State and Economy during Modern Indonesia's Change of Regime

A Synthesis

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Abstract

This article serves as a general introduction to the proceedings of an international conference on 'State and Economy in Modern Indonesia's Change of Regimes', held in Leiden in 2011. The article offers a synthesis of findings in a recent research effort concerning the relationship between state and economy at the time of Indonesia's decolonization. Findings are embedded in a wider historiographical framework and draw specifically on the individual contributions presented at the Leiden conference. Four categories of analysis are applied concerning respectively political ecoomy, economic policy, recurrent reform and impact. The synthesis highlights the great variety of interpretations of the profund changes taking place in Indonesia at thetime of decolonization and shortly afterwards. It also demonstrates the utility of international comparison. Specific case studies are offered concerning food policies and social medicine in Indonesia. A new vision on the transitional period known as Guided Democracy and Guided Economy is offered.

Key words: *Regime change, decolonization, colonial history, political economy, Guided Democracy*

Introduction

Indonesia is a land of regime change. Consider just the past one hundred years. Whereas the Dutch colonial state had been firmly rooted in Java in the nineteenth century, sizeable territories in the Outer Islands were only affected by colonial rule in the early twentieth century; examples include Jambi, Bali, Sumba and Sumbawa, not to speak of the remote valleys of western New Guinea first visited by Dutchmen in the 1930s. By implication, in 1945 a great many Indonesians of a certain age could look back on having lived as a child in a pre-colonial society. The completion of the colonial state of the Netherlands Indies was the first major regime change of the twentieth century.

The three and a half years of Japanese occupation of the Indonesian archipelago (March 1942 – August 1945) obviously meant a dramatic change of regimes from the preceding colonial state. Yet, the newly created regime was as such not lasting, although it had lasting and profound repercussions. The great watershed in Indonesian twentieth-century history is of course independence, achieved on 17 August 1945 but only later recognized by the international community, last of all by the former colonial mother-country. The intervening period, the Indonesian Revolution (August 1945 – December 1949), is best conceived as a chaotic and violent transition when the archipelago in fact housed two countries alongside one another: the Republik Indonesia (RI), asserting its newly acquired status as a nation-state, and an agglomeration of territories, mainly in the Outer Islands but also covering parts of Java, where Dutch colonial rule was in the process of being restored, often in co-operation with local elites, the so-called Bijeenkomst Federaal Overleg (Federal Consultative Assembly).[1] The outcome of the armed struggle in the late 1940s was the United States of the Republic of Indonesia (Republik Indonesia Serikat, RIS), which as such only existed for less than eight months (December 1949 – August 1950). The short-lived experiment with federalism is best conceived as a highly temporary concession by the RI leadership in order to secure the transfer of sovereignty. Its prime importance may very well lie in its abrogation; federalism was not compatible with nation-building in a country of such enormous diversity.[2] The true change of regime at the time was the Republic proclaimed by Soekarno and Hatta.

But it did not stop at decolonization, whether in political or economic terms. Parliamentary democracy was installed precisely in order to ensure that independent Indonesia would be fundamentally different from the Netherlands Indies, but it failed and was replaced by Soekarno's Guided Democracy (Demokrasi Terpimpin) in the late 1950s. Although not as momentous as the shift from colonial rule to independence, the rise of Guided Democracy and and its concomitant Guided Economy (Ekonomi Terpimpin) signalled a shift to another type of government and economic management. It was of a relatively short duration, less than one decade counting from early 1957, but, again, the repercussions were far-reaching. As Farabi Fakih shows below, Guided Democracy and Guided Economy formed the prelude to the next change of regime, from Soekarno's Old Order (Orde Lama) government to Soeharto's New Order (Orde Baru) government (March 1966 – May 1998). The shift to *Reformasi* after 1998 has converted Indonesia into becoming the least centralized and arguably most democratic nation in Southeast Asia. At any rate, Indonesia has again demonstrated its astonishing propensity to change of regime.

Our concern here is not with the rise of the Dutch colonial state or the rise and fall of Soeharto's Orde Baru but rather with regime change at the time of Indonesian decolonization and its immediate aftermath. Our focus is on the relationship between state and economy as shaped by the change of regime. Both the chain of political events and the global trends of economic development have received due attention in the international literature (Feith, 1962; Ricklefs, 2001; Booth 1998; Dick *et al.*, 2002; Van Zanden & Marks, 2012). The nexus between the two, however, has rarely been a topic of study in its own right although being touched upon in studies of the historical roots of Soeharto's Orde Baru or the economic side of decolonization (Robison, 1986; Lindblad, 2008). Therefore, a concerted effort was undertaken over the period 2009-2013 to explore the theme of state and economy during Indonesia's change of regime at decolonization.[3] First results

1 The distinction between the two perceptions of Indonesia in the late 1940s, as one or as two countries, surfaces in the terminology used to denote the two Dutch military interventions (July – August 1947 and December 1948 – January 1949). By the former view, Dutch military intervention was a security measure in a territory where the government was entitled to take such measure, literally a 'police action' (*politionele actie*), which is the term in general use among Dutchmen and sometimes adopted in the international literature. By the latter view, upheld by Indonesians, the very same operations by the Dutch armed forces are seen as an act of aggression (*agresi*) by one sovereign state against another sovereign state in clear violation of international law.

2 An interesting comparison can be made with neighbouring Malaysia. For a short time, from December 1949 to August 1950, both had a federal constitution. The important thing to note here is that Malaya moved away from the unilateral Union of Malaya (April 1946 – January 1948) to federalism, whereas Indonesia moved away from federalism to the unilateral Republic.

3 The research program was generously supported by a grant from the Netherlands Organisation of Scientific Research, NWO (Nederlandse Organisatie voor Wetenschappelijk Onderzoek) .

from this research effort were presented at an international conference held at Leiden in the Netherlands on 13-14 October 2011. The current special issue of *Lembaran Sejarah* presents seven of the contributions made at the conference. Forthcoming results from the research programme include two forthcoming PhD dissertations, both to be defended at Leiden University.

The present synthesis starts out by identifying key issues in an analysis of state and economy during a regime change. The subsequent argument is arranged by category of analysis. Our synthesis distinguishes between four such categories: political economy, economic policy, recurrent reform and impact.

Key issues

The state in Indonesia has in the past played, and still plays a decisive role in shaping the country's path of economic development, whether directly through intervention or indirectly by facilitating operations of private capital. This inevitably implies a juxtaposition of political and economic priorities that may not always be fully compatible with one another. An remarkable illustration of the necessity to find a comprise between political ideology and rational science stems from Widjojo Nitisastro (1927-2012), undisputed leader of the team of economists monitoring Indonesia's spectacular economic growth during the Soeharto period. Widjojo stated: 'on our way to an Indonesian socialist society [!], our effort to carry out planned development will be accelerated if we better understand the essence of the development process and make conscious use of economic laws for development purposes.' (Widjojo, 2011: 16). It is worth noting that Widjojo made this statement in his inaugural lecture as a professor in the Faculty of Economics at the University of Indonesia (FEUI), Jakarta, in August 1963, two and a half years before the Orde Baru government effectively took charge. The search for an appropriate balance between political priority and economic necessity runs like a *Leitmotif* through Indonesian history since independence.

There is widespread appreciation among scholars that Indonesian economic development cannot be fully understood without paying attention to the role of the state. In her path-breaking survey of Indonesian economic history, carrying the pessimistic subtitle 'a history of missed opportunities', Anne Booth devotes full chapters to economic policy and its effects. The next textbook in line, by the team Howard Dick – Vincent Houben – Thomas Lindblad –Thee Kian Wie, elevates state formation into becoming one of the chief themes of an overview of Indonesian economic history. The most recent venture in the same vein, by Jan Luiten van van Zanden and Daan Marks, emphatically presents itself as an exercise in 'new' institutional economic history, in which the state obviously plays a very important part (Booth, 1998: 135-202; Dick *et al.*, 2002: 1-2; Van Zanden & Marks, 2012). In all three cases, the point of departure remains the economy, in particular the ups and downs over time.[4] Here, by contrast, the change of regime itself, with its important economic consequences, forms the logical starting-point here.

The time frame of our endeavour extends from the late-colonial state in the 1930s to the late years of Soekarno rule in the early 1960s. Such a wide time frame is necessary to get a full understanding of what the change of regime meant. The basic question here is actually a rather simple one. What remained the same? What became different? The regime change occurred within the scope of one single generation, which implies that for the most part

4 The emphasis on economic trends results in a different periodization in each of the three currently available surveys of Indonesian economic history. Booth adhers most closely to the conventional demarcation at Indonesian independence in 1945, whereas Dick *et al.* present the years from the 1930s to 1966 as a separate phase of development, albeit not a very homogenous one. For Van Zanden & Marks, the new phase of development runs from 1942.

the same individuals were involved, often also the same institutions.

According to the agreements of the Round Table Conference in 1949 between the Netherlands government and the two delegations from Indonesia, representing respectively RI and BFO, some 7,000 Dutchmen in civil service were retained to work for the Indonesian state. The Dutch civil servants were only gradually phased out. The result was sometimes astonishing with Dutch experts serving under higher-ranking but less well-paid Indonesians, formally in a capacity as advisor, but on occasion without much else to do in the office than to read novels (Meijer, 1994: 655).

The financial and economic part of the agreements reached at the Round Table Conference, Finec (Financieele en Economische Overeenkomst), also safeguarded the continued, undisturbed operations by Dutch-owned enterprises in Indonesia. Estimates vary but it can be safely assumed that these firms controlled a major part of the modern branches of the Indonesian economy, especially in export production. The foreign-controlled share of total export earnings is even likely to have increased during the early and mid-1950s (Lindblad, 2008: 38). This situation was obviously a thorn in the eye of Indonesian nationalists urging for complete independence, also in an economic sense. This situation remained unchanged until the takeover of Dutch enterprises in December 1957.

An important element of continuity in times of regime change refers to skills development, in particular language proficiency. Although Dutch was banned as a language of instruction in public schools in the early 1950s, it was widely used by both civil servants and private businessmen. Members of the tiny Indonesian intellectual elite had by and large been educated in Dutch-language schools. Some of them had even studied in the Netherlands, notably economists such as Moh. Hatta, Sumitro Djojohadikusumo and Sjafruddin Prawiranegara. Steeped as they were in Dutch culture and Western ideology, their task was to build a nation that was completely different from what the Netherlands Indies had been. The shortage of skilled Indonesians remained an acute bottleneck. In the 1950s, increasing numbers of talented Indonesians were sent to the United States for academic training, including, indeed, Widjojo Nitisastro who obtained his PhD from the University of California at Berkeley.

The issue of continuity versus and discontinuity is best discussed in the framework of a number of separaate categories of analysis. We distinguish between four of them. The first one is political economy, a sometimes uneasy hybrid between political science and economics, loosely defined as more economic than the former discipline and more political than the latter one. With the second category, attention switches to economic policy, and here we need to refer to concrete examples. As mentioned above, the regime change of Indonesian decolonization did not come alone but was followed by more change within a surprisingly brief span of time. This warrants special attention for subsequent reforms taking place in the wake of regime change, our third category. The fourth and final one brings the extrapolations inherent to an exercise such of this type one step further by looking specificallt at the impacts of the regime change, whether in the short or long run. Although some overlap may be inevitable between the categories, they do offer a convenient device for offering a systematic argument.

One additional matter needs to be brought in. Regime change in Indonesia at decolonization did not take place in a vacuum. Similar processes were at work in almost all neighbouring countries in Southeast Asia (with the notable exception of Thailand). The nationalist flavour of decolonization has often precluded adopting a comparative international perspective, also among scholars from third countries. Comparisons between the way in which the same type of change unfolded in adjacent Southeast Asian countries at the same time are distressingly scarce. Therefore, our research effort includes an explicit attempt to at least hint at possibilities for fruitful comparisons across borders. The Cold War perspective needs to be mentioned, too. From 1948, the East-West international rivalry formed the wider context of regime change in all of Southeast Asia.

Political economy

Scholars have devised a variety of ways to give substance to the overt and invisible links between politics and economics. Perspectives vary from the macro level of a broad international setting to the strictly domestic scene of relationships between holders of political power and private owners of means of production. In our discussion we opt for three different approaches, two embodying an international component and one solely confined to the situation in Indonesia. The three approaches complement one another. However, our analysis does not include applications of IPE (International Political Economy) or geopolitics, a subdiscipline in its own right trying to find out how political and economic relations between countries are intertwined.[5] The two approaches adopting an international perspective here focus on the international comparison, both in a wider regional context and offset against the situation in one other Southeast Asian nation-state, Vietnam.

International comparisons tend to focus on performance, especially with regard to long-run economic growth. The most famous example referring specifically to the wider region of East Asia (including both Northeast and Southeast Asia) is of course the World Bank's *The East Asian Miracle* volume, published in 1993 and intended to serve as a recipe for developing countries elsewhere in the world in emulating the success of eight Asian countries denoted as HPAEs (Highly Performing Asian Economy), including Indonesia (World Bank, 1993: 1-26). In his contribution below, Thee explicitly seeks to link the change of regime with long-run growth performance. His selection of East Asian countries to be compared with Indonesia includes three of the World Bank's HPAEs – Singapore, South Korea and Taiwan – and one non-HPAE, the Philippines. Among the remaining four HPAEs, Japan, Thailand and Hong Kong do not lend themselves for this comparison since they simply did not experience the same kind of radical change of regime at the time. Malaysia did, but here the evidence might at least to paartly with that concerning Singapore.

In the decade immediately after the Pacific War, prospects for economic growth appeared the most promising in the Philippines, and indeed in Malaya, far better than in Indonesia (or Thailand), let alone war-torn South Korea. Forty years later, Singapore, South Korea and Taiwan had all surged far beyond both Indonesia and the Philippines of whom the former was now undisputably ahead of the latter (Van der Eng, 1994: 102). In his explanations, Thee departs from the conventional, and controversial World Bank viewpoint that government should only perform a facilitating function in the economy, leaving as much as possible to be determined by the market force. Instead, he brings in the state by looking specifically at the quality of political leadership and economic policy-making. It was the response by the state to the challenges of regime change which altered the economic destiny of nations.

The other exercise here in what may profitably be labelled Comparative Political Economy is about Indonesia and Vietnam, provided by Pham Van Thuy who, amongst others, was able to draw on Vietnamese-

5 An interesting case of IPE-type analysis in modern Southeast Asian history would be Indonesian infiltration in Malaysia at a time, between 1945 and 1957, when the former was independent and the latter was not.

language sources. Vietnam became independent on 2 September 1945, scarcely more than two weeks after Indonesia. In both cases, a drawn-out armed struggle proved necessary in order to gain recognition of the nation's independence by the former colonial power. In either case, the country was effectively divided in two, a situation perpetuated for decades in Vietnam because of Cold War fighting. Considering the obvious parallels between Indonesian and Vietnamese decolonization, it is striking that only an occasional study exists comparing the two countries' revolutions (Frederick, 1997). Pham Van Thuy's contribution below anticipates his forthcoming PhD dissertation on the political economy of Indonesian decolonization incorporating a comparison with Vietnam.

The focus in Pham Van Thuy's bilateral comparison is on the very process of economic policy-making in Indonesia and Vietnam during the revolutionary struggle to assert an independence that was proclaimed but not yet recognized. Who were the men – no mention of women here - who made decisions about economic policy? What was their intellectual background? Their links with the former colonial power? Which institutions were created, or inherited from the colonial state, in order to implement economic policy? In Indonesia, the institutional setup of the RI during the second half of the 1940s mirrored the revitalized bureaucracy inherited from the colonial state in the Dutch-controlled territories, yet remained embryonic and tentative. Significantly, when at the transfer of sovereignty one of the two existing central banks had to be chosen for the RIS, the Indonesian leadership opted for the Dutch Javasche Bank, not the Bank Negara Indonesia (BNI) established by the RI government (Lindblad 2008: 57-64). The situation in Vietnam was different with a succession of war cabinets under Ho Chi Minh facing foreign aggression and widespread misery among the population.

As pointed out above, analyzing regime change means looking for continuity and discontinuity. Pham Van Thuy's comparison between Indonesia and Vietnam emphasizes the latter above the former. There was a higher degree of continuity with the preceding colonial state in terms of institutional learning and experience in economic management in Indonesia. In Vietnam, efforts during the revolutionary war were more like starting anew from scratch. Such differences had important repercussions for the priorities chosen in formulating economic policy at a critical juncture in history.

The traditional conception of political economy in the literature targets the relationship between government and business. To what extent is economic policy-making influenced by private business interests, whether through lobbying or more tacit means of securing mutual benefits? A political economy analysis of this type embraces a wider realm than outright corruption, which is likely to be legally banned in most countries. Collusion or cooperation for joint gain between those with access to political power and those command economic resources may be of far greater importance. Recent studies on Indonesia have generally scrutinized the system of political and economic management that arose during Soeharto's Orde Baru. Much attention has been given to the bonds forged between the apex of political power around the President himself and leading ethnic Chinese businessmen. The mutual linkages have on occasion been depicted as a franchise system possessing a certain measure of stability, which is good for long-run economic growth (Haggard, 2000; McLeod, 2011). In a wider discourse among economists, such an approach has much in common with the discussion of moral hazard - reckless economic behaviour under tacit political guarantees – that gained momentum in the aftermath of the Asian financial crisis in 1997/98.

Not many studies have been undertaken in this vein with regard to the pre-Soeharto periods. One example is Arjen Taselaar's PhD dissertation from 1998, regrettably only available in Dutch. Presenting a wealth of evidence from primary sources, Taselaar demonstrates how representatives of major Dutch business corporations attempted to influence colonial economic policy during the period 1914-1940. Sometimes, they were successful, sometimes not (Taselaar, 1998). The historical reality proved more complex than theories of political economy would suggest.

The pioneering work for the immediate post-colonial period in Indonesia is the study by Robison, regrettably limited to only one chapter in a volume primarily devoted to the Soeharto era. Despite a severe shortage of empirical data, Robison describes how political party affiliations flavoured relations with banks and leading trading firms in Soekarno's Indonesia (Robison, 1986: 36-64). This theme is further pursued by Remco Raben in his contribution below, anticipating a wider study of decolonization in Indonesia. He chooses a long time frame in order to include also conditions in the late colonial state - during the 1930s, the last decade of undisputed Dutch colonial rule over the entire Indonesian archipelago.

Links between government and private business were of great importance both immediately before and immediately after Indonesian independence. This held true in particular for Dutch private capital. By the late 1930s, the Netherlands Indies was the single largest recipient of foreign direct investment in Southeast Asia with Dutch capital accounting for about two-thirds of the total and British firms ranking second (Lindblad, 1998: 14). As mentioned above, the Finec, concluded in early November 1949, provided the necessary preconditions for a continued strong presence of Dutch private capital in Indonesia.[6] Full economic decolonization was only achieved with the takeover and subsequent nationalization of Dutch corporate assets in 1957-1959, almost a decade and a half after political decolonization.

As Raben demonstrates below, the nexus between government and private business in Indonesia was strongly affected by the change of regime at decolonization. The outcome was not so much a weakening or strengthening of such links but their changing character. Government and business communicated in a different way after independence. Iti s likely that the nexus changed character again with the transition from Soekarno's parliamentary or guided democracy to Soeharto's personalized presidential power.

The political economy approach to modern Indonesia's change of regime demonstrates the utility of comparison, both between countries and over time. The importance of the quality of political leadership is emphasized and so is the institutional and personal background of policy-makers, whereas close relations between government and business may survive the regime change without staying the same.

Economic policy

The colonial state has generally not elicited much exceitement among historians. Although acquiring a distinct character of its own in the course time, it was all too easily discarded as a 'dead end', something that would vanish sooner or later anyway (Darwin, 1999; Cribb, 1994). In matters of economic policy, the colonial government remained strongly, albeit not totally dependent on priorities imposed from above by superiors in bureaucracy of the metropolitan mother-country. In the international historiography, tradition has it that colonial governments did not amount to more than the inevitable care-taking chores of the classical nightwatchman-state (Booth,

6 A research project, financially supported by the N.W.O., was set up in 2012 to systematically study the impact of foreign direct investment, especially by Dutch capital, in Indonesia during the period c. 1910 – c. 1960. This research project will result in two PhD dissertations, an international conference and a database.

2007: 67-87). The contrast with the activist post-colonial state, intent on quickly delivering prosperity, then becomes all the more striking.

An analysis of fiscal policies in the Netherlands Indies and early independent Indonesia has on various occasions been presented by Anne Booth. She shows that the Dutch colonial government was not lacking in initiatives. Yet, results remaiend disappointing. A case in point is the Ethical Polcy, launched in 1901 with the loftiest of ambitions, but effectively abandoned in the mid-1920s due to reduced funding, at a time when the colony's export economy was booming (Booth, 1990: 217-32; 1998: 154-7; Dick *et al.*, 2002: 117-21). Of the three chief tenets of the Ethical Policy – education, emigration and irrigation - , only the last-mentioned one seems to have had more than a marginal impact (Van der Eng, 1993: 58). A comparison across several former colonies in the wider East Asian region reveals that the legacy of colonial economic policy was arguably the most beneficial in Japanese-controlled terrritories such as Korea and Taiwan, appreciably better than in Indonesia (Booth, 2007: 201-3).

During the Indonesian Revolution, economic policies were primarily directed at the rehabilitation of resources and also subordinated to the political priority of gaining full recognition of independence. At the transfer of sovereignty, the Indonesian government faced highly optimistic expectations of some 77 million inhabitants, many living in abject poverty, all wishing a better life than under Dutch colonial rule. Ambitious economic targets were formulated by Sumitro Djojohadikusumo, minister of Trade and Industry in the Natsir cabinet (September 1950 – March 1951), including rapid industrialization in order to reduce Indonesia's extreme dependence on prices of primary products in world export markets. The so-called Sumitro Plan was only executed to a limited extent, primarily for a lack of means (Lindblad, 2008: 80-5).

Although the Sumitro Plan contained some elements that had been formulated by the Dutch colonial authorities as late as in 1941, the Plan did signal a decisive break with the past. Henceforth, economic policy in Indonesia did not only target immediate or short-run needs, but also aimed at changing the structure of the economy to make it more resilient and better equipped to stage rapid economic growth. As Farabi Fakih points out below, later attempts at economic planning during the Soekarno period met with little succes. The comprehensive, systematic framework of long-term planning that Sumitro had introduced was effectively only restored in the first five-year development plan, REPELITA (Rencana Pembangunan Lima Tahun), executed over the years 1969-1973 (Widjojo, 2011: 104-14).

Even if it took quite a long gestation period for results to be forthcoming, the change of regime at decolonization did cause a fundamental shift in economic policies applying a wider time horizon and targeting structural issues. The situation looks different with respect to short-term economic policies addressing problems of welfare in society. There was a tradition of colonial welfare policy, reflecting the same genuine concerns as the Ethical Policy itself. Yet, as Vivek Neelakantan points out in his case study of social medicine below, expenditures on public health actually fell as a proportion of the colonial budget. Well-meant intentions of the colonial authorities during the heyday of the execution of the Ethical Policy in the second decade of the twentieth century prompted direct state intervention in rice provisions (Prince, 1989: 213-4). The period immediately after independence saw a revitalization of welfare policies as a separate portion of economic policy (Booth, 2010). The salient question is whether that change represented a matter of degree – more of the same – or a change of substance akin to the evolution of long-run structural economic policies.

This question is explored here by presenting two individual case studies, both touching at the core of welfare policy. Nawiyanto directs intention to food and food-related policies during the Soekarno era, whereas Vivek Neelakantan, as mentioned, focuses on public health, in particular the rarely studied domain of social medicine. The section also concludes with a brief digression on factors determining economic policy in Indonesia before and immediately after independence.

It has been estimated that per capita GDP (Gross Domestic Product) in real terms (after correction for inflation) remained for three full decades, the 1940s, 1950s and 1960s, at a lower level than on the eve of the Pacific War. A pre-war level was only restored in the early 1970s (Van der Eng. 2002: 172-3). There is little doubt that large segments of the rapidly increasing Indonesian population – rising from 66 million in 1940 to 96 million in 1961 – lived in desperate poverty, confronting acute food shortages during the Soekarno era. It is easy to putting the blame for recurrent food crises on a reluctance of the government to intervene directly in the economy. In his survey of actual policies and their execution, Nawiyanto demonstrates that this was not the case. The Soekarno government did play a highly active role in attempting to secure sufficient supplies of essential foods for the large population. Reasons for failure were twofold: the very high rate of population growth and a lack of stability in the country needed for optimal implementation. The true difference with similar policies in the colonial era lay in the aggravated problems after independence.

Social medicine is a relatively young discipline and it is interesting to how eager Indonesian physicians were in the 1950s in adopting the newest international insights that issues of public health should be addressed in a broader and more comprehensive way than before. Vivek Neelakantan ascribes this change of methodology to an urgency of offering an alternative to the supposedly old-fashioned public health policies pursued by the Dutch colonial authorities. The broader approach to medicine involved incorporating also conditions pertaining to social structure and culture. Another decisive break with past health policies had to do with the role to be played by the state. The envisaged partnership between the practioners of medicine and the government went considerably further than in colonial times. Nevertheless, it remains a fact that much in the public health system of Indonesia did not change much with independence. The new insights of social medicine were not sufficient for institutional reform.

As a complement to these two case studies of specific branches of economic policy, it is instructive to more broadly consider what determined economic policy during modern Indonesia's change of regime at decolonization.[7] We distinguish between three kinds of determinants of economic policy: macroeconomic performance reflecting general business cycles and changing world markets, the role of the state in Indonesia and the role of private enterprise in the economy, in particular foreign direct investment. The analysis contrasts two periods with one another: the late-colonial years (from 1913 onwards) and the immediate post-colonial period (up to 1959).

Macroeconomic performance is here measured by annual GDP figures, as estimated by Pierre van der Eng for the entire twentieth century (Van der Eng, 2002: 171-2). Statistical analysis reveals a strikingly weak relationship between the size of the budget of the colonial state and GDP over the period 1913-1939. Restricting the analysis to the 1920s and 1930s even produces a negative correlation.[8] In other words, there was much unutilized scope

7 The concluding part of this section draws on an unpublished paper, entitled 'Determinants of Economic Policy in Indonesia in the Late-colonial Period and the Immediate Post-independence Period', presented by Pham Van Thuy and myself at the World Economic History Congress at Stellenbosch, South Africa, 9-13 July 2012.

8 Coefficients of correlation are as follows: 1913-1939: GDP and revenue: $R = 0.42$, GDP and expenditure: $R = 0.29$; 1921-1939: GDP and revenue: $R = - 0.26$, GDP and expenditure: $R = - 0.31$. The overall

for a more expansive economic policy during the late-colonial period, except at the nadir of the depression in the 1930s. This observation is in line with the declining role of the colonial state in economic life after the Ethical Policy had been effectively abandoned in the mid-1920s. Less state intervention implied more room for the exploitation of Indonesia's natural resources by foreign capital as well as little incentive for a change in economic structure favouring industrialization. By and large favourable world market conditions, a weak state and strong foreign capital – these were the factors determining what economic policy could look like in the late-colonial period.

The situation after independence was strikingly different. The association between macroeconomic performance and the size of the public budget was even weaker than in colonial days. Not the opportunities in foreign export markets were decisive but the far-reaching ambitions of the government. The budget deficit rose at an alarming rate. The state was interventionist, in that sense 'strong', but it remains debatable whether the state institutions were strong enough to guarantee an efficient implementation of policy. The examples from the case studies presented here do not offer positive evidence in that direction, nor does the discussion of experiences with economic planning provided by Farabi Fakih below. The role of private capital, especially foreign capital, was changing dramatically in the 1950s. Little new investment entered Soekarno's Indonesia, outside the oil sector, and the nationalization of Dutch firms implied a far greater role of the state in actual production and distribution. Growth constraints, an ambitious state and weak foreign capital – these factors determined the scope for economic policy in the decade after the transfer of sovereignty. There was not much discontinuity with the late-colonial period.

Our discussion of economic policy at the time of regime change has underscored the necessity to differentiate between various branches of economic policy and shifts in degree as opposed to substance. Although some continuity may be discerned in short-run policies devised to address problems of welfare, the overriding impression is one of change, partly fundamental, partly by degree, between the late-colonial period and the 1950s.

Recurrent reform

A change of regime often does not come alone. There are abundant examples from the region of Southeast Asia. As Pham Van Thuy shows in his contribution below, the Vietnamese government changed character in the period shortly after independence, becoming more attuned to warfare and more exclusively dominated by communists. In the Philippines, the expiration of the Laurel-Langley agreement in 1974, that had served as a safeguard to American interests in the former colony, meant an entirely new situation, especially under the aegis of martial law proclaimed shortly before. Despite the late and smooth transition to sovereignty in Malaysia, radical changes of society and economy occurred also here in the wake of decolonization, notably with the launch of the New Economic Policy in 1970. In Indonesia, the dramatic and extremely violent transition was of course from Soekarno's Orde Lama to Soeharto's Orde Baru. The change of regime in 1966 represents a topic for historical research in its own right that urgently needs to be addressed more thoroughly by Indonesian historians. It is beyond our scope of study of regime change at decolonization. Our main concern in this category of analysis is with the Guided Democracy and its associated Guided Economy, in place in Indonesia between 1957 and 1966.

There has been some speculation in the international literature about why parliamentary democracy failed in Indonesia

correlation between revenue and expenditure on the colonial budget is high, as may be expected (R = 0.91).

(Feith, 1962). Was this model of government, imported from Western ideology, not suited to Indonesian culture, as Soekarno on occasion argued? The fragmented outcome of the general election in 1955, the nation's first ever, was unable to give a mandate to the sitting cabinet, the one led by Harahap (August 1955 – March 1956). There were no obvious economic interests at stake, but some of the nation's strongest institutions, such as the armed forces and the PKI (Partai Komunis Indonesia), do not seem to have had any reason to support the system of constitutional democracy. Relations with the Netherlands were at the same time deteriorating at an alarming rate, primarily but not exclusively on account of the unresolved conflict about the destiny of then western New Guinea (Irian Barat, later Irian Jaya, now Papua). A sense of urgency and extraordinary conditions was spreading through society and indeed formalized with the imposition of a state of emergency in March 1957 and state of war in December of the same year. Both measures found their legal foundation in the legislation on *Staat van Oorlog en Beleg* (State of War and Siege), inherited from Dutch colonial rule.

The period of the Guided Democracy was not a long one, lasting less than a decade. The introduction of Guided Democracy and Guided Economy began in early 1957, as Bambang Purwanto insists in his contribution below, although the new system was only officially installed by Soekarno in August 1959. At least in a formal sense, the Guided Democracy and Guided Economy came to an unglorious conclusion with the transfer of executive authority to Soeharto in March 1966. One may even wonder, as Farabi Fakih does below, whether it is sensible at all for historians to pay so much attention to this brief interlude of Indonesian history. Yet, it was a crucial period of transition, linking up with both the preceding change of regime at decolonization and the subsequent shift to the New Order government.

The tradition of guidance in economic life was not new in Indonesia. Although only being fully institutionalized during the Guided Democracy and the New Order regime, the idea of developmentalism in government economic policies displays a continuity reaching back to colonial rule.[9] It began with the Ethical Policy in 1901. The ideological basis of the newly formulated welfare policy was relatively thin. The discourse surrounding the launch of the Ethical Policy reflected genuine concern about widespread poverty in overpopulated Java. It was flavoured by Protestant ethical aspirations, social democratic zeal and feelings of guilt about the ruthless exploitation of resources and people during the Cultivation System in Java (1830-1870). However, it is worth noting that the Ethical Policy was shaped precisely at the time that effective colonial rule was imposed by military force on large territories outside Java. In the event, budget allocations to developmental purposes remained limited, estimated to account for at most 25 per cent of total expenditure by the colonial government in 1913 and no more than 20 per cent by 1921 (Prince, 1989: 211).

The failure of the Ethical Policy to deliver has in the literature been ascribed not only to a lack of sufficient funding but also to a mismatch between a very general overall objective and technically defined specific targets (Cribb, 1993: 240-4). At the time, and also long afterwards, there was a strong belief in the unbridgeable dualism in the colonial economy between Western dynamism and Oriental stagnation (Boeke, 1953). Other observers have emphasized the a-political, technocratic nature of the Dutch colonial civil servants, working in much the same project-based fashion as engineers attached to development aid projects in the post-colonial era (Van Doorn, 1994: 149-50). However, the case for Dutch rule to be

9 This part of the current section draws on an unpublished paper, entitled 'Development Ideology in Indonesia in Historical Perspective', presented at the annual meeting of the Asian Studies Association in Toronto on 15-18 March 2012.

conceived primarily as a 'colonial development project' is not a strong one.

The urge, if not the capacity of the state to guide the economy in the right direction was inherited by Indonesian policy-makers taking charge after independence. This applied in particular to the pragmatic so-called 'economics-minded' leadership, in the literature customarily offset against the nationalist so-called 'history-minded' group (Higgins, 1957: 103). Prominent members of the former group included Vice President Hatta, the economist Sumitro Djojohadikusumo and Sjafruddin Prawiranegara, first Indonesian president of the central bank. The foremost exponent of the 'history-minded' group was of course Soekarno himself. The pragmatists underwrote the key role of planning in the economy, needless to say, without reverting to support for a socialist regime. The pragmatists prevailed during the early years of the 1950s, but as pointed out above, the implementation of the ambitious Sumitro Plan above all generated disappointment.

By the mid-1950s the balance of power in the Indonesian leadership had decisively shifted in favour of the nationalists leaving the pragmatists increasingly side-stepped. It is not coincidental that several of them, including Sumitro, Sjafruddin and former Prime Minister Natsir, in 1958 joined the rival revolutionary government in West Sumatra, PRRI (Pemerintah Revolusioner Republik Indonesia). The ideal of economic planning was usurped by the nationalists but in an exalted form. A five-year plan presented in 1956, the first ever in Indonesia, was executed under responsibility of Djuanda, himself a technocrat rather than a nationalist politician, who steered a a-political working cabinet (*kabinet karya*) during the transition to Guided Democracy (April 1957 – July 1959). Again, preciously little of the ambitious aims was realized. The final attempt in this vein under Soekarno rule was the eight-year development plan launched in 1959 in the symbolic format of 8 volumes, 17 chapters, and 1945 paragraphs. The plan was a liberal mix of economic and political aspirations, assuming a twelvefold increase in public spending but failed to specify where the money would come from (Thee 2003: 16-7; Lindblad 2011: 166).

Two contributions in this volume deal specifically with the period of Guided Democracy and Guided Economy. Both are especially inclined to link the Guided Democracy period with what came after, the New Order. Their focus differs. Bambang Purwanto analyzes post-colonial political image construction, whereas Farabi Fakih offers what is probably the most comprehensive survey to date of institutional reform during the Guided Democracy period.

Newly independent Indonesia urgently needed a new mindset commensurate with a society that was fundamentally different from colonial rule, a sentiment which also found a variety of expressions in literature and art (Vickers, 2005). Yet, as Bambang Purwanto points out, post-colonial images constructed in the 1950s tended to have a divisive rather than unifying nature. He seeks an explanation in the principle of guidance of the economy that became the hallmark of the Guided Democracy period. It is especially instructive to scrutinize the economic terminology in key documents such as the successive Indonesian constitutions and Soekarno's own elaborations of political ideals. When applying the Indonesian term, Ekonomi Terpimpin, are we then talking about the economy as part of society or the science of economics? Another source of divergence of conceptions is located in the contrast between the ideas of Soekarno and Hatta, indeed representing the two traditional camps, history-minded versus economics-minded, in the political elite immediately after independence.

Farabi Fakih's chief purpose is to demonstrate that the Guided Democracy formed a necessary prelude to the New Order. In order to understand the latter, we must understand the former. The continuity between the two is easily blurred by huge differences in terms of rhetoric and performance. The Soekarno era as a whole has a bad reputation when it comes to economic growth, but this is largely undeserved for the earlier phase, up to about 1957. The deterioration of the economy took place during the latter phase of the Soekarno era, between 1957 and 1966. Only at that time did real per capita growth come to a standstill, or even turn negative, whereas inflation skyrocketed and foreign debts mounted (Dick *et al.*, 2002: 192; Van der Eng, 2010). Farabi Fakih's survey teaches us to go beyond the apparent sharp cleavage between the Old Order and the New Order. He finds a great deal of continuity demonstrating that numerous economic institutions commonly associated with the New Order government were already in place during the Guided Democracy period. The true difference was that they were not functioning very well.

The continuity identified by Farabi Fakih does not only apply to formal institutions aiding the Indonesian government in controlling the economy. Ideology, methodopllgy and science were important ingredients as well. Increasing new intellectual impulses from the United States replaced the traditional Europe-oriented background inherited from the colonial past. As already mentioned above, the possibly best-known member of Soeharto's 'Berkeley Maffia', Widjojo Nitisastro took up his position as a professor at FEUI when Guided Economy was the ruling creed.

A change of regime elicits a situation conducive to experimentation and reformulation of priorities and method. Decolonization generated such a situation in Indonesia. Recurrent reform as demonstrated by the Guided Democracy and Guided Economy reflected both the long-term continuity from the colonial period and short-run change after independence. The outcome was a multiplicity of understandings and a foundation for the future.

Impact

The preceding survey covers all seven individual contributions to this volume distributed over three categories of analysis. The fourth category, concerning the very vital matter of where a change of regime takes us, can at this stage only be touched upon in passing.[10] Suggestions for such an analysis may be drawn from two contributions to the Leiden conference in October 2011, scheduled to appear in print elsewhere.

The immediate task of government after a regime change is to control the tax and revenue system in order to obtain sufficient financial means for fulfilling its ambitions. The easiest and most pragmatic solution is to simply take over the revenue system inherited from colonial rule. Anne Booth compares the colonial legacy with respect to the revenue system across Southeast Asia. Her analysis differentiates by origin of colonial power - British in Burma, Malaya and Singapore, French in Indochina, American in the Philippines, Dutch in the Netherlands Indies – and also includes the sole country in the region escaping colonialism altogether, Thailand. Although there was certainly a degree of continuity in the way tax systems continued to operate after independence, it would seem that the colonial legacy was less resilient to change than is often assumed when discussing the impact of decolonization. Differences in the legacy itself and subsequent changes after independence are shown to have had some bearing on post-colonial growth performance, although the influence of other factors must not be ruled out (Booth, forthcoming).

A slightly different approach is to look at the way in which the regime change

10 In a forthcoming article I hope to discuss the theme of impact of modern Indonesia's change of regime in greater detail.

unfolded. A recent strand in the international literature suggests that institutional damage because of violence, chaos and confusion during decolonization is likely to have lasting consequences for post-colonial long-term economic growth (Acemoglu *et al.*, 2001; Marks, 2010). This hypothesis forms the point of departure for Nicholas White's comparison of Malaysia and Singapore on the one hand and Indonesia on the other. He demonstrates that the pattern and nature of decolonization itself had a profound impact on prospects for future economic gfowth (White, forthcoming).

Yet another aspect of the impact of regime change concerns people. Decolonization by definition implies that other individuals take over key positions in society, surely in public service, possibly at least partially also in private business. In Indonesian historiography, this has been coined *Indonesianisasi*, the elevation of Indonesians to positions of supervision and management (Lindblad, 2008: 2, 149-75). This is again a topic which lends itself for international comparison, in particular between neighbouring nations such as Indonesia and Malaysia that experienced the same type of regime change at about the same time. Just as, *Indonesiansiasi* was devised on behalf of indigenous Indonesian, similar policies in the former British colony targeted Malayanization as opposed to Malaysianization.[11]

Conclusion

Our synthesis of recent research findings pertaining to state and economy during modern Indonesia's change of regimes has focused on various aspects of the process of decolonization and its immediate aftermath. The search for continuity versus discontinuity has served as a guiding principle of organization of arguments, whereas our discussion of the role of the state in the economy has centered on finding the appropriate balance between political priority and economic necessity.

In historical reality continuity intermingled freely with change. The nexus between government and private business, for instance was strong both before and after independence but its character did not remain the same. Economic policies changed fundamentally with respect to long-term structural objectives but more in degree in securing sufficient food supplies for the rapidly growing population. Sometimes, post-colonial changes may be interpreted as a direct response to colonial antecedents. This holds true for instance in social medicine and also on the more general level of constructed post-colonial political images. There was a certain continuity in the developmentalist ideals of economic planning but executions after independence, especially during the Guided Democracy period, differed radically from colonial practice. The foremost institutional and methodological continuity with regard to economic planning was between the Guided Democracy/Guided Economy and the New Order regime.

This synthesis made use of four different categories of analysis – political economy, economic policy, recurrent reform and impact – of which the last-mentioned one could only be treated in a cursory manner. On various occasions, the synthesis also incorporated findings from international comparisons, in particular with regard to post-colonial econmic leadership in the wider region of East Asia and also with respect to the process of economic policy-making in Indonesia as opposed to Vietnam. A more comprehensive discussion of the impact of regime change is likely to benefit even more from international comparisons.

This synthesis offers an overview of results of work in progress. There is more to be said about state and economy during modern Indonesia's change of regime at decolonization and in its immediate aftermath. Fresh insights

11 At the Leiden conference in October 2011, I presented a paper entitled 'Indonesianisasi and Malayanization. A Comparison of Decolonization in Indonesia and Malaysia', which was of a tentative nature. I plan to revise it and submit it for publication in due course.

are expected from the two forthcoming PhD dissertations prepared by Pham Van Thuy and Farabi Fakih.

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