BASIC NEEDS IN INDONESIA

Economics, Politics and Public Policy

Institute of Southeast Asian Studies

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Economics, Politics and Public Policy

Sjahrir
Center for Policy Studies

ISEAS INSTITUTE OF SOUTHEAST ASIAN STUDIES

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Foreword

This book on *Basic Needs in Indonesia* is a revision of Dr Sjahrir's dissertation submitted to Harvard University for a Ph.D. degree in Political Economy and Government. This is a somewhat old-fashioned degree. It harks back to the very origins of economics as a discipline and reflects a Ricardian concern for the application of the tools of economic analysis to the problems of the body politic. To do this usefully, the scholar must understand not only economics as an analytical science but also government as a collective process of decision making. Hence the degree is in political economy and government. A candidate's dissertation is meant to demonstrate skills in both dimensions and a keen awareness of links between them.

There is no better topic than basic needs to provide a stage for such a demonstration.

At its simplest, a basic needs development strategy argues for high priorities on increasing the poor's consumption of a package of essential goods and services — food, health care, education, housing, clothing, water and sanitation, and so on. Just what to include in this package of basic needs has been a constant source of argument, with radical strategists calling for political liberation, freedom of speech, and other human rights, while development economists tended to focus on key economic factors more amenable to incrementalist approaches. Of these, food and education programmes leading to literacy, and basic primary health care have come to be seen as most important because of their combined effects on improving welfare in the short run and potential payoff in the long run as return on investment in human capital.

It is these three sectors that Sjahrir examines in an Indonesian context. This context needs no explanation from a Western scholar to readers of the Bahasa Indonesia version, but readers of an English edition may not have similar detailed knowledge of modern Indonesian history. For Indonesian readers, there are also comparative perspectives that might be illuminating indeed, and the following comments are offered to both sets of readers.

To the Western world, Indonesia is the least well known or understood society relative to its size. Despite being the world's fifth most populous country, a diverse and rich culture that spans two millennia, and one of the most astonishing development records in modern economic history, Indonesia remains a mystery to most Americans and Europeans. The

reasons are no doubt complex, but at least part of the reason must be the relative paucity of Indonesian scholars writing for an international community of scholars. For whatever reason, most Indonesian scholars, and especially the economists, have stayed at home and worked on the problem of their own society, for the benefit of their society. Important as this is to the success of the development process itself, the result has been an incomplete and spotty analysis of the Indonesian record accessible to outsiders. Sjahrir's thesis stands as a welcome addition to this literature.

What is so unusual about the Indonesian story? Firstly, the record spotlights the crucial interplay between political stability and economic growth. No one can come away from Sjahrir's discussion of the 1950s and 1960s without sensing a house of cards about to tumble, as political ideology pushed aside economic reality. But the political concept of Indonesia as a nation was cemented in these two decades despite all the economic costs. Without this concept as reality, none of modern Indonesia's economic achievements would have been possible. By the same token, political integration could very easily have been sacrificed if economic reality had not been asserted in time. Perhaps only countries that have stepped to the very edge of economic chaos are prepared to make the long-term political commitments needed to set the process of economic development firmly in place. How else can we explain the strikingly different development paths of Asian countries compared with Africa and Latin America?

Sjahrir's overview of Indonesian economic and political development weaves these themes together very persuasively. The contrast between the political orientation of the pre-New Order government and the economic orientation of the New Order highlights the enormity of the basic needs tasks confronting development strategists in 1967 when Sjahrir's story really begins. Here, the government's concern for growth and rehabilitation was paramount, with meeting basic needs well back in priority. As Emil Salim put it in 1970, "there is little point in dividing up evenly such a tiny pie."

For many governments around the world, in Brazil or the Philippines, for example, the pie never seems to become large enough for concerns about equity to be acted upon. Why is Indonesia different? Despite all the remaining problems of poverty and the inadequacies of implementing programmes that Sjahrir correctly notes, why is the Indonesian record on alleviation of poverty and improvement in basic needs so dramatic? Once again, the answer lies in the realm of politics and economics. It is a story that is particularly fascinating in Sjahrir's telling because he was one of the key actors who helped bridge a widespread political concern for more equitable results of the development process in the early 1970s with a revised economic strategy that responded to that challenge.

Sjahrir's analysis shows clearly how this integration came about, and no single part of the story can give a complete picture. The economic analysis in Chapter II, for example, demonstrates quite conclusively the dramatic progress achieved during the 1970s in increased food intake, primary schooling, and access to rural clinics where family planning facilities were available. No matter whether micro-economic surveys, sectoral patterns, or macro-economic results are used to measure progress in achieving basic needs, progress is very impressive even if not complete. It is fair to say that the degree of progress surprised even Sjahrir himself, and the next chapter to be written is a search for explanations beyond just the economic policies themselves.

The public policy perspective of Chapter III will probably not fully make sense to readers who have not seen how the story unfolds up to that point. In this chapter Sjahrir is asking why — given the economic and political history in Chapter I and the achievements cited in Chapter II — the results are so successful and the remaining failures so troubling. His analysis in depth of the implementation of three key programmes — BIMAS rice intensification, INPRES SD (primary school), and family planning — from the perspective of policy functions and decision order reaches some important conclusions. Economic benefits are the key to participation in government programmes. Better incentives and less directiveness increase the efficiency of programmes. And basic needs can be provided only through progressive alleviation of poverty. For the latter, a healthy rural economy is essential, and with this lesson Sjahrir's analysis comes full circle. In his concluding chapter Sjahrir rightly emphasizes Hirschman's concepts of entrepreneurial and reform functions of government, with a key task being how to redress a perpetual bias on the part of most élite-based governments towards urban-oriented development strategies.

Indonesia has escaped much of the worst of this bias, which is the ultimate explanation for her success in meeting basic needs. Sjahrir's analysis of this success, when read as an integrated whole which links the economic strategies with the political context, provides the best understanding yet as to why Indonesia is so different.

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Preface

I have been motivated to undertake this study because of my deep concern for socio-economic equity and democracy in Indonesia. This in turn came from my experience as a student activist in Indonesia. The discussions with several friends from that period to the present day shaped many of the ideas behind this study. It is to these friends that I owe my gratitude.

This study would not have been possible but for the constant encouragement, help, guidance, and constructive criticism given to me by my advisors C. Peter Timmer and John D. Montgomery. As the primary advisor, C. Peter Timmer has proved that the word "guru" has a universal meaning. Throughout this long period of study he was as generous with his patience, understanding and help as he was in demanding high quality academic work. I had the pleasure of working as a teaching assistant to my other advisor, John D. Montgomery, and this valuable experience contributed greatly to my understanding of the relevance of the study of public policy.

This study is the result of academic work in the most splendid academic setting that I have ever experienced at Harvard University.

The Ford Foundation funded my tuition and living expenses for nearly five years and I thank them for their generosity. In particular, I thank Theodore Smith, Tom G. Kessinger, and John Newmann.

The advice, help and criticism of Soedjatmoko gave me a better insight on trying to combine functions as an academic and social critic.

My study and stay in Cambridge could not have been productive without the care of Gustav F. Papanek and Hanna Papanek.

The Rector of the Universitas Indonesia, Mahar Mardjono, encouraged me to go to Harvard University for higher studies in 1978. I am grateful to him for his confidence in me.

David O. Dapice, and S. Malcolm Gillis improved my knowledge and methodological skills to undertake this study. The important role played by the former is particularly evident in the work.

I must acknowledge the invaluable help that I received from Paul Streeten of Boston University and Allan Strout of MIT.

My fellow graduate students, Richard Monteverde and Rama Subba Rao helped me significantly, particularly in the final stages of this study. Janet Hoskins helped me in the early stages of the study. Amy Rodriguez and Nalini Subba Rao helped with the typing of the draft as well as the final thesis. I am thankful to Widigdo Sukarman for generously lending

his word processor to prepare the final thesis.

My mother-in-law, Mrs B. Pandjaitan showed patience and care throughout the entire period of my study and my deep gratitude for her help.

It is a matter of personal grief that by the time I completed this study both my father, Maamoen Al Rasjid and my father-in-law Bonar Pandjaitan passed away.

This work could not have come to the successful end but for the loving and understanding family that I am fortunate to have. My wife Kartini never hesitated to sacrifice in every possible way to support my study. My son Pandu and daughter Gita, both in their own way gave me the pleasure of being a father and the inspiration for this study.

This book is dedicated to my late mother, Rusma Malik, who sacrificed the most throughout the period of my life until she passed away in August 1984.

For the publication in the present book form by the Institute of Southeast Asian Studies, I wish to thank Professor K. S. Sandhu for the research fellowship which gave me time to revise and update my original work. The assistance and help from Dr Sharon Siddique, Mrs Triena Ong and Mrs Betty Kwan helped my work considerably. Of course, the responsibility for the views in this publication is my own.

Sjahrir

I Indonesian Economic and Political Development and the Basic Needs Relation

INTRODUCTION

Since Indonesia proclaimed its independence on 17 August 1945 and gained its sovereignty from the Dutch in December 1949, tremendous changes have taken place in nearly every aspect of the economic and political life of this new state. And yet, some constants loom large for the people of Indonesia. David Dapice, an astute observer of Indonesia put it this way: "watching Indonesia is like watching a race between the possible and the inevitable".[1] What he meant by "possible" is using the natural and human resources for the benefit of its population and by "inevitable", the population increase and labour surplus that endangers the "survival" of Indonesia itself.

The Indonesian population in 1984 exceeded 161 million[2] making it the fifth most populous nation in the world. There are two factors that make population pressure in Indonesia even more serious. The first is the population distribution. The islands of Java and Madura which have only 6.89 per cent of the total arable land absorb 61.9 per cent of the total population. In 1982, Java and Madura had 718 persons per sq km[3] which makes them two of the most densely populated areas in the world. The second problem is that Indonesia's population is very young. In 1980, 40.9 per cent of the total population was in the 0–14 age group. This implies a large dependence ratio for the people in the work-force and pressure to increase employment in the immediate future as well as pressure for more education. Yet the World Bank, in its *World Development Report, 1982*,[4] has promoted Indonesia from the category of low income countries to that of middle income countries with a Gross National Product (GNP) per capita of US$430 in 1980 and recorded increased well being in many social indicators, as well as high food production. In 1984 Indonesian Gross Domestic Product stood at US$560 per capita.

An overview[5] of Indonesian economic and political development will give us the chance to see to what extent the possibilities have been exhausted as well as missed. It covers the period 1950–59 called the parliamentary democracy period which saw eight cabinets and the so-called Guided Democracy era (1959–66) under President Soekarno for the Old