BY DIVESTING President Sukarno of all status and executive power last March, the army-controlled junta in Indonesia has solved its most immediate political problem. The long period of dual state power has come to an end.

Even so, the junta was obliged in the end to compromise. As far as can be gathered from the extraordinarily imprecise decision of the Consultative Assembly, Sukarno retains the title, but none of the rights or powers, of President. At the same time, General Suharto has been appointed Acting President! The powerful pressures of the students, of General Nasution and his supporters, and of the stacked Parliament for Sukarno's outright dismissal and trial were resisted by Suharto, who appreciated the delicate political balance in the country could easily be upset by too drastic action.

One of the factors that undoubtedly influenced Suharto and his advisers was the knowledge that economic discontent in the country was growing and feeding disaffection against a government that has by no means established its mandate to rule among the populace. The Indonesian people have had unpleasant experience of military rule: before, during and after the regional rebellions of 1958, army officers assumed far-reaching powers over the economy and administration and distinguished themselves mainly for their corruption, repression and arbitrariness. Suharto is by no means unaware of the simmering cauldron in the provinces; he has preserved a civilian gloss to the regime, and has moved slowly in curbing the President and his supporters. But ultimately it may well be in the economic sphere that the success or failure of the 'New Order' will be determined.

At the time of the military takeover in October 1965 the Indonesian economy was in a shocking state. The post-independence period was peculiarly devoid of economic rationality. The
colonial character of the economy was hardly altered; mining, oil and estate production provided the exports, light industry the manufactures, and peasant agriculture the food supply. No heavy or machine tool industries of any consequence were established; but, far worse, the existing productive sectors were allowed to stagnate or decline. Light industry, especially textiles, starved of raw materials and spare parts, declined to 20 per cent or less of productive capacity. The rubber, copra, tea and sugar estates dwindled in output through mismanagement and, more seriously, the failure to carry out the vital replanting programs on which their futures depended. Transport and communications collapsed, exports steadily fell away, while the foreign loans used to cover the trade deficit mounted to the point where interest repayments alone could not be met. (Foreign indebtedness by the end of 1965 amounted to 2,300 million US dollars.) The swollen bureaucracy, totalling some two million, including the armed forces, imposed a crushing burden which state finances were unable to support, especially since corruption and inefficiency were rife. (In 1965 government revenues amounted to only 1.5 per cent of national income, compared with 13 per cent in 1960; this was due, not to the lightness of taxes, but to the fact that they were either evaded or appropriated by officials.) Food production fell far behind the needs of a population rising by close to three million a year. The meagre survival of the country rested upon the bent shoulders of the peasant and small export crop producer.

So far the main concentration of the Suharto Government in the economic sphere has been to reassure and woo the West, to placate old creditors and attract new ones. In pursuit of this objective, priority has been given to the control of inflation, the negotiation of loan deferments and new loans, the return of nationalised undertakings to their foreign owners, guarantees and favorable terms for capital investment, and promises to widen the scope and ease of the operations of private enterprise. In this direction, the regime has achieved modest successes: inflation has slowed down, although in the last quarter of 1966 the retail price index still rose by 33 per cent and the money supply by 32 per cent; loan repayments have been rescheduled, and small amounts of foreign capital have been forthcoming. Given the interest of the West in sustaining this impeccably anti-communist government, we may expect aid to be enlarged so long as the regime shows signs of lasting and of meeting imperialist terms, economic and political. However, no amount of aid sufficient to stimulate substantial economic development is feasible, and meanwhile the political effectiveness of foreign assistance depends on the performance not of friends abroad but of the men in power in Indonesia itself.

The key question is whether the measures being taken will be translated into economic development and betterment for the
masses of the people. On this score, the results to date are negative and the prospects dim. Economic activity has slowed down, particularly in industry and trade, including exports. There has been a marked increase in smuggling of goods into and out of the country. (Bulletin of Indonesian Economic Studies, Australian National University, February 1967.) Inflationary control steps have brought added misery to an already sorely tried populace in the form of price and tax increases, and harsh credit controls which have impoverished the small producers and traders. As stated by one of General Suharto's economic advisers, Dr. Emil Salim:

Rates and charges on all public utilities such as electricity, drinking water, postal services, train, bus and air fares have been raised twenty times, and even petrol prices have been raised eight times... It has raised unemployment and high price problems. (The Australian, April 18, 1967.)

Combined with these have gone measures to oust the Chinese minority from their near monopoly of domestic commerce and small scale manufacture. The results have been widely disruptive, and have resulted in serious riots in Djakarta and provincial towns. Even the conservative Moslem trade union federation and the Moslem Students Organisation, both supporters of the government, have been driven to protest the price increases. In centres where anti-government sentiment is strong, seething discontent is reported.

Surabaya's economy, and therefore the economy of the whole of East Java, is rapidly coming to a standstill. The combination of the political persecution of the Chinese community, national as well as foreign, and the Government's tight money policy, is progressively paralysing trade not only with other countries, but with neighboring Indonesian islands and regions. Food prices in Surabaya have risen 10 per cent in the past two weeks. Interest rates are up to 30 per cent. Local factories are closing because of shortages of raw materials and rising transport costs—the direct result of the Government's recent increase in the price of petrol. (Creighton Burns in The Age, March 26, 1967.)

It might be argued that these are but the pains of readjustment which will gradually pass as the government puts into effect more fundamental economic reforms. To accept this argument, however, one would have to assume two things: first, that there is a sufficient reform spirit within the government leadership to want to bring about a basic overhaul of the economy, and second, that the government will be able to make its will effective in the spheres of administration and management. Neither of these two assumptions appears likely to be borne out. That some members of the government aspire to create conditions of stability and prosperity may be conceded; the same could equally be said of President Sukarno. But no more than of him can it be said of the new power-holders as a group that they are prepared to take the drastic steps necessary to cleanse the machinery of the state, since to do so would be to run head on against the interests of those upon whose support the regime depends—the civil service
heads, army administrators, political fixers and speculators, all of whom have been battening on Indonesia’s economic corpse and making fortunes from the pickings.

Certainly the regime has effected some economies. As Dr. Salim summarised them, they amount to a cut-back in expenditures to bare necessities, the abandonment of most prestige projects, and the cessation of subsidies to State and other enterprises. These are minor reforms in themselves, and no more than could be expected of any new administration in the first flush of its takeover. Sustained results are a different kettle of fish, where attention must be focused not so much on what the government claims it will do but on what the social and political structures over which it presides will make possible.

The first and most essential step towards long term stability would have to be the purification of the bureaucracy, without which no reforms can be carried through effectively over a sustained period. The bureaucrats are in a position to control everything that goes on in the economic sphere, from the collection of taxes, the distribution of supplies and the functioning of industry to the channelling of such foreign aid as may become available. Fifty per cent of this bureaucratic apparatus is redundant, but the government would find it politically impossible to scale it down to an efficient size — the prestige of higher officials depends on the size of their establishments, and complex ties of mutual interest bind the State functionaries together in a massive self-protection league. Even the student organisations which act as agitators for the army have an interest in the maintenance of the bureaucracy, since most students want to become executives in State business enterprises, where the biggest incomes are to be had. Yet without this purging of the administration, the best-laid plans of government are bound to founder in the mass of corruption which has become a way of life for Indonesia’s officials. The only significant change so far in the composition of the bureaucracy is the replacement of civilian officials at various levels with army officers, in furtherance of General Suharto’s dictum that “the armed forces are faced by the heavy task of becoming the nucleus of the New Order”. On past experience, the only effect of these changes will be to enlarge the scale of corruption, since army men can operate with far less fear of arrest than can civilians. Relations between the military and civilian elements in the regime are not likely to improve as a result.

To make matters worse, General Suharto announced on March 31 that Indonesia’s armed forces will be doubled in the next ten years, with a substantial increase of 75,000 by the end of 1968. No reason was stated for this staggering increase in an already inflated military establishment, and strangely enough the
Australian Government, which in the past was wont to comment upon the extravagance of Sukarno’s armed forces, has been silent on the subject. The extra financial drain of this expansion will alone be enormous; the salaries of civilian and army officials already swallow almost half of routine expenditures, making it more than doubtful that the regime will achieve its aim of a balanced budget this year. But of even greater consequence will be the added impetus given to military intrusions into the economic and political life of the nation.

It was stated earlier that small scale production by peasants and growers of export crops has kept that economy functioning in some manner. To maintain and accelerate their contribution, the government would have to create suitable conditions of security and incentive. So far as the peasants are concerned, this would involve land reform, relief of debts, price stability and technical aid. There is considerable room for agricultural expansion in Indonesia, but the precarious position of the small-holder reinforces his conservatism and inhibits innovation. The Sukarno regime tinkered with land reform and drew up ambitious plans for technical improvement, but these were never carried through in the face of the resistance of wealthy rural interests and the disinterest of the urban elite. The new government is even less likely to tackle the problem, since it is considerably more dependent on the political goodwill of the landowning class than its predecessor. Nor has it come to the assistance of the small export crop producers. On the contrary, its credit restrictions have hit this group hardest, and the measures taken against Chinese merchants have upset the traditional channels of small scale production and trade. The Chinese alone have the connections overseas and the knowledge of external markets to act as the priming force of this basic production; and now, under the weight of persecution, they are not supplying the credit which is the lifeblood of small scale production and trade.

In summary, then, the alignment of class forces in Indonesia is inimical to economic stability and development. The power apparatus in the country serves, not as a lever of improvement, but as the major obstacle. In these circumstances, Western aid is more likely to promote Latin American patterns of instability than to put the economy on its feet. Failing a breach in the ruling coalition and the emergence of some genuine reforming movement from within the establishment, the short-term trend is almost certain to be towards more exacting demands on the populace, greater degeneration of the state apparatus, and more stringent military repression to suppress the symptoms of mass discontent.