development. The former, he said, was characteristic of the first long-term development plan, a vision the technocrats implemented under Widjojo. The latter was the vision that he proposed (Habibie 1993).

Comparative advantage is a theory in international trade that suggests two countries can trade with each other because each has something (advantage) that the other does not. The advantage does not need to be physical input such as raw materials, but it can also be knowledge, technology, etc. Indonesia, for instance, has comparative advantages in raw materials and cheap labor. Japan, on the other hand, has comparative advantage in consumer goods. So, according to this theory, Indonesia will concentrate on ‘producing’ and exporting raw materials and labor, while Japan will concentrate on producing consumer goods.

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38 The twenty-five year development plan, in the early part of the New Order, from 1968 to 1993.
Habibie argued that while in the past comparative advantage had helped the Indonesian economy grow, it could not be expected to do the same in the future: partly because the market might change and Indonesian export goods would not sell any longer, partly because Indonesia’s comparative advantages were concentrated on low value-added goods and services. He argued for a production of higher value-added goods by using higher technological content in the processes. By value-added, he was referring to additional value that is created by processing certain inputs. He provided an example: one kilogram of scrap metal that is worth only Rp250 could be processed into a modest minivan-type car that would be worth Rp25,000 or into a luxurious Mercedes Benz that is worth Rp250,000 for the same weight (Habibie 1993: 19). From the example, he argued that if Indonesia could focus on producing higher value-added goods, it would be better off than if it kept the focus on producing lower value-added goods. The aircraft industry was an example of the high value-added industry that he said should be more developed.

Habibie kept emphasizing, however, that he did not criticize the way the technocrats handled the economy during the New Order period. He simply argued that the internal and external situations of the 1990s were different from the situation of the 1960s to the 1980s, so Indonesia, he argued, needed a new economic vision.

Realizing that switching to high value-added industries would require huge investment, Habibie argued that such investment would be good in the long run, even though not in the short run. In addition, when the industry started to show results, it would bring pride to the nation. His proposal brought back an old argument in economic development: should the government subsidize infant industries until they can be
independent? The difference is in the focus: the infant industry argument usually refers to industries that are considered important in substituting imports; Habibie’s proposal, however, called for giving subsidies to industries with relatively high technology content for—among others—the purpose of exports.

Indonesia was not alien to import-substitution industries. In the 1970s, when Indonesia was blessed with money because of the international oil crisis, the government provided incentives to some private businessmen to produce some commodities to replace the imported ones. One of them was the automobile industry. A local company named Astra, for instance, received licenses from the Toyota Motor Company to assemble models of their car in Indonesia. By early 1990s, Astra had manufactured several mini-van type cars, with the most popular model being Kijang (‘deer’ in Indonesian), a mini-van type car. It was probably not a coincidence that it was the Kijang that Habibie used as a comparison to show what a kilogram of metal scraps could be turned into.

Focusing on producing higher value-added goods and services, however, would not be an easy task to do. It required a strong labor force with high skills, something that Indonesia did not have. For this reason, Habibie also called for a stronger emphasis on the human resources. He pointed out that one of the agencies he led, the BPPT, had provided scholarships to Indonesian students to study abroad, mostly for studying Natural Science and Engineering.

Habibie’s lecture triggered a huge debate in the mass media. Critics pointed out that Habibie’s vision was not new. Economist Sri-Edi Swasono, Hatta’s son-in-law,
argued that technology had been taken into account in economics theory a long time before (Swasono 1993). Umar Juoro, an economist at CIDES, defended Habibie and said Habibie did not intend to introduce a new theory (1993, 1998)\(^\text{39}\). Juoro argued that Habibie’s vision, which focused on micro level instead of aggregate macroeconomic level, actually fitted the new trend in the mainstream economics theories that gave emphasis to the microeconomic foundation, such as growth theories. It is usually assumed that technological change should take place at the firm level, not at the country level.\(^\text{40}\)

It was also pointed out that comparative advantage is not necessarily static, it could be dynamic too as a country may change its advantages. Japan, for instance, produced cheap and low quality consumer products in the past, but later changed its advantages into higher end consumer goods. It was a phenomenon known as a ‘footloose industry’ in international trade. Kwik Kian Gie, an economist close to Megawati who later became an economic minister in her presidency, argued that there are stages of production that an industry might go through. Those stages, from assembling industry into competitive industries in an international market, could be achieved without government helps. He was specifically critical about the accountability issues in such huge investments (Kwik Kian Gie 1993).

The high investment needed to finance industries that Habibie supported had been a source of concerns for many parties. This was exacerbated by the fact that some of the

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\(^{39}\) Also see Alam (1993).

\(^{40}\) In general, the mainstream economics theories are divided into two: microeconomics and macroeconomics. Microeconomics focuses on the firm level and price mechanism in one or several market, while macroeconomics focuses on national aggregate levels. Theories in macroeconomics are quite different from those in microeconomics.
industries failed to produce complete financial statements. There was a big issue in 1994 when Soeharto used about $400 million of extra-budgetary money intended for reforestation to finance the development of an aircraft prototype. Wahana Lingkungan Hidup, an environmental NGO, filed a lawsuit to prevent the action, but the court threw out the lawsuit.

Another point of criticism was that his vision might not benefit many people, but only some elites that had access to the ‘high tech’ industries; hence, it might exacerbate the unequal distribution of income. Habibie answered that the technological content of the industries was not necessarily that of high technology. Biotech, for instance, might be used to help farmers getting higher yields, so it would help their income. Another defense came from Umor Juoro (1993). He argued that since the value-added base development put emphasis on the development of highly skilled workers, workers’ productivity would increase, and in turn they would get a higher income.41

Finally, there was an issue of the market itself. To be successful, Habibie’s vision, as he conceded, would have to rely on the captive market—at least at the beginning. Habibie argued that the aircraft he made were able to compete with other aircraft. However, an incident in which two of the CN-235 aircrafts were traded for sticky rice from Thailand in the mid 1990s put a question mark on the statement. The incident highlighted the fact that the industries in Habibie’s vision faced similar issues as those in the context of comparative advantage theory: they rely on the situation of the market.

41 Another economist, M. Dawam Rahardjo, suggests that Habibie’s approach is similar to the Reaganomics, that is, they rely on the supply-side of the economy (Rahardjo 1997: 3-4).
It is noteworthy that Habibie's vision relies on the same ideas that the technocrats promoted in the 1980s: an export-led economy for Indonesia. The difference lies in the type of export. Clearly, Habibie's vision, like that of Widjojo, was based on capitalistic ideas.

After the economic and political crises, many of Habibie's projects were closed or stripped down. IPTN, the aircraft industry, cancelled the projects of some prototypes that were developed in the early 1990s and the company had to lay off more than 6,000 of its employees. It is ironical that Habibie's economic vision was implemented mostly under President Soeharto, but not under President Habibie himself.

Both Widjojo's and Habibie's visions are well in the capitalist column. Widjojo (and the technocrats) employed standard neo-classical, Keynesian economics and economic planning and tried to apply these in Indonesia. They relied on the demand side of the economy through fiscal and monetary policies. The result was a long period of economic growth with improvement in many areas of people's lives. The impact, however, was not even, which led to a situation where many people felt that only some groups would enjoy the result of the 'development'. Meanwhile, Habibie tried to take a shortcut in industrialization by utilizing the technology. While different from the technocrats, Habibie still relied on the market to make his vision work. His vision, however, was dependent on the supply side of the economy and assumed that better-educated workers would bring higher productivity.
CHAPTER 5
GREEN AND ISLAMIC ECONOMIC VISIONS

In this chapter we will discuss two visions that—while not new—have recently gained popularity. The green economic vision, simply defined as an economic vision that is also concerned with the natural environment, may be quite recent in its modern form, but some elements of the vision can be found in traditional beliefs of different societies in Indonesia. Similarly, the idea of the economy based on Islamic values has been around for a long time, although it was never formulated as ‘Islamic economics’. Like any other vision, green and Islamic economic visions are not homogenous. Various interpretations and understanding of the terms can be found among their proponents.

5.1 Green Economic Visions

As in other Asian countries, most traditional societies in Indonesia have the notion of harmony: not only harmony with God and with fellow men, but also with the nature. The harmonious relationships between men and nature, it is assumed, would lead to the preservation of nature. In the early Colonial Period, some Dutch biologists established the National Biological Institute, which later created the Botanical Garden at Bogor, West

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1 I am using the term ‘green economics’ because the terms ‘environmental economics’ and ‘ecological economics’ have specific meanings. ‘Environmental economics’ refers to part of the mainstream (neoclassical) economics theory that deals with the environment, while ‘ecological economics’ refers to a more holistic approach to economics in dealing with the environment. The two have different ontological views: the former see ecology as part of the economy, the latter see economy as part of the ecology (see Hay 2002: 233-242; and Daly 1999: 15-20). However, the distinction only applies for ‘economics’ since I am still using the term ‘environment’ and ‘green’ interchangeably for other purposes.

2 In the late 1990s, the Department of Education and Culture published a series of books on traditional views on environment (1998).
Java (called *Buitenzorg* by the Dutch) to study tropical flora and fauna in Indonesia. The Botanical Garden helped preserve some rare species of Indonesian flora and fauna (Doty 1964). However, the notion of preserving the environment did not enter the development discourse in modern Indonesia until the 1970s. At first, the environmental issue was tied to concern about the population explosion. The 1972 Club of Rome’s Report, *The Limit of Growth*, which contained the Neo-Malthusian ideas, highlighted these concerns. Later on, various environmental NGOs were established. Not all environmental concerns are directly related to economic visions, of course. Some of them are concerned with the preservation of rare species of animals and plants and with the impacts of transmigration on deforestation, while others are more concerned with the impact of specific projects on the indigenous people’s lifestyle.

In their development, the environmental movements in Indonesia can be grouped into two: the uprooted movements—led by the academics and the government (specifically the Minister of Environment), and the grass root movements—led by various NGOs. In the first group, Otto Soemarwoto, a professor of biology at Padjajaran University, Bandung, has been the leading individual in arguing for the importance of the environment. Another important player in the uprooted movements was the Minister of Environment, a position created by President Soeharto in 1978. Emil Salim, the first Minister of the Environment, was instrumental in raising awareness about environmental issues. Meanwhile, there are many NGOs who work in the field of environment, but most

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3 Aditjondro (2003: 83) suggests a sequence of the two types of movement: from grass-root into up-root, and returning to grass-root.
of them are—in one way or another—related to WALHI, a federation of environmental NGOs established in 1980.

As each plays an important role on the environmental vision, we will provide a brief discussion about each of them.

5.1.1 The Uprooted Movements

One of the earliest academics who was concerned about environment in Indonesia was Otto Soemarwoto, a biology professor at Padjajaran University at Bandung, West Java. Soemarwoto received his Ph.D. from Berkeley in Plant Physiology (1960). During the 1960s, he led the National Biological Institute, the organization that has its roots from the Colonial Period.

His interest in the environmental issue stemmed from his research on the physiology of plants. In 1972, he established the Institute of Ecology (Lembaga Ekologi), the first of its kind in Indonesia. Soemarwoto helped the government to prepare for the 1972 Stockholm Earth Summit (UN conference on the Human Environment) as practically nobody else in Indonesia had any knowledge about the environment. Emil Salim, then the State Minister for State Apparatus Reform and Vice Head of Bappenas (the National Agency of Planning), was the head of the Indonesian contingent to the conference.

Soemarwoto’s pleas about the importance of the environment, however, did not at first receive much attention. Only in the mid 1970s did the Soeharto Government start to take an interest in environmental issues, partly because of growing pressure from the international community, including donor agencies, and partly because Soeharto himself

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4 Soemarwoto received his Ph.D. from Berkeley in Plant Physiology (1960). During the 1960s, he led the National Biological Institute, the organization that has its roots from the Colonial Period.

5 Emil Salim, then the State Minister for State Apparatus Reform and Vice Head of Bappenas (the National Agency of Planning), was the head of the Indonesian contingent to the conference.
started to feel the impact: his main hobby was fishing and he experienced the fact that the fish stocks in the Bay of Jakarta were dwindling (Salim 1997: 63). In 1978, Soeharto appointed Emil Salim the first Minister of Environment (at the beginning, the position was combined with Development Supervision).

Salim was a technocrat economist who was part of the original five-member economic team under Widjojo in the early phase of the New Order.6 Among the environmental activists in Indonesia, he was viewed as ‘their man’ in the government. Before being appointed the State Minister for Development Supervision and Environment, he had held different portfolios in Soeharto cabinets: State Minister for State Apparatus Reform, and Minister of Transportation. However, as the first state minister that dealt with environmental issues, Salim found that he did not have much power to do his job. This is partly because a state minister does not lead a department, so they have to rely on coordination with other ministers. This forced him to solicit help from environmental NGOs, inside and outside the country, a fact that would help create the relatively high involvement of NGOs in environmental issues compared to other sectors. In dealing with the NGOs, however, Salim made it clear that he supported them as long as the NGOs provided inputs on the implementation but did not challenge the government on a more basic level such as the direction of development (Aditjondro 2003: 112).

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6 One of the technocrats, however, asserts that Emil Salim was no longer so close to the technocrats after he became Minister of Environment, except for Widjojo, with whom Salim kept a close relationship (Sadli 1993: 49).
In the early 1980s—on his second appointment as the Minister of Environment—Salim established the Environmental Impact Management Agency (*Badan Pengendalian Dampak Lingkungan*, Bapedal), a government institution modeled after the Environmental Protection Agency in the United States. He was also successful in the enactment of the 1982 Environmental Law and the 1986 Governmental Decree, which allowed polluters to be brought to court. To acknowledge the achievements of ordinary people and public figures who protect the environment, he also established the *Kalpataru* Prize, an annual environmental award.

As a developing country with a huge area of tropical forest, one of the environmental issues in Indonesia was how to produce timber without endangering the environment. Salim pushed for selective harvest and concessions for timber companies. The companies then had to plant new trees to replace the ones they harvested (Salim 1986: 62). Unfortunately, this policy was severely undermined by illegal logging and strong pressure from the timber industry owned by Soeharto’s friends.  

During his term as the Minister of Environment, Salim was also a member of the World Commission on Environment and Development (better known as the Brundtland Commission). Through its 1987 report, *Our Common Future*, the Commission popularized the notion of sustainable development. The commission defines it as development that meets the needs of the present without compromising the ability of future generations to meet their own needs. The main goal of the report is to promote global economic growth that at the same time preserves the global environment. This

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7 Including Bob Hassan, a timber-tycoon who golfed with Soeharto. He later became the Minister of Forestry in Soeharto’s last cabinet.
vision, achieving economic growth without destroying the environment so the growth can be sustained, reflects Salim’s green economic vision.

In general Salim believes in the use of price mechanism through the market in dealing with the environment, although he also acknowledges that the environment has not been included in mainstream economics equations – partly because, according to the neo-classical economics, the environment is seen as public good, and there is no price for public goods; hence, no market for it. He wrote,

Market failure is another problem that hampers the proper functioning of the economy to absorb and internalize social and environmental consideration. The value of forest habitat for indigenous populations has a unique social value that has no calculate direct-use monetary value. Clean, fresh air provided by nature is taken for granted and has no direct-use value. By introducing environmental taxes and surcharges, market corrections may be introduced. However, while these efforts are necessary, they are not sufficient. Institutional arrangements are required to cope with these market failures; examples include environmental certificate or eco-labeling on products that are produced in an eco-friendly manner (Salim 2001: 226).

It is quite clear that Salim’s approach is based on an extension of environmental economics. However, he also argued for the linkages between economic, social, and environmental development:

Economic development must take into account the environmental and social dimensions. Development impacts on the environment and social aspects must be specifically taken into account through the effective implementation of environmental and social impact analysis, which is further monitored and pursued through environmental auditing. Social development needs to take into account economic and environmental dimensions that are then translated into economic costs and benefits, and then seriously consider the impacts on the

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8 Taxes and surcharges in the environmental economics literature usually referred to as ‘Pigou tax’, based on Arthur Pigou’s treatment on negative externalities in economics theory. Externality refers to a ‘by-product’ of a production process that is not part of the production itself. The theory suggests that by levying tax on the party that created negative externalities (such as the polluters), the externalities will be reduced and the money can be used for creating positive externalities (such as reforestation).
environment. Environmental development has to take into account its economic and costs and benefits. Depletion of non-renewable resources must be depreciated, as is the case in the depreciation of human-made capital. Pollution is considered an externality but must be internalized in the cost structure of companies... (Salim 2001: 224).

Salim ended his term as Minister of Environment in 1993, after serving as a minister for more than two decades. Since then, he has been a prominent leader in various environmental movements inside and outside the country.9

Neither Soemarwoto’s nor Salim’s visions of sustainable development reject economic growth; it is the way to achieve growth and the ‘quality’ of economic growth that they want to change. They both attempt to integrate environmental considerations into development plans so that the negative impacts of economic growth on the environment can be curbed, but not necessarily challenge economic growth itself.10 This vision is not uncommon among the leaders of developing countries, who consider economics growth a necessity for their countries (see Guha and Martinez-Alier 1997).

The vision that still gives economic growth an important place is different from the ecological economics approach proposed by Herman Daly (1999) and from the views

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9 In Indonesia, Salim serves as the chair for several environmental organizations, including the Indonesian Biodiversity Foundation (Yayasan Keanekaragaman Hayati Indonesia, or Kehati), the Foundation for Sustainable Development and the Indonesian Ecolabelling Institute. In the international forum, he was, among others, Co-chairman of the World Commission on Forestry and Sustainable Development, Chairman of the Preparatory Committee for the World Summit on Sustainable Development, and led a consultative review of the role of the World Bank Group (WBG) in the extractive industries (oil, gas, and mining sectors).

10 Soemarwoto, who works within the same paradigm as Salim, wrote in his book, This book is a literature review to find an alternative for the development that is destructive to the environment. The alternative is an environmental-friendly development that is not only undestructive to the environment, but also improves living condition and the quality of the environment. The most recent studies show that low-income people can develop to increase their income as well as to improve their environments (Soemarwoto 2001: 14).
of activists of so-called ‘deep green’ movements. Daly argued that there is an ecological limit to economic growth. The basic tenet is that man-made capital and the natural environment are complementary, not substitutable as in the neoclassical view. So, according to Daly, ‘There would be no point in expanding man-made capital beyond the capacity of remaining natural capital to complement it’ (1999: 19).

It is also noteworthy that the above visions are in the realm of market capitalism; something that, as we will see, is rejected by other component groups of the green movement in Indonesia.

5.1.2 The Grass Root Movement: WALHI

In the beginning, environmental NGOs were still concerned with increasing public awareness about environmental issues, such as clean water, forest protection, etc. Later on, however, the focus of these NGOs changed. One of the most influential NGOs is WALHI (Wahana Lingkungan Hidup).

WALHI is an environmental forum established in 1980. Starting with 79 participant members, now it claims more than 400 participant members ranging from the NGOs, university-based groups, and special interest groups. Not all members are environmental-related groups. In the early period, WALHI worked closely with the government, especially with the Office of the State Minister of Environment. Its actions included increasing public awareness through education, training, and collaboration with local artists (Parlan and Maha Adi n.d.). Its leaders claimed that despite its closeness with

\[11\] For criticisms of ‘sustainable development’ concept from the ‘deep green’ point of view, see Hay (2002: 212-219).
the government, the organization kept its autonomy. They conceded, however, that the Indonesian social and political culture prevented them from employing antagonistic approaches common among the Western environmental organizations (Wickham 1987).

Since the late 1980s, however, WALHI asserted that the government—through its policies—was, in fact, a major cause of environmental problems. The organization started to be more critical of the government (Sinanu 2006). In 1988, WALHI—together with the Indonesian Legal Aid Foundation—sued the government over pollution and environmental degradation created by a pulp industry in North Sumatra. Emil Salim, as the Minister of Environment, was also named one of the defendants in the case.\(^\text{12}\) The case was dismissed, but WALHI had successfully raised its profile and awareness about environmental issues.

In 1989, WALHI became a member of the Friends of Earth International (FoEI), an international environmental network with members from 70 countries. By joining the FoEI, WALHI established itself as a member of global environmental movements that do not restrict their actions to local concerns.

In 1990s, leading up to the economic and political crises, WALHI filed several lawsuits against the government (including the one over the shifting of reforestation fund to Habibie’s aircraft industry) and provided assistances to many parties that had environmental-related problems. Together with other NGOs, WALHI’s actions subtly became opposed to the Soeharto regime (Aditjondro 2003: x). At the same time, WALHI

\(^{12}\) Emil Salim was upset that he was named a defendant because he actually worked hard inside the cabinet to cancel the pulp project. His suggestion to do the environmental impact analysis was accepted, but the implementation was given to the Ministry of Research and Technology, Habibie, not to his Ministry. Eventually, Habibie gave a green light to the project (Aditjondro 2003: 178-179).
also extended its scope of advocacy beyond merely ‘environmental issues’. In the activists’ view, the environmental problems were products of the developmental paradigm that was unjust and unsustainable. To improve the environmental conditions, then, the developmental paradigm that focused on economic growth, needed to be changed.

After the fall of Soeharto, WALHI continued its far-reaching demand for social, political and economic reform in Indonesia. In a document called ‘WALHI Manifesto’, WALHI asserts its position towards establishing a people’s democratic government, a just society, a sustainable life, and the rights to livelihood. The document goes on describing what they meant.

[1] People’s democratic Government. The current legislative and electoral systems have failed to represent people’s interests. The legislators have been corrupted by large corporations’ agenda. WALHI proposes a system in which the grass root people have a dominant say in decision making. [2] Just society. Just society is a social system which bases itself on communal values that treat people equally regardless the gender, race, and religion. Communal values uphold human dignity as social creatures, not capitalism machines. [3] Sustainable life. Massive exploitation of nature has thwarted the sustainability of the people. Sustainable life is guaranteed by a production system that works for the people not for a handful of greedy individuals. Corporations should benefit not only the few owners, but the workers. Market should no longer dictate productions; the people should be the one who design and determine the production. [4] Rights to livelihood. Capitalism provides the handful of rich people and people in power exclusive rights to natural resources. The State should have protected people’s rights to land, water, air, and other natural resources. [WALHI 2006]

The document reflects WALHI’s negative view about market liberalism. In their view, it was market liberalism that — spread through globalization, together with the dominant political power that sided with the global capital — created environmental
problems. Hence, a gradual approach by simply focusing on a narrow environmental issue would not solve the problem.

The anti market liberalism sentiment is similar to those found in many environmental organizations in other countries.  

5.1.3 The Meeting of Uprooted and Grassroots?

The efforts by both the Uprooted and Grassroots movements have brought green vision to economic discourse in Indonesia. Nowadays, people are much more aware of environmental issues and the way these can affect their lives.

In 2001, the People's Consultative Assembly agreed to amend the 1945 Constitution. Among those articles that were amended, was the famous Article 33 (see chapters on Hatta and Widjojo). Two additional points were added to the first three points discussed before (emphasis added.):

(4) The organisation of the national economy shall be conducted on the basis of economic democracy upholding the principles of togetherness, efficiency

13 WALHI's list of suggestions on how ordinary people can get involved in environmental cause is also very similar to the list produced by environmental movements in other countries: (1) Resist globalization, spread the word to fight the unfair globalization. Political change requires supports from all the countrymen. Discuss globalization with friends and relatives; you don't need to give answers but discuss and launch questions about globalization and environment with them; (2) Resist all forms of exploitation. Support or launch campaigns against unjust globalization. The root of the environment plight is the oppression of the civil, political, economic, social and cultural rights of the citizens; (3) Change your lifestyle to one that is friendly to the environment and the marginalized people. Ride a bike to work, save energy, use recycled stuff; (4) Be a smart consumer. Choose environmentally friendly products. Use organic products from companies which employ fair trade. (5) Avoid multinational corporation products, support local products. Buy local farmers' produce; (6) Be a conscious worker. Don't work at companies that have bad environmental records and disregard workers' rights. Push the company you work at to care for the environment and the people; (7) Persuade the local councilors to promote environmentally friendly policies and anti-globalization ideas. Besides arranging face-to-face meetings, you can persuade them by sending letters to them and via the mass media; (8) Do ethical investment. Invest your money in financial institutions that respect the environment and people's rights; (9) Join and support organizations that fight for people's rights and just globalization. Customize your fight accordingly to your occupation. For example, if you are a teacher, share your anti-globalization knowledge with your students. (WALHI 2006).
with justice, sustainability, environmental perspective, self-sufficiency, and keeping a balance in the progress and unity of the national economy.
(5) Further provisions relating to the implementation of this article shall be regulated by law.

That the constitution now explicitly mentions the sustainability and environmental perspective on its economic chapter reflects the acceptance by Indonesian (elites) of the green vision. Since environmental issues may affect directly people’s daily lives through air pollution, temperature, clean water, etc., the green vision may provide strong incentives to change consumption and production behaviors, including the government’s behavior. One case in point was when Soeharto felt the impact of pollution that affected the fish in the Bay of Jakarta. It remains to be seen, however, if the vision can become a dominant economic vision in the future, as the pressure on developing countries such as Indonesia to maintain economic growth will still be strong.

5.2 Islamic Economics

5.2.1 Political Islam and Islamic Economic Institutions

Indonesia is a country with the largest number of Muslims in the world; it is thus not surprising that some Muslims in Indonesia are pushing for an economic vision that is based on Islam. They argue that Islamic economics is superior to Western economic ideas because many suggested practices come directly from the Quran or Hadith (stories about Muhammad’s life).

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14 It is noteworthy that WALHI does not see the amendment of Chapter 33 a worthy achievement. Their website is mute on the issue.
Since the very beginning, Islam—perhaps more than any other world religion—has had strong association with economic activities. This, among others, was driven by the fact that Muhammad, the Islamic Prophet, was a trader at one point. The Quran and the Hadith contain many sections that refer to economic activities, especially with regard to trade and inheritance. Similarly, the history of Islam in Indonesia also shows the connection between the religion and economic activities.

Islam entered the archipelago through economic activities: it was first spread by traders from Gujarat, India. The faith first took root in the northern part of Sumatra, and later to other areas. The first modern Islamic organization in Indonesia, the Syarekat Islam (SI, Islamic Union), had its beginning as Syarekat Dagang Islam (SDI, Islamic Trade Union). The SDI was established by a group of batik traders in Central Java to compete with Chinese Batik traders. As we have seen in a previous chapter, its leader, O.S. Tjokroaminoto, was influential in the national movement and helped form Soekarno’s political and economic visions. The economic vision of Tjokroaminoto, as with most Islamic and national leaders in the 1910s and 1920s, was a blend of socialism and Islamic teachings.

Syarekat Islam’s influence, however, started to wane in the 1930s, being replaced by other Islamic organizations such as Muhammadiyah and Nahdatul Ulama. The establishment of Muhammadiyah in 1912 was not directly related to economic activities, neither was the establishment of Nahdatul Ulama (NU, The Renaissance of Ulama) in
During the period of struggle for independence, leaders of these organizations implemented some measures to improve their members' living standards according to Islamic teachings. The NU, for instance, formed a committee in each branch to deal with waqf lands (Noer 1973: 232). Yet, at the time there was no specific discourse about Islamic economics.

The Islamic economic vision is related to how one sees the relationships between Islam and the society in general. Debates on whether Indonesia should be an Islamic state or not have been present for a very long time. In the meetings for the preparation of Indonesian independence in 1945, some Islamic leaders pushed for the establishment of an Islamic state, but the idea was turned down when delegates from the Christian-part of Indonesia and the secular nationalists raised objections. The Christian and secular nationalist leaders also rejected a version of the 1945 Constitution Preamble that contained the words, ‘...belief in God, with the obligation for adherents of Islam to carry out Islamic Syariah.’ At the end, the meeting agreed to keep ‘belief in God’ but dropped the rest (Ricklefs 2001: 258). The push for the establishment of an Islamic state, however, did not end. During the 1940s and 1950s, Mohammad Natsir, leader of the Masjumi Party, tried to establish an Islamic state through a constitutional channel (parliament). The movement, however, was never successful: partly because there was no

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15 The creation of Muhammadiyah was driven by the spirit of modernism in the educational field, in emulation of Christian missionaries and schools. Meanwhile, the establishment of Nahdatul Ulama was driven by the reactions of traditional Javanese Ulamas toward the change of power in Makkah and pressures from the modernists in Java (Noer 1973: 228).
16 Endowment land that is dedicated for the welfare of Muslims.
consensus among the Islamic parties as many Islamic leaders did not share the idea (Azra 2005).17

During the first part of Soeharto’s New Order, the government took harsh measures against any dangerous manifestation of political Islam. Part of the effort was to force the implementation of Pancasila as the sole ideological basis for any organization. These measures, however, had an unintended implication, that is, they encouraged the rise of ‘cultural’ Islam, which included the idea of the implementation of Islamic education and economic practices. In the late 1980s, Soeharto also changed his approach to Muslims by becoming more open to Islamic ideas, which was shown by his approval of the enactment of the 1989 Law of Islamic Courts and the 1989 Law of National Education that put Islamic education in the same position as ‘secular’ education. (Azra 2004: 138).

Meanwhile, contemporary Islamic leaders have also been less supportive of the idea of forming an Islamic state. Nurcholish Madjid, an independent Islamic thinker, argued that the idea of ‘Islamic State’ was actually a new one, and was not found in Islamic history (1997). Abdurrahman Wahid, who once was the chairman of Nahdatul Ulama and latter became the country’s fourth president, argued that Islam does not have a specific form of state at all. It is through its function that one can evaluate whether the state is Islamic or not (Lubis 2004: 93).18

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17 Masjumi’s open rejection of Guided Democracy in the late 1959 led Soekarno to ban the party in 1960 (van Bruinessen 2002).
18 Lubis also noted that Amin Rais, once the chairman of Muhammadiyah and later the chairman of the country’s People’s Consultative Assembly, had a different view of the issue. While acknowledging that an ‘Islamic state’ is not mandated by the Quran or Hadith, Rais maintains that Islam projects clear-cut ethical
Azyumardi Azra suggests that most Muslims in Indonesia are leaning toward 'substantive Islam' rather than 'formalistic Islam'. By this, he means that while many Indonesians may have become more devout Muslims, they do not necessarily prefer a political party—let alone a political system—that formally bears Islamic banners. This can be seen from the fact that in the 1999 Election Islamic parties (total there were twenty of them) gathered only about 37 percent of the votes. (Azra 2004: 142-143).

A rejection of 'formal' political Islam in favor of 'substance', however, is not necessarily extended to a rejection of 'formal' Islamic economic institutions. From the early 1990s, the country has seen a growing acceptance of economic institutions based on Islamic Syariah, starting from Islamic banking. The first Syariah Bank in Indonesia, Bank Muamalat Indonesia, was established in 1991, with the help from the Indonesian Muslim Scholars Association (ICMI). By the end of 2006, there were 23 other Islamic banks in operation. Some conventional banks also opened divisions that provide Islamic banking, such as Bank Syariah Niaga, Bank Syariah Mandiri, etc. (Guerin 2007). In addition, there were hundreds of small credit banks based on Syariah (Bank Perkreditan Rakyat – Syariah) that operated in small towns. Bank Indonesia itself, the country's central bank, has a division for Syariah Bank. The central bank estimated that the total assets of Islamic banks in Indonesia were about 1.8 percent of total assets of the bank industry, and that this figure was projected to keep growing.

Syariah Banking is not the only form of an Islamic economic institution. Other institutions include *Bait Maal Wat Tamwil* (BMT, Islamic savings and loan and normative behavior by which Muslims must manage their whole life, and that this includes state and government affairs (Lubis 2004: 93).
cooperatives), which are located in rural areas and provide agricultural financing, and Syariah insurance.

Kuran suggested that the push for Islamic economics in Pakistan was driven by cultural (and political) concerns. The leaders were concerned that Western secularism threatened the existence of Islamic culture (Kuran 1996: 438). In Indonesia, the growing inequality in the late 1980s and early 1990s, together with the increase of 'cultural Islam' seemed to be the main drivers.

The rise of Indonesian conglomerates, many of them led by Soeharto's cronies or Chinese Indonesians, reinforced the feeling that economic development had left behind the majority of Indonesians, who were Muslims. Coupled with wide perceptions of corruption among government officials, Indonesian Muslims longed for a different kind of economy. The proponents of an Islamic economy suggest that only the implementation of an Islamic economy can guarantee the existence of social justice for all Indonesians. Many Muslims seem to agree with this explanation as more people use services provided by Islamic economic institutions.

5.2.2 Characteristics of Islamic Economics

There are many definitions of 'Islamic economics', but the existing literature seems to refer to three characteristics (Kuran 1995). The first is the use of Islamic morality as a filter for economic conducts. The second is the prohibition of *riba*. This is what some Muslims are seeing as basic with regard to bank interests. The third is the existence of *zakat*, a redistribution system aimed to help the poor. I will discuss each of them.
The first characteristic, the use of Islamic morality as a filter for economic conducts, is very vague. Basically, it calls for people to change from *homo economicus* to *homo Islamicus*. Some people argue for the change in heart of the people that will transform the way of doing business. The extreme implementation would be in Iran, after the 1978 Revolution. The government set up a Syariah committee in big companies to monitor the implementation of the Islamic laws.

*Riba* initially refers to the Arabian economic practice of doubling the debt of a borrower unable to make restitution on schedule, which resulted in the borrower becoming a slave (Kuran 1995: 156).\(^{19}\) Because of the negative social ramification, *riba* was prohibited in the Quran. The problem arises, however, because the term *riba* itself is not clearly defined in Quran. Hence, there have been various interpretations of *riba* in contexts other than the ancient practices.

Ghanameh (1968) listed three principles in disallow *riba* that can be applied to other aspects: (1) no one is to be allowed any gain unless he is subject to loss in the process; (2) no one should be given any income or any gain unless he works for it, and (3) the principle of justice.\(^{20}\) By applying these principles, he argues, it is clear that bank interest is considered *riba*, hence, must be prohibited. He also made a reference to Karl Marx who viewed interest as theft, basically on the same principle (1968: 57).

In Indonesia, there has been no consensus regarding the issue. Hatta, who is considered the ‘Father of Indonesian Economy’ and a devout Muslim, did not see bank interest as inherently *riba*. He argued that as long as the borrowed money is for

\(^{19}\) The English version of Quran translates the *riba* as *usury*.

\(^{20}\) These principles also lead to the prohibition of land rent.
productive use, it is not *riba*. If the money is used for consumption purpose, it is *riba* (Noer 1990: 171). Sjariffudin Prawiranegara, another founding father who once served as economic minister, also did not consider bank interest *riba*, as long as the level is low (Rahardjo 1987: 19, Prawiranegara 1967). Among Islamic organizations, Nahdatul Ulama also held similar view that bank interest is not inherently riba. Muhammadiyah, however, took a different view. At first, the organization took a provisional view that since banking services were needed, interest was allowed. In their 1993 Congress, however, they confirmed that all types of interest are forbidden and Muslims need to build their own economic institutions based on Islamic principles (Lubis 2004: 104). A survey conducted in 2000 by Brawijaya University in East Java found that among those who prefers to use Syariah Bank over the conventional banks, only less than half viewed interest as *riba* (Center for Business and Islamic Economic Studies Brawijaya University 2000). Judging from the development of Islamic banking, however, it seems that there is a growing proportion of Muslims who consider bank interest to be *riba*.

The system that is sanctioned under the Islamic vision is profit-loss sharing. A potential lender together with the bank negotiates how much the return will be. Unlike the interest system, they both would agree that the return is not fixed: it depends on the business. The same thing applies when the bank is lending the money to a company. Kuran (1995), however, asserts that such practices would require full-disclosed information on the part of the companies, something that are difficult to expect. He also observes that the rate of returns of profit-loss sharing institutions in Turkey are remarkably similar to the conventional bank interest rates. The reason of this was that the
Syariah Banks still put their money in the conventional banking system, which at the end gives them similar risks.

Finally, *zakat*, refers to a kind of ‘tax’ that is levied on sufficiently wealthy Muslims. The original intent of the ‘tax’ was to finance only eight causes, which included poor relief and the emancipation of slaves (Kuran 1995: 159). *Zakat*, however, is not the same as ‘conventional tax’. Dawam Rahardjo lists three differences between zakat and tax. First, taxes are levied on every citizen, regardless of their religion. Zakat only applies to Muslims. Second, the zakat rates are fixed, while tax rates vary according to the existing laws in a country. Third, the use of zakat money is limited to certain functions, while tax money can be used to finance any program that the government sees important (1987: 176).

In Indonesia, Law No. 38/1999 of Zakat Management and the Philanthropic Sector, enacted during the Habibie’s presidency, regulates zakat management. A government agency collects and distributes zakat. Zakat is considered similar to charity in the United States, where the zakat payers can deduct their zakat money from income tax (Alfitri 2006).

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Just as with the green economic vision, the growing acceptance and practice of the Islamic economic vision exemplify a new dimension in economic discourse in Indonesia. Academics also have contributed to this development. Several economics departments, including that at the University of Indonesia, and Trisakti University in
Jakarta, Brawijaya University in Malang West Java, and Gadjah Mada University in Yogyakarta, have offered courses on Islamic Economics since the mid 1990s, and there is no doubt that in the future there will be more institutions that integrate the Islamic economic vision into their curriculum. Since there have been many Islamic economic institutions operating side by side with the 'conventional' economic institutions, the prospect of an Islamic vision operating together with other vision(s) is positive. This, of course, assumes that Indonesian Muslims do not push for the elimination of non-Islamic institutions.

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For a comparison, practically no economics department in leading universities teaches socialist economics.
The various visions that we have discussed so far suggest a strong influence of foreign ideas. Hatta’s and Soekarno’s visions are clearly informed by socialism; Widjojo’s and Habibie’s visions are capitalistic, while the impetus for Islamic and ecological economics also comes from other places. A question arises: is there any vision that is uniquely Indonesian? Some people have proposed several visions that are purportedly ‘uniquely Indonesian’. In this chapter we will discuss one concept that has received serious public discussions: Ekonomi Pancasila, an economic vision named after the state ideology.

6.1 State Ideology

Pancasila, meaning ‘five principles’, was suggested by Soekarno in one of the Committee for Indonesian Independence meetings, but the wordings and the order of the official version were completed by a joint committee effort. The five principles are:

1. Belief in the one and only God
2. Just and civilized humanity
3. The unity of Indonesia
4. Democracy guided by the inner wisdom in the unanimity arising out of deliberations amongst representatives
5. Social justice for the whole of the people of Indonesia
Problems, however, have arisen because the debate regarding the position and the interpretation of *Pancasila* itself is far from finished. Dharmaputra (1988) argues that *Pancasila* was accepted in the first place because it was compatible with the various ideologies/religions, and because, being broad and vague, it was open to different interpretations. In fact, the term 'open ideology' was commonly used (see Abdoelgani 1988, Pranarka 1987). For Soekarno, for instance, the essence of *Pancasila* was *gotong royong*, mutual cooperation. For some Islamic groups, however, the essence of *Pancasila* was the first principle (hence, the order): the belief in one and only God.

Realizing that as an ideology *Pancasila* was too broad and vague, in 1978 Soeharto’s government offered the official interpretation of *Pancasila*.¹ The People’s Consultative Assembly (MPR) then produced a decree to endorse the government’s interpretation. The legislative also established the *Guidance for the Understanding and Implementation of Pancasila* (known by the Indonesian abbreviation, P4). Moreover, to guarantee that all Indonesians follow the state ideology, the MPR produced a law that requires *Pancasila* to be the sole principle for any organization in Indonesia (including religious organizations).² The official interpretation, however, was by no means the only interpretation.

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¹ Ironically, the Article 1 of the Decree read as follows: ‘This guide... is not an interpretation of *Pancasila* as the Ideological Basis of the State; neither is it intended to interpret the State Basis of *Pancasila* as it is contained in the Preamble to the 1945 Constitution either in the body of the text or in its clarification.’ History, of course, shows that the Decree was, indeed, the official interpretation.

² Shortly after that, the government started *Penataran P4*, a mandatory short course program on *Pancasila*, for students, state employees, and other social groups of all levels. The length of the program was anywhere between three days to one month, depending on the group. Students have to attend the program at the beginning of their education levels, starting from the junior high school (equivalent to 7th grade in the US system). For freshmen in college, the length of the program was a full month.
6.2 Mubyarto and Debates on Ekonomi Pancasila

The fact that *Pancasila* is so broad did not deter some people, politicians and academicians alike, from suggesting an economic vision based on it. Sometimes, it was purely an academic exercise. Some other times, the idea was simply to justify some political position. While there have been many suggestions about what is meant by *Ekonomi Pancasila*, the strongest one came from Mubyarto, a professor of economics at Gadjah Mada University, Yogyakarta.³

Mubyarto was an agricultural economist who received his Ph.D. in economics from the University of Wisconsin. A prolific writer, he often wrote in the local and national media about the importance of agriculture and rural areas in Indonesian economy. He became critical of the direction of the economy under the technocrats in 1970s, and he accused the government of pulling away from the founding fathers’ economic vision.

In 1981, Mubyarto and a team from Gadjah Mada University tried to clarify what *Ekonomi Pancasila* meant by giving more explicit accounts of the idea. Citing the 1945 Constitution and the Indonesian’ economy history—especially the economic situation in

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³ Because Pancasila has been the state ideology since independence, one would think that in a country like Indonesia, where labeling is considered important, the term *Ekonomi Pancasila* (Pancasila economics) would have been well established. However, that is not the case. Neither Soekarno nor Hatta used the term. It was Emil Salim, one of the technocrats, who introduced the term in 1966. In an op-ed piece in the daily newspaper, *Kompas*, he argued that:

> In our efforts to promote a distinct economic system for Indonesia, we should hold fast to the ideas of *Pancasila*, particularly those outlined in the document ‘the Birth of *Pancasila*’ and its Articles 23, 27, 33, and 34 of the 1945 Constitution. For the economy, it is the moral principle of Social Justice that is the most relevant of [these five principles]. It entails two meanings: the principle of just distribution of income, and the principle of economic democracy.' (Salim (1992(1966)).
the 1970s — as their starting point, they suggested five characteristics of *Ekonomi Pancasila*, as follows (Mubyarto 1988).

The first characteristic is that the *Cooperative must be the pillar of the economy*. The importance of cooperatives has been the main component since Hatta’s insertion in the 1945 Constitution. Like Hatta, Mubyarto associates the ‘joint effort’ (*usaha bersama*) mentioned in the Chapter 33 with the cooperative. The second characteristic is that there are *Social and moral incentives in addition to economic incentive*. Mubyarto contrasts this with what he views as the profit-oriented companies that are present in the Western capitalist countries. He argued that if currently people do not have social and moral incentives, these have to be induced through education. The third one pertains to a *Strong will to establish social justice through solidarity*. This egalitarian character, according to Mubyarto, is very important especially in the current situation. He argued that the gap between the rich and the poor would not be wide if the government did not let the private sectors grow big and reach the level of conglomerates. The fourth characteristic is *High priority has to be given to national economic objectives*. Again, Mubyarto contrasts this to the market liberalism that allows multinational corporations, international investments, etc., which according to him, do not serve the national interest. Finally, the last characteristic according to Mubyarto, is *Economic policy must be based on a balance between central planning and decentralized implementation.*4 As suggested by Dick (2002), in the early period of Soeharto’s regime, the Indonesian economy was really concentrated in Java, particularly in Jakarta. This imbalance had created dissatisfaction in

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4 At the time Mubyarto put forward this idea, Indonesia’s economy was very centralized in Jakarta. By the late 1990s, however, especially during the reform period, the mood has changed, giving the provinces more authority in decision-makings.
other areas of the country. Mubyarto argues that since all areas constituted Indonesia, the
government should not continue policies that generated regional imbalance.

The proposal triggered a public discussion on *Ekonomi Pancasila*. The
government, including Soeharto himself, argued that while the implementation had not
been perfect, the government economic policies since the late 1970s had been directed
toward more equal distribution. Other reactions came from the academics, with the
strongest from Arief Budiman. He engaged in a public debate with Mubyarto (and other
proponents of his version of *Ekonomi Pancasila*) in the early 1980s. A sociologist with a
Harvard Ph.D., Budiman argued that the current economic structure and current situation
in regard to social behavior meant that it would be impossible to change the system.
Mubyarto’s *Ekonomi Pancasila*, according to him, requires Indonesians to be moral,
social people; in other words, to be *Pancasilaists*. Yet, in practice, they are not.\(^5\)
Following Marx’s concept of men and society, Budiman argued that when men live in
‘false consciousness’ as in a Capitalistic society such as in Indonesia (circa early 1980s),
only socialism, albeit with some adaptation, could work (Budiman 1982).\(^6\)

Mubyarto responded that making Indonesians *Pancasilaists* could be done
through education. Both Soekarno and Soeharto saw the importance of education so that
they both started the ‘socialization’ of *Pancasila* through courses, etc. So far, however,
the results of this socialization have been far from successful. Mubyarto’s effort, indeed,

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\(^5\) Ropke (1984) made a similar point to that of Budiman: in order for *Ekonomi Pancasila* to work the *homo economicus* in the market liberalism would have to be substituted with *homo cooperativus*.

\(^6\) His call to look at the Marxist view of men and society was considered brave in the height of Soeharto’s regime, considering Indonesia’s ban on any efforts to ‘spread the teachings of Marxism and Leninism’. Perhaps, this was also the reason that his suggestion did not gain any support.
is still far from finished. As Budiman said, 'Mubyarto is still looking for the *Ekonomi Pancasila*. He has not found it yet. What he has done so far is simply putting fences, narrowing down the idea, but not finding the “animal” yet.' (Budiman 1982).

Budiman also argued that Mubyarto’s *Ekonomi Pancasila* overlooked a very important issue: it did not start from philosophical debates regarding men and society. This was what Budiman saw missing from Mubyarto’s suggestions. Without it, according to Budiman, any effort to define *Ekonomi Pancasila* could be misleading (Budiman 1981). Mubyarto answered that the philosophical issues had been resolved as *Pancasila* had been established as the state’s ideology. The view on men and society, then, should not be an issue any longer since it had been addressed elsewhere. He also argued that the concept of men and society in *Pancasila* is embodied in *Pancasila* itself. He wrote, ‘People who are not clear about this, indeed, do not understand *Pancasila* itself’ (Mubyarto 1981).

Another criticism of *Ekonomi Pancasila* is the lack of a supporting theoretical concept. Without a strong theoretical foundation, it would be very difficult to implement the economic system successfully, even if there is a political will to do so. A theoretical foundation would also guide the policy-making process so that the outcome would be desirable. Realizing this, Mubyarto tried to offer an investment theory that according to him is compatible with *Ekonomi Pancasila* (Mubyarto 2003c). However, his theory is a variant of the Keynesian model rather than a unique model for Indonesian economy.

In returning to the efforts of finding an economic vision that is uniquely Indonesia, a question arises: what can we call ‘uniquely Indonesian’ from *Ekonomi
Pancasila? It seems that none of the concepts discussed above is uniquely Indonesian. Every element can be traced back to big ideas in the Western tradition, such as nationalism, socialism, and liberalism.

Indeed, if the effort to establish Ekonomi Pancasila was simply an effort to get the best characteristics of the world’s two largest economic systems, that is, market liberalism’s efficiency and socialism’s equal distribution, it was not new. In the 1930s, Oscar Lange, a Polish economist, had proposed the idea of market socialism. The hybrid economic system tried to combine social ownership of capital with market allocation. The state owns the means of production, and returns to capital would accrue to the society (Lange 1964(1938)).

The cooperative idea, dear to Hatta, had been present even longer. In the 18th century Robert Owen suggested the creation of ‘villages of co-operation’ where workers would drag themselves out of poverty by growing their own food, making their own clothes and ultimately becoming self-governing. While Owen’s experiments to create such villages in Scotland and Indiana failed, the idea was picked up in the mid 19th century with the formation of the Rochdale Pioneers, the first cooperative for workers created in England. Later, Yugoslavia, a communist country that broke its relationship with the Soviet Union in the 1950s, also claimed that its economy was based on the cooperative system. Hatta was not unaware of this. In his Memoir he even explicitly

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7 Ropke (1984) writes, ‘I hope Indonesian readers of this paper will not feel irritated if they are reminded that actually very similar ideas (depicted in Indonesia as describing truly Indonesian patterns of life), have been put forward by many western authors. A German author even described cooperative as a “genuine Germanic institution.”’
mentioned that his ideas about cooperatives had been inspired by his trip to the Scandinavian countries.

The proponents of *Ekonomi Pancasila* argue that—just like *Pancasila*—it is not the individual elements that constitute the uniqueness of the vision. It is the presence of all elements, an integration of various concepts, that make it unique and, according to them, represents Indonesia society (Panitia Lima 1977).

This line of argument is, of course, based on a presupposition that there is a concept that can represent the Indonesian society. However, even the notion of 'Indonesian society' is not without problems. With a population who speak more than 300 distinct languages, diverse cultures and religions, and spanning 3 time zones, Indonesia is obviously not a homogenous country. The nation-building process did not start until the early 20th century. Even today, the formation of an Indonesian identity is an ongoing process.

In the process, we see a domination of certain cultures—the Javanese—in the national arena, and the use of Javanese symbols and narratives, such as the use of Gadjah Mada's *Palapa* pledge. Gadjah Mada was a Javanese admiral in the kingdom of Majapahit who pledged to unify *Nusantara*, a narrative used to justify the existence of the nation that is commonly found in governmental discourse. During the Soekarno and Soeharto eras, non-Javanese people simply accepted this kind of practice without seriously questioning the position of their own cultures (see van der Kroef 1968).

However, with growing dissatisfactions against Jakarta's policies, many people started to look somewhere else for answers to their problems. The province of Nanggroe
Aceh Darrusalam, for instance, has established regional law that is based on Islamic principles. Other provinces or regions have also demanded more ‘Islamic practice’ in the public arena. With such fractions in the society, it would be very difficult to find a definite concept that can accommodate different—and some time conflicting—interests, let alone a concept that claims to be representing Indonesian society.

The idea of an ‘Indonesian national economy’ is not without problems either. As Dick (2002) shows, only during Soeharto’s era did the notion of a national economy emerge. Prior to that, each region had its economy and was not really connected to the other regions. Most economic activities that were claimed to be part of the ‘Indonesian economy’ were actually taking place in the island of Java.

6.3 Cooptation

Mubyarto’s efforts to formulate Ekonomi Pancasila, as we have seen, triggered responses from many directions in the early 1980s, including public debate in the mass media, notably between him and Arief Budiman. Responses from the government at the time were mostly given with caution. The debate, however, cooled off in the mid 1980s when the oil fortune ended and Indonesia needed to find ways to cope with loss. As we have seen in previous chapters, the technocrats pushed for a liberalization to mobilize more capital both from inside and outside the country.

In the early 1990s, however, things changed. Soeharto tried to win over the religious and nationalists concerns by raising the inequality issue. He appointed Mubyarto as an under-secretary level official that deals with poverty alleviation. Now
and then, Soeharto even used the term *Ekonomi Pancasila* in his speech. This gesture, however, was widely seen only as an effort to appease people and to divert attention from the fact that during that period his family’s business was dominating so many sectors in the economy. Mubyarto was not completely out of picture, but as a government official he was limited in addressing other issues outside his scope of work.

Soeharto’s cooption of the term brought about a blessing as well as a curse as far as *Ekonomi Pancasila* is concerned. It put *Ekonomi Pancasila* in the mainstream of government policy, so that it became a household phrase. However, such terms were also associated with Soeharto’s regime, which later brought about negative connotations. When the crisis struck Indonesia in 1997, leading to Soeharto’s resignation in 1998, some people started to be hesitant about using the term *Ekonomi Pancasila*. Even Mubyarto, who had returned to his position as a professor in Yogyakarta, seemed to avoid using the term for a while. He started to use different words, albeit with the same message, in advocating the need to look for an alternative economic vision for Indonesia. The economic crisis, he argued, was a result of the liberal monetary policy that only benefited the rich conglomerates. It would not have happened if the government gave priority to the weak small-scale enterprises (Mubyarto 2003a). The term *Ekonomi Kerakyatan* (people’s economy) or *Demokrasi Ekonomi* (economic democracy) were substituted for the term *Ekonomi Pancasila*. In many articles in *Jurnal Ekonomi Rakyat* (Journal of the People’s

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8 Mubyarto argued that it was the big companies that suffered the most from the ‘monetary crisis’. The small-scale companies, while also affected, did not suffer much because they did not have linkages to global industries (Mubyarto 2003b). The perseverance of small-scale industry in Indonesia had been documented previously (Dunham 1992).
Economy), where Mubyarto served as an editor, he did not use the term *Ekonomi Pancasila*.

In 2003, after becoming a professor emeritus, Mubyarto established the Center for the Studies of Ekonomi Pancasila (*Pusat Studi Ekonomi Pancasila*) at Gadjah Mada University. The goals of the center, the first of its kind, were to analyze the moral foundation, science, and economic system that are compatible with Indonesia’s ideology: *Pancasila*. In May 2005, Mubyarto passed away. It remains to be seen whether the researchers at the Center that he helped establish will continue his vision (see Boediono 2005).
CHAPTER 7
CONCLUSION

After reading the previous chapters, one might ask questions such as, “How were the implementations of those visions in Indonesia? What are the results?” Another question would be, “What are the differences between those visions?” The first two questions are empirical questions, while the last one is analytical. We will address both questions differently by evaluating the visions we discussed previously. The empirical evaluation of each vision is achieved by looking at the implementations and the influences of those visions. Since we use implementation and influence as factors, we will only include the four visions discussed in Chapter 3 and Chapter 4. The three other visions have never been implemented as a major vision in Indonesia so that it would be difficult to evaluate them. Meanwhile, the analytical evaluation of each vision is done by utilizing the definition of vision discussed in the introduction. We start with addressing the empirical questions first.

The periods of implementation of each vision were not even, depending on the country’s president at that time. Hatta’s vision was implemented roughly between the declaration of independence in 1945 and the mid 1950s—the time he resigned from his position as vice president. Soekarno’s vision was realized during his last years of presidency: from the late 1950s to 1967. Widjojo’s vision was implemented through official polices the longest among the four main visions: from 1967 to 1993, while Habibie’s was from 1993 up to the end of Soeharto’s era in 1998. The end points are not
strict, however. As we will see later, some visions, at least elements of them, lasted longer than others; which means the elements of two or more visions overlap with each other. In some cases, elements of a vision kept recurring in different settings. In other cases, they were soundly rejected by the Indonesians when they tried to come back. We will look at each of those visions, starting from Hatta’s.

Long after Hatta resigned from the vice-presidency in the mid 1950s, his economic vision remains the one that many people invoke when they want to argue for ‘return to basics’, as we have seen in Mubyarto’s *Ekonomi Pancasila*. This perception was particularly strong in the 1970s and in the early 1990s. There is a question, however, whether ordinary Indonesians actually know what Hatta’s economic vision is. The main theme in Hatta’s economic vision concerns economic and social justice. The system he had in mind was a version of socialism, and the form that he thought would fit the Indonesian economy the best was cooperatives. Hatta himself called his vision ‘religious socialism’. He never attempted to hide the fact that he was advocating socialism—albeit a different one from the ‘standard’ understanding of the term; hence, the adjective ‘religious’. However, for many Indonesians, especially those who were born or grew up during Soeharto era, the term still bears a stigma. The majority however, would not be able to tell the difference between socialism and communism. The Soeharto Government’s constant efforts to remind people about ‘the danger of communism’—referring to the events that lead to the fall of Soekarno, the deaths of several Army generals and the economic crisis in the mid 1960s—and the ban of anything related to Marxist or Leninist teachings have made people hesitant to embrace anything related to
socialism. The fall of communism in the Soviet Union and other Eastern European countries also contributed to this feeling. There has been a perception that socialism—as an economic vision—has failed, so it does not need to be tried out in Indonesia. As a result, while the ideas of economic and social justice resonate well with many Indonesians, the association of socialism with communism leaves Indonesians hesitant to fully embrace socialism, even if articulated in terms of religion.\(^1\)

Meanwhile, the cooperative, one of Hatta's main foci, has been institutionalized since the 1950s with the existence of a cabinet level position dealing with the development of cooperatives. At the beginning, the ministry was combined with other functions but it became a separate ministry in the early 1980s. The results, however, have been mixed at best. In terms of numbers, cooperatives have grown immensely. When Hatta wrote reports on the development of cooperatives in the mid 1950s, there were only about 500 cooperatives throughout Indonesia. By 2005, a half century later, there were an estimated 135,000 cooperatives throughout Indonesia with about 309,000 people working either as cooperative managers or staff, and more than 27 million cooperative members. The total owned-capital of those cooperatives was about 14 trillion rupiahs (Kementerian Koperasi dan Usaha Menengah dan Kecil 2006). Nonetheless, while by themselves those numbers look impressive, they are basically small compared to the Indonesian economy as a whole. The cooperative workers, for instance, constituted merely 0.33 percent of

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1 The perception of anti-socialism has been so strong that the main supporters of Hatta's vision, such as Mubyarto or Sri Edi Swasono (Hatta's son-in-law), never used the term 'socialism' for their ideas. While invoking Hatta's name, they frame their economic vision as *Ekonomi Pancasila* or *Ekonomi Kerakyatan* (People's Economics), but never 'religious socialism'. This was true even after Soeharto's New Order Government was long gone.
total workers in that year. While the number of cooperative members counted for about 17 percent of people of 15 years old or above, it is still far from Hatta’s vision of cooperatives serving as the main pillar of Indonesian economy.

The fact that cooperatives have not emerged as the pillar of the Indonesian economy, however, does not mean that the national economy has been based on big corporations. Data on people aged 15 years or older shows that about 38 million people or 41 percent of those who worked in 2005 were either self-employed or self-employed assisted by family members. The numbers reflect the economic structure. If we look at the numbers of people who worked according to the type of their industry (sector), about 41 million (44 percent) of those who worked were still working in the agricultural sector. Many farmers were either self-employed or assisted by their family members. The numbers also reflect the existence of small and medium scale enterprises in the economy. The number of people who worked in small and medium scale enterprises in 2005 was 83 million, compared to about 3 million who worked in big enterprises (Kementerian Koperasi dan Usaha Menengah dan Kecil 2006). This means that nearly 96 percent of Indonesian workers worked in small and medium scale enterprises. Their contribution to the national income, however, was much lower. Those enterprises contributed only about 55 percent to the gross domestic products.

Hatta adopted cooperative ideas when he went to Scandinavian countries in the mid 1920s. He saw how Swedish farmers brought their milk to cooperatives and got the seeds for their land. He thought that a similar approach could be adopted in Indonesia,
and might be even more effective. However, Indonesia is not Scandinavia. While the gotong royong (mutual cooperation) principle and asas kekeluargaan (family principle)—which Hatta claimed were found everywhere in Indonesia—might be compatible to the cooperative idea, the operation is not simple. During the Soekarno era, cooperatives were part of political parties, which resulted in a politicization of the cooperative itself. During the Soeharto era, while depoliticized, cooperatives became strictly government programs. Heads of the Department of Cooperatives at the provincial level, for instance, were given targets of the number of new cooperatives per year that he/she was required to meet. The top-down approach resulted in dependency on government assistance rather than members’ initiatives. This, to some degree, defeated the essence of cooperatives itself as a people’s organization. Yet, the government still feels compelled to carry out the program.

Mubyarto (2003b) observed that during the crises of the late 1990s, most of the small and medium scale enterprises survived without getting any government assistance, unlike the big business conglomerates. This is an important observation with regard to the resilience of the economy. Those enterprises were, in fact, serving as the pillar during the crises. This has ramifications when we try to evaluate Hatta’s vision. The idea of cooperatives was introduced more than a half century ago. It was supported and assisted by the government; yet it has not really developed into the main player. This might be a sign for Indonesians to look somewhere else. Given the current economic and political situation, some other vehicle of achieving economic and social justice besides

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2 Hatta held a hope that cooperative would be a vehicle for solidarity and social justice, not ‘merely’ for economic function.
cooperatives, such as the development of strong private small and medium enterprises, must be considered.³

The theme of economic and social justice, of course, is not found in Hatta’s vision only. Soekarno’s vision also shares this basic theme, although, as we have seen in previous chapters, was quite different from Hatta’s in terms of how to achieve it.

Soekarno’s charismatic persona left a lasting imprint on the country. Long after he died, some people still kept his picture on the wall. The election of Megawati, his daughter, to vice presidency and later presidency, to some extent was due to people’s romanticized memory of Soekarno. That is not the case with his economic vision, at least not on the rhetorical level. On the practical level, however, the influence of his vision is stronger than people would admit. As noted earlier, Soekarno’s economic vision rested on three inter-connected elements: that the revolution has not ended, that in order to achieve the revolutionary goals the country needs a plan, and that the country needs a leader to guide the implementation of the plan.

The first element, that the revolution has not ended, was Soekarno’s way of making sense of what had happened in local, national, and international settings at the time. By framing it in that way, he asked people to tolerate the situation by continuously looking forward to the ‘prize’: a just and prosperous society. When he talked to a generation that experienced the Indonesian revolutionary war for independence, his message resonated well. However, it appealed less and less to the subsequent generations.

³ The Indonesian Government seemed to go in this direction. Under the current president, Susilo Bambang Yudhoyono, the Ministry in charge of cooperatives is named the Ministry of Cooperatives and Small and Medium Scale Enterprises.
The problem with framing reality for the whole society is that when people stop subscribing to the framework, elements that come together with it fall apart. Such is the case with Soekarno. When Indonesians started to wonder why they had to suffer from the lack of food, clothes, and other basic needs even after they reached independence, as occurred in the mid 1960s, Soekarno lost his power.4

The other element of Soekarno’s vision, reliance on planning, remained even when Soeharto implemented more market-friendly economic policies based on Widjojo’s vision. Bappenas, which at one point was the bastion of Widjojo’s group, was a continuation of the National Planning Board.5 While the nature of planning had changed (by allowing more market orientation especially for non-governmental sectors), the scope of planning was similar to the one under Soekarno. Every year Bappenas provided the president with a list of public policies that ranged from economic to religious issues. Hence, the aspect of comprehensive planning—not only economic but also of other aspects of life—was maintained.

The last element of Soekarno’s vision, i.e., guided economy, which basically allows a person or a small group of people to have the last say on economic issues, was often denounced as authoritarian. Under the Soeharto regime, however, economic policies were essentially still driven by a group of people, although the composition of the group changed from time to time. Soekarno’s sympathetic attitude toward the

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4 This, of course, does not prevent the subsequent governments from offering the same rhetoric in presenting policies to the people. While nobody uses the term ‘revolution has not ended’, they (under Soeharto and all of his successors) often use term such as ‘to fill in the independence’ (mengisi kemerdekaan), or ‘toward a just and prosperous society’ (menuju masyarakat yang adil dan makmur) in making sense of their policies.

5 It is important to note that Widjojo himself was involved in the National Planning Board during the Soekarno era.
possibility of having one political party did not sit well with many who fought for independence, let alone among the current generations who soundly rejected the three-party system devised by Soeharto. Under Soeharto, Indonesia essentially followed a road similar to that of Singapore under Lee Kuan Yew or China recently: pursuing economic development first at the expense of political development. Events after the fall of Soeharto show that Indonesians reject such vision. It is also noteworthy that when Megawati became a president, she did not implement the policies that Soekarno envisioned.

Soekarno’s vision, which was based on his opposition to capitalism, led the country to economic crises, and in turn, forced him to step down. It was Widjojo’s vision, which was implemented when Soeharto became a president, that turned the country around.

Widjojo did not use any specific term to describe his vision. He only referred to it as ‘development based on rational economic policies’. What he meant by ‘rational economic policies’ was policies based on a hybrid of Keynesian and neo-classical economics (see Chapter 4). In general, he let the market set the prices, but he also allowed the government to influence the market. The latter was done by setting developmental guidelines, by increasing or decreasing government expenditures, and by regulating the market through taxes and regulations. The implementation of Widjojo’s vision led to a long period of economic growth and improvements in many indicators (at

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6 In the 1999 election, the first after the fall of Soeharto, the number of political parties expanded from three into 48 parties.
7 It is, then, very ironical that Soeharto also ended his presidency with another economic and political crisis.
least up to just before the economic crisis began in 1997). The average annual per capita
growth from 1967 to 1993 is 11.3 percent. The number of Indonesians living under
poverty decreased from 54.2 million in 1976 to 22.5 million in 1996, or in terms of rates,
from 40.1 percent to 11.3 percent.

One aspect that was prevalent in Widjojo's vision, although it had been
previously mentioned by Hatta, was the population issue. Soeharto took the issue
seriously and used the reduction of population growth as a strategy for improving
economic growth. Total Fertility Rate, a measure of the number of children a woman
has throughout her childbearing age, declined from 5.57 in the 1965-1970 period to 2.55 in
the 1995-2000 period (United Nations 2007). This was a significant achievement that had
an impact on economic development. Had the fertility not been reduced and population
growth remained the same as in the 1965-1970 period (about 2.35 percent annually), the
country's per capita income in 1996 would have been US$ 1,059 instead of the actual
US$ 1,176; a difference of about 11 percent.

Since the beginning, however, people alleged that Widjojo's vision led to
increased inequality. The perception of increased inequality grew stronger in the late
1980s and early 1990s. This was especially exacerbated by the rise of many business
conglomerates; many of them owned by Indonesians of Chinese-descent. The growing
collusion between government officials and businessmen (many of them related to
Soeharto) complicated the situation.

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8 Several studies show that, using standard measures of income inequality such as Gini Coefficient or
percentage of the lowest 40 percent of population, inequality between 1976 and 1996 did not change much,
although it did increase (see among others Azra 2000). The macro-indicators, however, might have masked
the real situation of the economy.
The implementation of Widjojo’s vision was severely limited when Soeharto decided to give Habibie more power in the early 1990s.\(^9\) Officials who were considered close to Widjojo were replaced with those who were related to Habibie. The most significant change, of course, was when Soeharto did not appoint a technocrat economist the Head of Bappenas in 1993. The economic policies of the countries slowly changed its course toward Habibie’s vision.

Habibie’s argument that different phases of development need different paradigms is very appealing. What he emphasized in his vision, however, may be problematic. Recall that his vision rests on two basic elements: the use of high technology to make high value-added products that can be sold with higher prices, and the creation of high educated and high skilled labor force. There are times when a capital-intensive investment, even with a very high price, is needed. The decision to have the Palapa Communication Satellite in the early 1970s, when the only other countries using it were the United States and Canada, is an example of such case. It would be different, however, if the need for such investment became a main element of an economic vision.

In general, efforts by developing countries to short-cut industrialization by emphasizing expensive capital-intensive industry failed as those countries usually do not have the infrastructures (physical infrastructure, and social and political institutions); not to mention financial resources, to sustain such efforts. It does not mean that the government cannot set guidelines for industry—either for a heavy manufacturing industry such as cars or a light manufacturing industry such as consumer electronics. The experiences of

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\(^9\) The move from Widjojo to Habibie seemed to be influenced by non-economic rather than economic calculation (see Amir 2007).
Japanese and Korean governments, which set up and helped certain industries to become world-class producers show that it can be done.\footnote{In the mid 1990s, Indonesia tried to develop its own car industry by collaborating with KIA industries from South Korea. The project was led to one of Soeharto's sons, and was abandoned when Soeharto was replaced by Habibie.} Cars and consumer electronics, however, are different from aircraft. The latter one required much more intensive capital and expertise.

No one, however, could deny that a developing country like Indonesia needs better education, including in science and technology. Not only can a well-educated generation have higher productivity that may produce high value-added products, but it also opens the door for betterment in many areas of life such as in social and political arena. This element of Habibie's vision seems to have merit.

All four discussed visions were formulated in the middle and late 20th century, and they took into account what was written in the 1945 Constitution. For a long period of time, under Soekarno as well as under Soeharto, the constitution was seen as a sacred document that could not be amended. Things changed when Soeharto stepped down. In the early 2000s, the People's Consultative Assembly made several amendments to the constitution. While most of them were on political issues, some of the amendments were on economic issues. The main changes are on Articles 33 and 34, which were under the title "Social Welfare" before. After the amendment, the title changed into "National Economy and Social Welfare." As we have seen in Chapter 5, two points were added to Article 33. As for Article 34, before the amendment the article says, "The poor and destitute children shall be cared for by the State." After the amendment, it becomes:

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(1) The poor and destitute children shall be cared for by the State.

(2) The state shall develop a system of social security for all of the people and shall empower the inadequate and underprivileged in society in accordance with human dignity.

(3) The state shall have the obligation to provide sufficient medical and public service facilities.

(4) Further provisions in relation to the implementation of this Article shall be regulated by law.

Here, we see a strong commitment to social issues, especially on social security and health. This was designed to anticipate publicly funded social security and health system. Related to that, some contemporary leaders started to talk about Indonesia being a welfare state. A welfare state refers to a capitalist economic system in which the government implements strong social policies for its citizens, through programs such as provision of universal health care, education, pension, and so on. The government usually finances those programs by imposing relatively high taxes. However, public discourse on this issue in Indonesia is still scarce. Partly this is caused by the ambiguity of Indonesians, especially their leaders, about the country’s economic vision. On one hand, they claim that Indonesia has to follow the founders’ visions. On the other hand, they realize that implementing the founders’ visions may have ramification on economic growth. A welfare state, despite strong attention to social issues, is still part of capitalist system. It remains to be seen if welfare state would become a major economic vision in the future. 11

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11 In some occasions, Hatta mentioned his hope that Indonesia would be a welfare state such as those of Western European countries. He seems to ignore the fact that those countries were based on capitalism, not socialism as he envisioned.
It is now time to address the analytical issue by looking at the definition of vision suggested by Colins and Porras (1996), as mentioned in the introduction. According to them, a vision comprises two main elements: the core ideology and the envisioned future. The core ideology includes the core values (a system of guiding principles and tenets) and the core purpose (the organization's most fundamental reason for existence). Envisioned future refers to achievable goals that can be reached in 10-30 years.

The four visions based on four Indonesian leaders that we discussed seem to share a core purpose, i.e., to create a just and prosperous society. There are differences, however, on what the leaders view as core values that are important to the vision. Those differences can be attributed to the differences in their background and the context in which they lived. Because they grew up and spent their early adulthood under the colonial era at the beginning of the 20th century, Hatta and Soekarno were strongly influenced by socialist ideas that emphasize social justice. They also strongly believed in the existence of a shared traditional culture in Indonesian society. Unfortunately, the implementation of any vision that bases its claim on 'traditional Indonesian society' runs into problems because 'Indonesian society' is a fluid concept. Looking at the diversity of the people's backgrounds (history, religion, culture, and so on), it would be more accurate to say 'Indonesian societies.' This, of course, complicates any effort to realize their visions. Meanwhile, both Widjojo and Habibie entered adulthood during the independence era in the mid-20th century. Both received their graduate education in a Western capitalist country in the period when the Cold War had just started. As a result,

12 Some people would argue that the country's core values are those five principles in Pancasila. The fact that Pancasila itself is still debated makes it problematic.
while Widjojo and Habibie also wanted to achieve a just and prosperous society, they did not see socialism or reliance on traditional values as the way to go. Instead, they both saw the market and competition as vital elements in achieving the country's ideals.

The four leaders are also different in what they might consider achievable goals for the next 10-30 years (the envisioned future). Recall Henry Ford's envisioned future cited in the first chapter, in which he depicted a time when everybody could afford a car. Hatta's envisioned future would include the development of cooperatives: most Indonesians would be cooperative members, and the cooperatives' contribution to national income would reach 40 percent or more. Soekarno would have liked to see a reduction of capitalism. He would also liked to have seen Indonesia resemble India under Gandhi, where at the urge of the leader, people would stop wearing imported clothes, etc. Meanwhile, Habibie would have liked to see an increase in exports of technology-intensive products, with his IPTN aircrafts competitive against European Airbus and American Boeing. Only Widjojo, however, has had the privilege of seeing his envisioned future—at least part of it—become reality: the reduction of population growth.

This part of any vision, the envisioned future, shows how different a country would have been had its leaders been able to implement their different visions. They may indeed share a core purpose, even core values, but the differences in the envisioned future ultimately leads each to a different place.

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13 Neither of them, of course, used the term 'capitalism' in their vision. Widjojo usually calls his vision 'development based on rational economic policies', while Habibie calls his vision 'development based on high value added'.
This thesis aims to provide a new framework in analyzing economic policies in Indonesia: by looking at visions offered by different leaders.¹⁴ This was done by looking at their biographies in order to get a sense of their lives and understanding where they are coming from. Biography also allows us to see a genealogy of economic visions that at one point or another were part of public discourse. It also shows that economic visions, which by the actions of the leaders becoming economic policies, are not set in stone despite efforts to make it that way. They change as society and its leaders change. As I mentioned in the introduction, the thesis does not offer any prescription or endorses any vision. It only describes and puts each vision in context. It is my wish, however, that through careful evaluation of what has been offered so far, Indonesians can find the best way to achieve the common purpose: the creation of a just and prosperous society.

¹⁴ This is not to say that economic policies are always derived from the prevalent vision. As Charles Lindblom (1959) pointed out, many times policies are results of ‘muddling through’ processes where many interests are accommodated. In Indonesia, however, the president’s decision usually carries the biggest weight.
GLOSSARY

Bappenas Badan Perencanaan Pembangunan Nasional — National Development Planning Agency, Republic of Indonesia. During the first part of Soeharto regime, the agency was closely related to Widjojo.

BPIS Badan Pengelola Industri Strategis — Coordinating Body of Strategic Industries, a body consisted of 10 industries under Habibie.

BPPT Badan Pengkajian dan Penerapan Teknologi — Agency for Assessment and Application of Technology, led by Habibie.

CEI Changing Economy in Indonesia. A series of books contains statistical data from Dutch colonial period

CIDES Centre for Information and Development Studies, a think-thank organization under the Indonesian Muslim Scholars Association

Ekonomi Pancasila Economic ideas claimed to be based on Pancasila, the state’s official ideology.

Ekonomi Terpimpin Guided Economy, part of Soekarno’s vision.

FEUI Fakultas Ekonomi Universitas Indonesia — Faculty of Economics, University of Indonesia.

ICMI Ikatan Cendekiawan Muslim Indonesia — Indonesian Muslim Scholars Association, led by Habibie.

IPTN Industri Pesawat Terbang Nusantara — Nusantara Aircraft Industry. Habibie was the its president for long period of time.

ITB Institut Teknologi Bandung — Bandung Institute of Technology

MPR Majelis Permusyawaratan Rakyat — People’s Consultative Assembly, Indonesia’s highest governing body according to the 1945 Constitution.
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<tr>
<th>Acronym</th>
<th>Description</th>
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<tr>
<td>MPRS</td>
<td>Majelis Permusyawaratan Rakyat Sementara – Provincial People’s Consultative Assembly. The term ‘Provincial’ was given by Soekarno in 1959. It last until the late 1960s, when Soekarno was replaced by Soeharto.</td>
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<tr>
<td>Muhammadiyah</td>
<td>The Followers of Muhammad. An Islamic organization that tries to adopt modernity in Islamic practices.</td>
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<td>NGO</td>
<td>Non Governmental Organization</td>
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<td>NU</td>
<td>Nahdatul Ulama – The Renaissance of Ulama, an Islamic organization based on Java that at one point was considered an organization for traditional Muslims.</td>
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<td>OPEC</td>
<td>Organization of Petroleum Exporting Countries</td>
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<td>PNI</td>
<td>Partai Nasional Indonesia, Soekarno’s party.</td>
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<tr>
<td>Nasakom</td>
<td>Nasionalisme, Agama (religion), and Komunisme – Soekarno’s effort to combine three big ideologies</td>
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<tr>
<td>Pancasila</td>
<td>The Indonesian State’s official ideology. Literally means Five Principles.</td>
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<td>SI</td>
<td>Syarekat Islam – Islamic Union, one of the oldest organizations in Indonesia.</td>
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<td>Walhi</td>
<td>Wahana Lingkungan Hidup Indonesia – Indonesian Forum for Environment, or Friends of Earth Indonesia.</td>
</tr>
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