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Technocracy in Indonesia: A Preliminary Analysis

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Abstract

This paper traces the evolution of technocracy in Indonesia, while asking how to explain the changing effectiveness of the economic team of ministers from the early Suharto era to the current era under President Susilo Bambang Yudhoyono in the economic policy decision making.

The paper argues that the technocracy nurtured by the New Order was cohesive and effective in part because of its shared academic background and technical expertise and in part because of its adherence to the three principles of balanced budget, open capital account, and pegged exchange rate system and its ability to serve as Soeharto's right arm in formulating and executing national development policies. In the late Soeharto era, however, these academic technocrats faced increasing challenges from engineers entrenched in the government agencies such as the Ministry of Industry, the Investment Coordination Agency and the BPPT (Agency for the Assessment and Application of Technology). Technocrats who, in alliance with the IMF, attempted to use the Asian crisis to force structural reforms on Indonesia found themselves shut out by Soeharto.

The transitional governments led by B.J. Habibie, Abdurrahman Wahid, and Megawati sought institutional and political alternatives to the discredited technocratic economic policy-making process. These alternatives ranged from putting technocrats in touch with other key players in Indonesia's economy and politics such as businessmen, the mass media, emerging politicians and future technocrats to the outright bypassing of technocracy to the empowerment of MOF for the sake of macroeconomic stability at the expense of BAPPENAS and long-term national planning. With the enactment of a series of laws governing the BI, government finance, and national development planning as well as constitutional revisions, however, a new institutional framework is now in place.

This new institutional framework will go a long way toward upholding the mid-term and long-term economic rationality of the policy-making process. But technocrats will now also become even more dependent on their ability to secure the backing of the president, whose decisions on economic policy will likely be influenced by non-technical and highly politicized issues. Moreover, the technical expertise that was once commanded only by the academic technocrats is now shared not just by

technocratic bureaucrats, but also politicians and political (ex-)activists with backgrounds in economics. This means that a range of perspectives in economic thinking is now available for political appropriation. In this sense, it is clear that technocracy can no longer be shielded from "politics". In retrospect, it has never been. If it had once looked as if it was under the New Order, Soeharto made it appear so. But those days are over. Although the institutional foundation is now in place for the independence of Central Bank, the fiscal prudence of the Ministry of Finance and the planning function of the BAPPENAS, their performances ultimately depend on who runs these institutions and what political processes inform their operations.

In late August 2005, Susilo Bambang Yudhyono confronted the first major economic (mini-)crisis since he became president the previous year.

The crisis was triggered by the announcement of the 2006 national draft budget on August 16. The draft budget was roundly criticized for assuming that the price of oil was USD 40 per barrel, an unrealistic amount since the price of oil was then commanding USD 60 in the world market. The Parliament (Dewan Perwakilan Rakyat, Council of People's Representatives) summoned government representatives to account for the budget. In the course of the debate, the government warned that if the price of oil remained at USD 60, the fuel subsidy for the year 2005 alone would already reach Rp 138.6 trillion, almost one third of the 2005 budget, and generate a deficit of Rp 48.3 trillion.

The projected deficit meant inflation, which would in turn lead to the depreciation of the rupiah vis-à-vis the U.S. dollar. Such fears brought to mind the nightmare of the 1997-1998 crisis when the collapse of the rupiah sparked a series of bankruptcies and social and political crisis that eventually toppled the Suharto regime. To calm down the market and dampen foreign-exchange speculation, the Indonesian Central Bank (Bank Indonesia, hereinafter BI) raised the interest rate on central bank certificates of deposit.

The president convened cabinet meetings every day in late August. Accompanied by Cabinet Secretary Sudi Silalahi and Head of Police General Sutanto (but, interestingly enough, not by any member of the economic team), he also visited the central bank and met with business leaders.

When the rupiah hit 11800 to the U.S. dollar on August 30, the cabinet held an emergency meeting for seven hours. Coordinating Minster for Economy, Trade and Industry (hereinafter Menko) Abrizal Bakrie argued that it was crucial to restore market confidence in the government, and proposed that fuel prices be raised immediately. His proposal was supported by the State Minister for National Planning and Chief of the National Development Planning Agency (BAPPENAS), Sri Mulyani, and by the Minster of Education Bambang Sudibyo who had served as finance minister under former president Abdurrahman Wahid. The president, however, did not accept the proposal. Word subsequently leaked out that prior to the cabinet meeting, Abrizal Bakrie had talked with the Minister of Mining and Energy, Purnomo Yusgiantoro, about the need to raise fuel prices, but that Purnomo did not support Bakrie's proposal at the cabinet meeting. It was also rumored that Jusuf Anwer, the Finance Minister, who was conveniently in Tokyo and did not attend the meeting, had long been on no speaking terms with Bakrie.

The following day, the president convened the cabinet again and announced his own economic policy package to deal with the crisis. Bakrie was conspicuously absent from this meeting, which was attended by Sri Mulyani, Purnomo Yusgiantoro, Sudi Silalahi, and General Sutanto, as well as Secretary General of the Ministry of Finance (hereinafter MOF) Kristiadi representing Minister of Finance Jusuf Anwar. The fact that Yudhoyono's package made no mention of fuel prices revealed his lack of trust in the economic team, disappointed investors and fueled rumors of an imminent cabinet reshuffle.

No cabinet reshuffle took place until early December, when Boediono, the former Minister of Finance under President Megawati, replaced Abrizal Bakrie as Menko, State Minister for National Planning Sri Mulyani assumed the Finance Minster portfolio replacing Jusuf Anwer, and Paskah Suzetta, a Golkar politician with the construction business back ground, became State Minister for National Planning and Chief of BAPPENAS. The reshuffled was hailed as the return of a technocrats dominated economic team for the first time since the1990s. Rupiah strengthened a few percent points immediately in the foreign exchange market.

In the meantime, Vice President Jusuf Kalla succeeded in persuading the president to raise fuel prices, and instructed all the cabinet ministers to work on their respective political parties to make sure that the revised budget would be passed by the Parliament. Fuel prices were raised by 126 percent on October 1, and were greeted with anti-government demonstrations. Jusuf Kalla took the credit for this important decision, which was crucial in enabling the government to weather the crisis. (The public was also distracted by the Bali bomb attacks on the same day.) But he was not successful in protecting his ally, Abrizal Bakrie, as Menko; he argued in vain for creating two economic coordinating ministerial positions, one for macro economic management and the other for micro economic affairs, no doubt with the idea that Abrizal Bakrie be retained as coordinating minister for micro economic affairs, while the job of the coordinating minister for macro economic management be given to Boediono. But the President insisted on macro-economic stability as his first policy priority and appointed Boediono as Menko, while giving Golkar politician Paskah Suzetta the job of the State Minister for National Planning and Chief of BAPPENAS as a concession to the Vice President.and his party, Golkar.

Important questions arise. how can the economic team of ministers be effective and what should guarantee economic rationality in the economic policy making under a democratic system? The new economic team was hailed by the public and the market, because Boediono was seen as the leading architect of post-crisis macro-economic stability under President Megawati and because the team under his leadership reminded the public of those happy days in the 1980s when reforms were introduced under the technocratic leadership to prepare Indonesia for high economic growth in the late 1980s and early 1990s. But Indonesia was under Suharto's centralized authoritarian rule then, while the team headed by Budiono now has to work under a vastly different political system which can best be characterized as a decentralized democratic system in which the President, though directly elected and enjoying national mandate, has to work with the Vice President as well as newly empowered Parliament, political parties, and local governments. These questions underscore the important but nevertheless fraught position occupied by technocrats in the changing Indonesian political structure and processes of economic policy-making.

* * * * *

Technocracy in Indonesia emerged and developed in the 1960s in tandem with the rise and consolidation of Suharto's authoritarian developmental state. Its macro economic policy framework was informed by three principles: the balanced budget, the open capital account, and the pegged exchange rate system. The balanced budget principle (and its international institutional framework, the Inter-Government Group for Indonesia, IGGI, established in 1966, and succeeded by the CGI in the 1990s to provide new concessionary loans to the Indonesian government) was “dynamic” in the sense that total public expenditures should not exceed domestic government revenues plus official capital inflows. This principle was instrumental in preventing the government from resorting to deficit financing and served to shield the Minister of Finance from excessive financing demands (Ginandjar 13-14). This principle, however, was never made into a law. It essentially depended on the ability of the Finance Minister to persuade the president to reject proposals that required excess expenditure. It also functioned to prevent the government from attempting to raise funds by issuing domestic government bonds (and indeed, the government did not issue domestic bonds until the 1997 crisis).

But the main problem with the balanced budget principle was that the government also relied on off-budget expenditures, the size of which was often unknown, even to many senior policy makers. Over time, the government increasingly resorted to off-budget accounts to fund numerous pet projects (such as the state aircraft industry and Krakatau Steel), to help finance the government’s reelection campaign, and to underwrite persistent public enterprise sector deficits by borrowing from the state banks. The balanced budget rule eventually became a mere façade and a misleading index of fiscal discipline (*ibid.*).

The second principle—the open capital account—was introduced in 1971, when the government eliminated controls on foreign exchange transactions, most notably capital flows. The open capital account was meant to provide a further brake on monetary policy by ensuring that any monetary mismanagement would show up almost immediately in an outflow of foreign exhange.

Finally, the implementation of an adjustable pegged exchange rate (the third principle) was intended to maintain the real international value of the rupiah by adjusting the nominal rate to reflect changes in domestic consumer prices relative to the international prices of its major trading partners. Major adjustments were required in 1973, 1983, and 1986 to deal with the impact of sharp changes in world oil prices (*ibid.*).

These principles were introduced in the early days of Suharto's New Order regime by his economic advisers, a handful of young academics who were trained at Indonesia's premier university, the University of Indonesia (hereinafter UI), and abroad, and who would maintain links with the academic community as faculty members at UI. Five of them emerged as key members of Suharto's economic team and founding fathers of the Indonesian technocracy: Mohammad Sadli, Emil Salim, Subroto, Ali Wardhana, and Widjojo Nitisastro.

In the early years of the New Order, there were not very many Indonesians who had the technical expertise to formulate and manage macro economic policies and to communicate with their counterparts in other countries using the technical lingua franca employed by foreign governments such as the U.S., Japan, and West European nations, as well as international agencies such as the International Monetary Fund (hereinafter IMF), the World Bank (hereinafter WB) and the Asian Development Bank (hereinafter ADB).

At the same time, their small number and close personal relationships with each other set this first-generation academic or faculty technocrats apart from the bulk of the Indonesian bureaucracy. While these technocrats could have a significant impact on broad economic policies, above all monetary policies and major allocations of resources, they had relatively little influence on or control over the political and bureaucratic processes that enabled the policy implementation of contracts, licenses, promotions, payoffs, and other microeconomic details (Bresnan 73).

In contrast to their counterparts in Southeast Asia, Indonesian economists remained in public office for far longer periods. This may have been partly a function of Suharto's own long tenure. Nevertheless, the stability of his relationship with his initial five economic advisers remains exceptional.

Who were these acadamic technocrats?

Widjojo Nitisastro (UI; Ph.D., University of California, Berkeley) joined Suharto's advisory team in 1966 as a member of the National Economic Stabilization Board. He was appointed Chairman of BAPPENAS in 1967 and served in that position until 1983, while also serving as Menko from 1973 to 1983. He was appointed as advisor to BAPPENAS (1983-1998) and presidential economic advisor (1993-1998), while working as professor of economics at UI from 1964 to 1993.

Ali Wardhana (UI; Ph.D., University of California, Berkeley), was professor of economics at UI. From 1966 to 1968, he was a member of the Economic Advisory Team of the President, served as Minister of Finance from 1973 to 1983, and replaced Widjojo as Menko from 1983 to 1988.

Emil Salim (UI; Ph.D., University of California, Berkeley) served as deputy chief of BAPPENAS (1967-1971), State Minister for State Apparatus (1971-73), Minister of Transportation, Communication and Tourism (1973-1978), State Minister for Development Supervision and Environment (1978-1983) and Minister of State for Population and Environment (1983-1993). Subroto (UI; Ph.D., University of Indonesia) served as Director General of Research and Development at the Department of Trade, Minister of Manpower, Resettlement and Cooperatives, and finally Minister of Mining and Energy (1983-1988) before became Secretary General of the Organization of Petroleum-Exporting Countries, OPEC, in 1988. Finally, Mohammad Sadli (UI; Ph.D., University of Indonesia) studied at the MIT and the University of California, Berkeley, and served as Minister of Manpower (1971-1973) and Minister of Mining and Energy (1973-1978).

Four of them studied at the University of California, Berkeley, and three of them obtained Ph.D. there, hence they were called "Berkeley Mafia". But a more appropriate label for the technocrats under Suharto should have been the "UI-Gadjah Mada Mafia" because many of the academic technocrats who followed their footsteps were either trained at the University of Indonesia or Gadjah Madah University, which would serve as the nesting grounds for training and grooming the technocrats who succeeded the original five.

Among the second-generation academic technocrats was J.B. Sumarlin, a UI graduate, who obtained his Ph.D. from the University of Pittsburgh. While teaching at UI, he started his technocratic career as deputy chairman for fiscal and monetary matters at BAPPENAS (1970-1973), then served as Vice Chairman of BAPPENAS (1973-1982) and State Minister for State Apparatus (1973-1983); as State Minister for National Development Planning as well as BAPPENAS Chairman (1983-1988); and finally Minister of Finance (1988-1993).

There was also Saleh Afif, another UI graduate, who obtained his Ph.D. from the University of Oregon and started his career as State Minister for State Apparatus and Deputy Chairman of BAPPENAS (1983-1988) before being appointed State Minister for National Development Planning and Chairman of BAPPENAS (1988-1993) and finally Menko (1993-1998).

Adrianus Mooy was a Gadjah Mada graduate, and had a Ph. D. in Econometrics from the University of Wisconsin. He joined BAPPENAS in 1967, and rose up the BAPPENAS hierarchy, serving as Bureau Chief for Domestic Finance, Assistant to the Minister for Development Planning/BAPPENAS, and Deputy Chairman for Fiscal and Monetary Affairs (1983-1988) before being appointed BI Governor (1988-1993).

Rachmat Saleh, Trade Minister (1983-1988) was an UI graduate who joined the BI and climbed the central bank hierarchy as Representative of Bank Indonesia in New York in 1956; Secretary to the Board of Directors of Bank Indonesia in 1958; Head of Research, and later Vice Director of BI, in 1961; Director of BI, 1964; and Chairman of the Directorate of Foreign Exchange Institute, Jakarta, in 1968; and BI Governor (1973-1983).

Arifin Siregar, Trade Minister (1988-1993), graduated from the Netherlands School of Economics, Rotterdam, in 1956; got his Ph.D. from the University of Muenster, West Germany in 1960; then worked as Economic Affairs Officer in the United Nations Bureau of General Economic Research and Policies in New York in 1961 and the United Nations Economic and Social Office, Beirut, in 1963. He was an Economist at the Asian Development, IMF, 1965 and a representative of the IMF in Laos (1969-1971), then joined the BI as Director in 1971, served as Alternate Governor of the IMF in Indonesia (1973-1983), and finally as BI Governor (1983-1988) before being appointed Trade Minister (1988-1993).

Soedradjat Djiwandono, BI Governor (1993-1998), was a graduate of Gadjah Madah (1963) and had a Ph.D. from Boston University (1980). Married with a daughter of Sumitro Djojohadikusumo, the founder of the Faculty of Economics, University of Indonesia, he joined the Ministry of Finance (MOF) as a staff member of the Director General for Monetary Affairs in 1964, and rose to Junior Minister for Trade (1988-1993) under Arifin Siregar, and was subsequently made BI Governor in 1993.

These second-generation technocrats controlled BAPPENAS, the MOF, the Ministry of Trade, and the BI, as well as the position of the Coordinating Minister for Economy, Finance, and Industry (Menko).

All of the technocrats enjoyed Soeharto's trust and proved effective in the ecnomic policy making as long as he supported them. But they only represented one school of thought on Indonesia's economic development. There were, in fact, two schools of thought. The technocrats—who were all UI-Gadjah Mada economists and regarded Widjojo as their boss—belonged to the first school, which adhered to the doctrine of free trade based on the market economy, and advocated limiting state intervention in the market to a minimum and guaranteeing as much as possible the free economic activities of the private sector. They also hewed to the notion of "comparative advantage" of a country for economic development.

The other, opposing school of thought—mainly represented by engineers, many of whom were trained at the Bandung Institute of Technology (ITB) —believed in industrial policy and upheld state-led economic nationalism, arguing that the state should actively intervene to promote long-term growth of domestic industries, if necessary shielding these domestic industries from outside competition.

Officials representing these two opposing camps sought Suharto's support and blessings. Indonesia's development strategies oscillated between these two schools of thought as Suharto oscillated between the two strategies. When the economy was booming, economic nationalism manifested itself in the form of large-scale capital-intensive state projects, which often turned out to be wasteful and served to increase Indonesia's external debt. When the economy experienced a downturn, those projects were shelved, the exchange rate was devalued, and deregulations were introduced to integrate the Indonesian economy more deeply into the global market.

BAPPENAS was the stronghold of the free-market technocrats with the physical presence, either formal or informal, of Widjojo, while the nationalist school was represented by such high-ranking officials as B.J. Habibie, who served as State Minister for Science and Technology and Chief of Technology Assessment and Application Agency (Badan Pengkajian dan Penerapan Teknologi, BPPT) from 1983 to 1998; Ginandjar Kartasasmita who served as Junior Minister for the Promotion of Domestic Products (1983-1988), Head of the Investment Coordinating Board (Badan Koordinasi Penanaman Modal, BKPM) (1985-1988), and Minister of Mining and Energy (1988-1993); Hartarto, Minister of Industry (1988-93); and Tunky Ariwibowo, Minister of Industry and Trade (1995-97). Rent-seekers with vested interests, above all presidential cronies and, increasingly, Suharto's family members, openly allied themselves with the nationalist school.

One contentious issue between the two schools was import controls. In 1982, an "approved traders" system was introduced. The system established a list of categories of raw materials, components, and products that could be imported only by specified agencies. By early 1986, 1484 items were under import license controls, (of which 1360 were in the manufacturing sector), and 296 items were under physical import quotas (of which 231 were in manufacturing). These items amounted to USD 2.7 billon worth of imports in 1985, representing more than half the value of Indonesia's total imports. These controls did little to protect local industries, and functioned more as a means of generating income for the president's family and friends (Bresnan 247, 249).

Another example was controls on private investment. Foreign investment was tightly controlled; from 1974 onward, the Capital Investment Coordinating Ageny (BKPM) issued comprehensive guidelines every year listing the priority areas for investment. Under the leadership of Ginandjar Kartasasmita, who served as the Head of the Investment Coordinating Board from 1985-1988, the 1985 investment priority list, for instance, included four hundred projects which were open to foreign investors, others which were restricted to domestic investors, and areas that were closed to investment altogether (251).

But oil revenues were declining because of the collapse of oil prices in the early 1980s. The Fourth Five-Year Plan, announced in 1984, made it clear that the days of state-funded projects were over. The Plan estimated that the economy would have to create nine million new jobs over the five-year period; this in turn would require the investment of Rp 145.2 trillion, but the central government budget would only be able to provide around half of that amount. The remainder, Rp 67.5 trillion, would have to be obtained from the private sector and state enterprises. Both the Commander in Chief of the Armed Forces Benny Murdani and the State Secretary and Chairman of the government's party, Golongan Karya (hereinafter Golkar) Lt. Gen. Suhdarmono -- Suharto's two top lieutenants in those days – called on ethnic Chinese businessmen to support the Plan by calling for the end of racial discrimination in government policies (254-55).

With this broad political backing, the technocrats initiated deregulation from 1983 to 1989. The economic team which retained control over the major economic portfolios took steps to reform the financial system, adopted a more open trade stance, and introduced a modern tax system (Ginandjar 17). Suharto took his economic ministers' advice, as he had on earlier occasions when resources were constrained. Ali Wardhana and his fellow economic ministers proceeded with their reforms where they had the formal authority, bureaucratic strength, political backing and Suharto's personal support to act on such issues as exchange rates, interests rates, and taxes.

The incremental approach included bank reforms in 1983; a tax reform at the end of that year; reform of the customs service in 1985; a devaluation of the rupiah in 1986; and partial trade reforms in 1986 and 1987; investment controls were eased in 1986 and 1987, and in 1988 a package of deregulation measures was announced by Radius Prawiro, new Menko in trade and customs (Bresnan 262-63).

But the economic team had lost its momentum and political support by the early 1990s. In the 1993 reshuffle, most of the academic technocrats were replaced by nationalistic and technocratic bureaucrats (Ginandjar 17-18). This was partly because of the rise of nationalists as represented by Habibie and Ginandjar, and partly because of the rise of a new breed of technocratic bureaucrats (i.e., career bureaucrats who were able to obtain technical expertise by doing graduate work abroad) often with the support of Suharto and his family members and cronies.

Mar'ie Muhammad replaced J.B. Sumarlin as Finance Minister; Ginandjar Kartasasmita replaced Saleh Afif as BAPPENAS chief; S.B. Joedono[i], Habibie's ally, replaced Arifin Siregar as Trade Minister; while Saleh Afif was appointed as Menko to replace Radius Prawiro[ii] and Soedradjat Djiwandono replaced Adrianus Mooy as BI Governor.

Mar'ie Muhammad, an UI Accounting graduate with an Islamic activist background, joined the MOF in 1970 and rose in the Finance bureaucracy to serve, from

1988-1993, as Director General of Taxes before being appointed as Minister of Finance from 1993-1998. Suharto gave him the finance portfolio because he had known him since his student activist days and because he was impressed by his performance as the clean and forceful Director General of Taxes.

Ginandjar Kartasasmita, a Chemical Engineer graduate of the Tokyo University for Agriculture and Technology (1960-1965), rose in the state secretariat bureaucracy from the G-5 of the Supreme Command as one of future Vice President Sudharmono's lieutenants in the early days of New Order to Junior Minister for the Promotion of Domestic Products from 1965-1983. He then served as Chief of the Investment Coordinating Board from 1985-1988; as Minister of Energy from 1988-1993; and finally as Chief of BAPPENAS from 1993-1998. He was given the job of the BAPPENAS chief in part because he enjoyed the Presidential trust and in part because he was acceptable to B.J. Habibie who was intent on increasing his bureaucratic power at the expense of the technocrats.

It is also important to note that the Indonesian economy was undergoing major changes by the early 1990s. The private sector emerged as the driving force behind economic growth. There was a general surge in foreign direct investment after the Plaza Accord as realized foreign investment rose from USD 0.3 billion in 1985 to USD 4.3

billion in 1995. Most notable was the shift in the ratio of non-oil and gas revenue receipts as a proportion of the Gross Domestic Product (GDP), which rose from slightly more than 8 percent in 1985-1986 to nearly 12 percent in 1994-1995 (19, 22). Attempts at curbing vested interests, however, were not successful.

As Menko, Saleh Afiff knew that eliminating or even reducing the monopolies Suharto's crony Bob Hassan controlled, covering timber, plywood and rattan, would be inpossible. Furthermore, protectionism reared its head in the form of Suharto's son's national car project, began in 1996 and routinely ridiculed as the "family car project."

But most crucial was the fact that as private capital flows increased in the 1990s, the government found it increasing difficult in managing the exchange rate regime. The BI purchased foreign currencies to manage increasingly large capital inflows and to prevent an appreciation of the rupiah, thereby increasing the money supply and forcing the BI to offer higher Certificates of Deposit rates to raise interest rates, which in turn invited more private capital inflows under the pegged exchange rate regime. As the economy overheated and the real exchange rate appreciated, imports grew rapidly while exports slowed down. Though the government took steps to reduce domestic demand, it failed to address the issue of export growth. As a result, the growing trade imblance and Indonesia's debt, above all short term private debt, began to rise significantly. The BI widened the intervention bands around the pegged exchange rate in a belated effort to introduce more flexibility into the foreign exchange market and to warn offshore borrowers that there were considerable foreign exchange risks that had to be covered. But widening the bands was immediately followed by pressures that drove the exchange rate to the appreciation edge of the band.

Besides, concerns were raised when it became apparent that the president's cronies and family members were using the state banks to obtain foreign funds as such borrowings were assumed to have a measure of sovereign guarantee and funded a range of large investment projects. In short, adherence to the exchange rate regime in place led in the 1990s to significant and large, unhedged foreign exchange exposure by many Indonesian companies. Eventually widespread bankruptcies followed the collapse of the exchange rate regime. The failure to recognize the implicit inconsistency in the open capital account policy and the reliance on a pegged exchange rate helped destroy much of the economy when the Asian financial crisis hit Indonesia. (17, 34-35).

When the crisis started in Thailand and contagion spread to Indonesia, the technocrats initially viewed the crisis as containable. They in fact characterized it as a "mini crisis" which could be taken advantage of to redress long-term structural problems which had not been addressed after the deregulations lost steam in the early

1990s. Between 1989 and1996, real GDP growth averaged 8 percent; the overall fiscal balance remained in surplus after 1992; public debt as a share of GDP fell; and inflation hovered near 10 percent. Confident of Indonesia's sound economic fundamentals, technocrats seized this opportunity to persuade Suharto to introduce structural reforms as they deemed fit with the help of the IMF and to address structural problems such as expanding bad loans in the banking sector, the dependence of business groups on short-term dollar-denominated funds from foreign sources, and the control of Suharto's children, lieutenants, and crony business tycoons over commanding heights of the Indonesian economy.

The government abandoned its long-standing crawling peg exchange rate regime on August 1; in September, the government announced ten policy measures、which technocrats named their own IMF conditionality, calling for financial and fiscal tightening and structural reforms, including the suspension of government development projects and banking sector reforms; i.e., bailing out healthy banks which faced temporary liquidity difficulties; merging unhealthy banks with other banks or else liquidating them (Shiraishi 33; Ginandjar 48).

Yet Suharto insisted on proceeding with the postponed projects -- a clear sign that the technocrats were no longer in full control (Ginandjar 91). As a result, the rupiah kept going down; by early September, rupiah plunged below the symbolic USD 1:Rp 3000 line. On October 8, the government decided to seek IMF rescue, and concluded an agreement with the IMF, which required, among others, the closure of sixteen private banks, including the one owned by Soeharto's son and other structural reform measures (Shiraishi 33).

Ginandjar argues that it is not entirely clear who actually broached the issue of calling in the IMF to the president, since Menko Saleh Afiff, was ill and not in office, even though it was widely known that it was Widjojo Nitisastro, the Presidential advisor (Ginandjar 92). The initial IMF program was based on the assumption that the crisis was essentially a moderate case of contagion, and overshooting of the exchange rate, and hence the program was designed for such a mild crisis (49). IMF and WB demanded every structural and bureaucratic reform that they imagined would be good for Indonesia. Both the technocrats and the IMF wanted to use the crisis to achieve what numerous Indonesian policy makers had arduously worked for. Taking over this broad reform agenda without fully appreciating what the reforms entailed, what political and social changes they implied, and the capacity of the government to manage such rapid economic change, the IMF not only weakened the focus of its own agenda but in the end undermined the political structure that had evolved under Suharto over 40 years

(109).

The structural reforms required by IMF not only threatened to hurt the business interests of Suharto's children, his crony business tycoons, and his lieutenants, but also to undermine Suharto's huge patronage networks and the informal funding mechanisms of state agencies (including the military). When the government closed sixteen troubled banks and suspended government development projects right after it signed the agreement with the IMF, Suharto learned that he was duped. He allowed his son to take over another bank and revived government development projects which the government had suspended and which were controlled by his family and crony businesses. The closure of banks also triggered a bank run and led to a systemic crisis in the banking sector. The Minister of Finance, Mar'ie Mohammad, had initially suggested that more banks be closed, but soon backed down.

Bank closures had the opposite effect, undermining confidence in all private banks and precipitating an open political confrontation between the presidential family and the Minister of Finance and BI Governor; the presidential family won the battle, but paid the price in the form of serious loss of confidence in Indonesia's future and effectiveness of the technocratic ministers.

The president also announced that the government would not close any more banks in the future. This proved fatal. On Suharto's orders, the BI tried to inject liquidity into the troubled banks and loosen monetary controls. The resulting sharp increase in liquidity support from the last quarter of 1997 to 1998 spurred further deterioration of the macroeconomic situation and added to the increasingly strained relationship between the government and the IMF (95).

Sino-Indonesian businesses benefitted the most from this rise in liquidity support. A 2000 study by the Supreme Audit Agency (Badan Peneriksi Keuangan) claimed that around Rp 138 trillion of the BLBI funds issued was misused between 1997-1998 (96).

Then, in December 1997, Suharto fell seriously ill and did not attend the ASEAN summit meeting. This instantly transformed the situation from an economic crisis to a political crisis. Suharto stayed in his private residence in Cendana, with his children, above all his eldest daughter and his youngest son, acting as gatekeepers, without whose permission no one, even Suharto's ministers and generals, could see him. Conflict manifested itself again between the government and the IMF in January 1998 when the government announced a draft budget with no surplus, in spite of the IMF requirement of a 1.3 percent GDP surplus in the November agreement. The draft budget was also criticized for its "unrealistic" tax revenue and exchange rate assumptions. In reaction, the rupiah plummeted by 70 percent, reaching 10,000 rupiah per dollar. Another round of negotiations between the government and the IMF began. This time, though, it was Suharto himself, and not the technocrats, who took charge of the negotiations with IMF representative Stanley Fisher (51)—another clear sign that the President had lost faith in his economic team. To compound this, Suharto pointedly chose not to invite the Finance Minister and the BI Governor to the official signing of the Letter of Intent.

By that time it was clear that there were U.S. high officials who saw Suharto as part of the problem and thus wanted him to go. Suharto understood this very well and wanted to wage what he called "guerrilla warfare." He thus let the IMF spell out all the structural reform measures it wanted (which amounted to over one hundred) without any intention of abiding by the conditionality (Shiraishi 24; Ginandjar 53). Suharto also entertained the possibility of introducing a currency board system as a solution to the crisis, calling it "IMF plus"; this was supported by some officials in the MOF (Ginandjar 52). Both Japan and the U.S., however, were alarmed since the ill-timed introduction of a currency board system would instantly deplete Indonesia's foreign currency reserves and devastate the Indonesian economy while providing Suharto's children and cronies with a small window of opportunity for bailout. BI governor

Soedradjat Djiwandono opposed the idea and was summarily dismissed in February 1998. In a few weeks, Deputy Governor of the BI , Boediono, was also dismissed. Ginandjar writes: “For a time it seemed that Finance Minister Mar’ie Muhammad would be headed for a similar fate but he survived for reasons that may never be known” (101).

With the economic team in disarray, Japan and the U.S. made intervention. President Clinton sent former Vice President Walter Mondale in March 1998 to dissuade Suharto from introducing a currency board system. Now extremely suspicious of U.S. intentions, Suharto was in no mood to listen to the U.S. envoy. The meeting was cut short after only 30 minutes, when Suharto angrily rejected Mondale’s suggestion about the need for “political reform”. Shortly thereafter, Japanese Prime Minister Ryutaro Hashimoto also visited Indonesia, met with Suharto, persuaded him not to introduce the currency board system and opened the way for yet another IMF rescue package which was to be agreed on in April 1998.

In the meantime, Suharto was re-elected president once again in March 11 with B.J. Habibie as his vice president. The positions of Menko as well as BAPPENAS chief were held by Ginandjar. Fuad Bawazir, known to be close to Suharto’s children, was appointed as Finance Minister, while Syahril Sabirin, receptive to the idea of a currency board system, had replaced Djiwandono as BI Governor.

Syahril Sabirin, a graduate of Gadjah Mada University (1968), obtained his Ph.D. in 1979 from Vanderbilt University. From 1969 to 1993, he worked at the Bank of Indonesia, rising in the bank hierarchy and serving as section chief for current account (1982-1983) and for bank development (1982-1984), as bureau chief of economics and statistics (1985-1987) and for clearing (1987-1988), and as director (1988-1993). He was senior financial economist at the WB (1993-1996) before returning to BI as director (1997-1998), and finally as governor (1998-2003).

If Syahril Sabirin's career followed the trajectory set by the UI-Gadjah Mada Mafia, Fuad Bawazir, of Arab descent, and a fellow Gadjah Mada graduate with a Ph.D. from the University of Maryland, did not. Fuad rose in the MOF hierarchy, but like Mar'ie Mohammad, had an Islamic activist background and granted favors to Suharto's family members while he was Director General of Taxes and was rewarded with the position of Finance Minister.

The new cabinet can thus be said to have further reduced the role of the technocrats with some ministers becoming closely identified with the presidential family and others seeming less inclined to carry through the reform program agreed upon with the IMF.

After his re-election, Suharto established the Economic Stabilization Council with Menko Ginandjar Kartasasmita as its executive chairman. Ginandjar, smart, pragmatic and strong-willed, promptly set as his top priority the need to repair relations with the international community and regain market confidence. This committee also had Anthony Salim, the son of Indonesian Chinese business tycoon Liem Sioe Liong, as secretary general (55, 58).

Ginandjar was in charge of negotiations with foreign governments and the IMF. His counterparts were the so-called “Three Musketeers”: U.S. Treasury Undersecretary for International Afairs, David Lipton; Japanese Vice Minister for International Finance, Eisuke Sakakibara; and German Director General of International Affairs, Ministry of Finance, Klaus Regling (56). The committee decided to abandon the idea of a currency board, reestablished dialogue with the IMF, and concluded a new LOI two weeks after the new cabinet was formed. Ginandjar states that all the programs resulting from the negotiations were embraced by the Indonesian economic team as its own. All the government departments were given specific and written instructions by the Menko to carry out reforms within their areas of responsibilities and to abide by the timetable (57).

But it was too late. By then Suharto’s politics of stability and economic development had been thoroughly discredited. Its collapse was triggered by the fuel price increase in May 1998. Following massive riots in May in Jakarta and elsewhere, Suharto resigned. The New Order thus came to an end.

* * * * *

Ginandjar Kartasasmita emerged as a key player in the Habibie government, along with the president himself, and General Wiranto, Commander in Chief of the Armed Forces and Defense Minister. Ginandjar's team included Boediono, formerly Ginandjar's deputy for macro economic affairs at BAPPENAS before his move to the BI, who was appointed BAPPENAS chief and State Minister for National Development Planning, and Bambang Subianto as Finance Minister (appointed at Widjojo's recommendation), and Syahril Sabirin as BI Governor.

Bambang Subianto, a graduate of Leuven Catholic University in Belgium, was another technocratic bureaucrat. He rose in the finance hierarchy to become Director General of Monetary Affairs, and was then appointed the first Chief of Indonesian Bank Restructing Agency, only to be dismissed by Suharto after a few months.

Boediono was trained abroad (B.A., University of Western Australia; M.A, Monash University; Ph.D.,Wharton School of Business, University of Pennsylvania) and served as deputy for fiscal and monetary affairs at BAPPENAS (1988-1993) and

Deputy Governor of the BI (1993-1998) before being made State Minister for National Planning and BAPPENAS chief in 1998.

The economic team assigned a high priority to regaining macroeconomic stability (126) and restoring political stability as soon as possible. This meant removing the obstacles to financial flows to support trade. The team concentrated on repairing the banking system, resolving corporate debt, and initiating structural reforms (127). The team also courted the support of the political and economic elites, because presidential trust alone was no longer enough for their political effectiveness. The team frequently met with the Indonesian Chamber of Commerce, with the representatives of foreign investors, and with the leaders of political parties and various parliamentary commissions. To obtain public support for their proposed reforms, the team frequently met with the press and talked with leading economists and prominent public intellectuals such as Megawati confidant and economic commentator Kwik Kian Gie, as well as “economic reformists” such as Sri Mulyani Indrawati, Muhammad Ikhsan, Anggito Abimanyu, and Sri Adiningsih, representing the new generation of academic economists from UI and Gadjah Mada.

The policy measures initiated by the government helped stabilize the Indonesian economy. The rupiah strengthened and stabilized in the range of 6500 to

7000 per dollar, and in late 1998, GDP growth posted modest recovery and gained further strength in 1999 (136). With recovery on its way, the economic team shifted its attention to fiscal sustainability. The World Bank reported in July 1999 that Indonesia "appeared to have navigated the most treacherous passage of the crisis," and that "Indonesia stands on the cusp of recovery." But two developments hit the Habibie administration in mid 1999. The first was the aftermath of the East Timor referendum upholding East Timorese independence, which led to the total destruction of Dili by the Indonesian military and East Timorese pro-integration militias and provoked international backlash against the Habibie government. A far more damaging blow came from the Bank Bali scandal involving the fraudulent transfer of funds from the bank—hitherto considered the best managed of Indonesian banks—into the pockets of the government party, Golkar. The post-referendum carnage in East Timor and the Bank Bali affair strained relations between Habibie, the IMF and the donor governments (137-138).

The arrival of Abdurrahman Wahid as the fourth president ushered in a new era, in which the president was elected as a result of back room negotiations of political party bosses in the MPR. As a result, the cabinet was dominated by party politicians: out of 35 cabinet ministers in his first cabinet, 22 were party politicians while 6 retired military officers and 4 career bureaucrats; in the second cabinet, 11 party politicians, 4 military officers, 6 career bureaucrats in the 26 member cabinet.

Kwik Kian Gie, Indonesian Democratic Party of Struggle (Partai Demokrasi Indonesia Perjuangan, hereinafter PDIP) politician and Megawati confidant, became Menko.[iii] Bambang Sudibyo, Gadjah Mada accounting professor and a confident of National Mandate Party (Partai Amanat Nasional) Chairman and People's Consultative Assembly (Majelis Permusyawaratan Rakyat) General Chairman Amien Rais, was appointed Finance Minister.[iv] Djunaedi Hadisumarto served as Chairman of BAPPENAS,[v] Syahril Sabirin remained as BI Governor, but no State Minister for National Development Planning was appointed.

In the second Abdurrahman Wahid cabinet, Rizal Ramli—a former student activist with the background in engineering who was sent by technocrats to do graduate work at Boston University, but who rebelled against his patrons by openly attacking technocracy and establishing his own business consultancy firm upon his return to Indonesia—became Menko, while Prijadi Praptosuhardjo, previously Bank Rakyat Indonesia director, became Finance Minister.[vi]

Kwik was not interested in coordinating economic policies. That he did not believe in an economic team was clear from the way he referred to the government as "they" (*mereka*). Abdurrahman Wahid also wrought vengeance on those whom he felt were his enemies or who had previously wronged him. He began attacking Syahril Sabirin, Governor of BI (which was newly made independent in the Habibie era thanks to the new Central Bank Law), even though Syahril Sabirin could not be dismissed without the approval of the Parliament. When the Parliament refused to consent to the dismissal of the governor, the president asked Syahril Sabirin to voluntarily resign and promised him other positions. Abdurrahman Wahid and Marzuki Darusman, his attorney general, had presented Syahril Sabidin a number of times with the choice of either resigning or being prosecuted for the Bank Bali scandal. Syahril Sabidin refused to resign and was subsequently arrested on charges of complicity in the Bank Bali affair. Eventually the High Court cleared him of all charges (153).

The Abdurrahman Wahid administration which lasted from October 1999 to July 2001 is now remembered as a time of chaos. It was a period in which cabinet members were constantly dismissed or replaced, or chose to resign. The final months saw the impeachment and final ouster of the president.

When Megawati was elevated to the presidency in July 2001, there was loud public clamor for stability. No one wanted to see her ousted like Abdurrahman Wahid, and Megawati was careful in choosing her cabinet so as not to antagonize any party. As evidenced by the failure of the Abdurrahman Wahid government, political alliances alone could not suffice to lift the country out of its crisis. The Jakartan elites agreed that Megawati needed "professionals" who were unbound by party politics. In forming her cabinet, she included representatives from the different political parties, but reserved some of the major economic posts for non-partisan professionals and her personal confidants. Dorodjatun Kuntjara-Jakti[vii], UI professor of political economy whom Suharto in his final days sent to the U.S. as ambassador, was appointed Menko; Boediono Minister of Finance; and Kwik Kian Gie Minister of National Planning. Burhanuddin Abdullah replaced Syahril Sabirin in 2003 as BI Governor.

The economic policy of the Megawati administration was still under IMF management. Therefore, the Indonesian government did not have much freedom in policy-making, its major objective being to achieve macroeconomic stability and banking sector reform, for which Boediono and Burhanuddin were mainly responsible. In view of the graduation from the IMF program at the end of 2003, the government, with assistance from the IMF and the WB, formulated an exit strategy to cope with the post-IMF program challenges and opted to enter into a Post-Program Monitoring scheme with the IMF.

But the economic ministers failed to act as a cohesive team and coordination among the various economic ministries was weak. Dorodjatun talked a lot, but did little coordinating. Kwik Kian Gie had little intention of being a team player, and, openly attacking BAPPENAS as a nest of corruption and holdover from the Suharto era, called for reform and proposed stripping BAPPENAS of its bureaucratic powers and turning it into a government think-tank. As if to underline his views, Kwik did not even bother to set up office at BAPPENAS and was quite open about his disagreements with other ministers. Kwik's feuds with the ministers, especially fellow PDIP member and Minister of State Enterprises Laksamana Sukardi, were public and frequent.

Indonesia was under IMF management from 1997 to the end of 2003, transitional years which saw drastic institutional changes such as the constitutional revisions, the expansion of local autonomy, and the promulgation of new laws governing the BI, government finance, and national planning. All of these institutional changes took place against the backdrop of an often chaotic economic policy-making process, even though it should be noted that Minister of Finance Boediono and BI Governor Burhanuddin succeeded in achieving the long-awaited macro economic stability under Megawati.

The Central Bank Law, enacted in 1999, guaranteed the independence of the BI from the government; and prohibited the BI from purchasing government domestic bonds. Four years later, in 2003, the law on government finance was enacted and introduced the European Union Maastricht treaty-type rule to achieve economic and financial stability by legally requiring the government to keep the annual budget deficit below 3 percent of the GDP and the total government bonds issuance (both central government and local government bonds) below 60 percent of the GDP. In other words, to maintain investor confidence, the law in fact stipulated a self-restraining fiscal policy.

This law led to the reorganization of the Ministry of Finance, expanding its powers, changing the relationship between the MOF and BAPPENAS, and leading to the enactment of another law, that on national development planning system, in 2004. As a result of the reorganization, the Agency for Economic, Fiscal, and International Cooperation Research, which was created on the basis of the former Agency for Fiscal Analysis, was made responsible for budget making, while the budget planning function was assigned to the Directorate General for Budgetary and Fiscal Balance, created out of the former Directorate General of Budgeting.[viii]

Previously, BAPPENAS in cooperation with MOF was responsible for making Basics for Fiscal Policy and Macro Economic Framework (Pokok Kebijakan Fiscal dan Kerangka Ekonomi Makro), but this task now came under MOF jurisdiction with the passing of the new law. Moreover, the budget had previously been classified as the routine budget and development budget, which were respectively under the jurisdiction of the MOF and BAPPENAS. This distinction was now eliminated under the new law. Clearly, the powers of BAPPENAS were being whittled away as the responsibility for making the entire budget shifted to the MOF. The Propenas (national development plan drafted by BAPPENAS under Abdurrahman Wahid) was held to be incompatible with the new law; the MOF would now be in charge of formulating a mid-term expenditure framework for the future fiscal planning system.

This diminution in BAPPENAS powers created the need for a law on national planning. Under Suharto, BAPPENAS was in charge of national planning, drafting the development budget, coordinating with foreign governments and international organizations for international assistance, and monitoring functions in development project coordination and implementation. This made BAPPENAS effectively a super-ministry. In its heyday, Widjojo did triple duty as Menko, as State Minister for National Planning, and as Chief of BAPPENAS; even after he left the Cabinet in 1983, he and his successor as Menko kept offices at BAPPENAS until Ginandjar became BAPPENAS Chief in 1993.

Under Suharto, national development planning was implemented by presidential decree rather than by law. For this reason, the legal status of BAPPENAS was never entirely nor clearly defined. BAPPENAS' effectiveness not only depended on its ability to work with Suharto, but far more important, on Suharto's own commitment to prioritizing national development. BAPPENAS in the Suharto years thus enjoyed his confidence and functioned as a high command for directing Indonesia's national development, even though technocrats had to compete with economic nationalists for Suharto's blessing and support.

But following the period of transition under Habibie, BAPPENAS saw its powers undercut by President Abdurrahman Wahid. He viewed BAPPENAS as well as the State Secretariat as the two major civilian pillars of Suharto's New Order, and openly talked about dismantling these agencies. Subsequently, under Megawati, BAPPENAS ceded most of its powers to the MOF and to local governments whose powers and autonomy now expanded under the new decentralized democratic regime. Even though politicians no longer talked about abolishing BAPPENAS altogether as Abdurrahman Wahid had done, BAPPENAS became a lame duck, crippled both symbolically and literally by its own Chief Kwik Kian Gie's open indifference and neglect.

Personal differences may have also played a role in the crippling of BAPPENAS. The highly respected and competent Finance Minister Boediono did not trust Kwik Kian Gie as a minister, and foreign governments and international organizations opted to deal only with Boediono. (Boediono did not even bother inviting Kwik to join the Indonesian team in the economic policy dialogue with the Japanese in 2002-2004.)

Since the crisis, achieving macro economic stability had been the top priority of the Indonesian government with the support of foreign governments and the IMF and WB. This meant that developmental planning no longer received high priority. This shift in priorities empowered the MOF since it was in charge of restoring macroeconomic stability.

But once Indonesia graduated from the IMF program and the long-awaited macro economic stability was achieved, the issue of long-term national development planning has become important once again. To quote former BAPPENAS chairman under Abdurrahman Wahid, Djunaidi Hadisumarto: “BAPPENAS’ role in the development planning regime should not be dependent on the personality of the president and the chief of BAPPENAS, as well as on personal relations among cabinet members. It is important to enact a law on the national planning system to stabilize Indonesia’s development planning.” A law on the national development planning system was enacted in 2004 in the final days of the Megawati presidency. It finally granted legal status to BAPPENAS and stipulated that the Chief of BAPPENAS support the president in formulating the presidential national development plan and assume responsibility for drafting the central government development plan. As a result, all the developmental planning—annual, mid-term and long-term—now come under BAPPENAS and the MOF is required to coordinate with BAPPENAS on the drafting of the mid-term development plan and mid-term expenditure framework as well as annual development plan and annual budget.

Thus it was that the missions and powers of all the important government economic agencies - BI, MOF and BAPPENAS - were redefined institutionally in the transitional years. Constitutional revisions in the same years also redefined the relationship among the executive, the legislature and the judiciary in terms of the division of powers. The President and the Vice President were to be elected directly; the legislature was to be consisted of the DPR, the Council of People's Representatives and the newly created DPD, the Council of Local Representatives; and the MPR, the highest decision making body under Suharto, lost much of its powers. Under the new system, the directly elected President and Vice President should enjoy national mandate and would not be denied their mandate and/or be dismissed easily as B.J. Habibie and Abdurrachman Wahid experienced in the transitional years and the President and Vice

President as a team should be able to run their administration with officials they appoint and without any serious constraint by the Parliament. Yet memories of transitional years linger on. It does not help that the Presidential party, the Party of Democrats, controls less than 10 percent of the parliamentary seats, while the Vice President heads the Golkar Party, the largest party in the parliament. The President thus did his best to cobble together the stable parliamentary majority enlisting most of the political parties except Megawati's PDIP, while encouraging the Vice President to take over the Golkar leadership and destroying the opposition coalition of PDIP and Akbar Tandjung-led Golkar. In the end, the President gave almost one third of ministerial positions to party representatives in organizing his cabinet and allowed the Vice President to be in charge of economic affairs and to have his way in appointing many of the economic team members. This was the reason Abrizal Bakrie, Vice Presidential ally, was appointed Menko, while Sri Mulyani, who the President wanted to be his Finance Minister but whose appointment Islamic parties the President was courting vehemently disapproved, was given the National Planning portfolio and Jusuf Anwar was made Finance Minister as a compromise.

When Susilo Bambang Yudhoyono and Jusuf Kalla came to power, it was understood generally that the new government would take the position that while macro economic stability was achieved for the first time since the Asian economic crisis, the Indonesian economy would have yet to achieve its potential growth rate. The policy orientation thus aimed at accelerating economic growth, poverty reduction and job creation through proactive fiscal policies, government expenditures on national welfare such as education and health, and promotion of investment through infrastructural development. Confronted with the mini-crisis in August 2005, however, the President came to the conclusion that macro economic stability should be given the first policy priority, even though poverty reduction and job creation would become increasingly important in the coming years.[ix] He also wanted to have his own economic team, not his Vice President's. So it was that Boediono was appointed Menko and Sri Mulyani Finance Minister. But to placate Vice President and his party, Paskah Suzetta was appointed as State Minister for Planning and Chief of BAPPENAS and Fahmi Idris was given the job of the Minister of Industry.

This paper has argued that the technocracy nurtured by the New Order was cohesive and effective (in the 1970s and 1980s) not just because its academic background and technical expertise but because of its adherence to the three principles of balanced budget, open capital account, and pegged exchange rate system and its ability to serve as Suharto's right arm in formulating and executing national development policies. In the late Suharto era, however, these academic technocrats faced increasing challenges from engineers entrenched in the government agencies such as the Ministry of Industry, the Investment Coordination Agency and the BPPT/BPIS (Agency for State Strategic Industries) and technocratic bureaucrats who were trained abroad and rose in their individual departmental hierarchies as career bureaucrats. Technocrats who, in alliance with the IMF, attempted to use the Asian crisis to force structural reforms on Indonesia found themselves shut out by Suharto.

The transitional governments led by B.J. Habibie, Abdurrahman Wahid, and Megawati sought to find institutional and political alternatives to the discredited technocratic economic policy-making process. These alternatives ranged from putting technocrats in touch with other key players in Indonesia's economy and politics such as businessmen, the mass media, emerging politicians and future technocrats, as well as foreign governments and international organization (as Ginandjar did as Menko under Habibie) to the outright bypassing of technocracy and its institutional bulwark BAPPENAS (as under Abdurrahman Wahid) to the empowerment of MOF for the sake of macroeconomic stability at the expense of BAPPENAS and long-term national planning (under Megawati). With the enactment of a series of laws governing the BI, government finance, and national development planning as well as constitutional revisions, however, a new institutional framework is now in place.

To provide a provisional answer to the questions raised in the first section of this paper, I argue that the new institutional framework now in place will go a long way toward upholding the mid-term and long-term economic rationality of the policy-making process. However, technocrats will now also become even more dependent on their ability to secure the backing of the president, whose decisions on economic policy will likely be influenced by non-technical and highly politicized issues such as public reception and support, parliamentary approval, and personal chemistry, all of which may exceed market expectations. Moreover, the technical expertise that was once commanded only by the academic technocrats is now shared not just by technocratic bureaucrats, but also politicians and political (ex-)activists with backgrounds in economics. The lingua franca of economics can now be deployed either to support or to criticize the government's economic policies by a more diverse group of political players than had been possible during the New Order; this means that a range of perspectives in economic thinking is now available for political appropriation.

Yudhoyono's actions during the fuel crisis revealed his reluctance to fully rely on his economic team to determine economic policy, even though he reportedly had complete confidence in Sri Mulyani, the Chief of BAPPENAS. He thus opted for prioritizing the macro economic stability, appointed Boediono and Sri Mulyani as two key players in the new economic team, and asserted his power in the economic policy making which had been dominated by Vice President Jusuf Kalla and Abrizal Bakrie in the first year of the administration. Yet Vice President Jusuf Kalla remains important in the economic policy-making process, in part because he also enjoys national mandate as the directly elected vice president, in part because of the political contract between Yudhoyono and Kalla when they agreed to team up for the presidential elections, and in part because he controls the leading party, Golkar, which dominates the government coalition in the Parliament. Jusuf Kalla was instrumental in persuading the president to make the difficult decision to raise fuel prices. He was also instrumental in protecting Abrizal Bakrie, who was appointed as Coordinating Minister for People's Welfare in the cabinet reshuffle in stead of being dismissed summarily and more importantly in Paskah Suzetta's appointment as State Minister for Planning and Chief of BAPPENAS, which may turn out to be disastrous for the empowerment of BAPPENAS.

It should be clear then that technocracy can no longer shielded from "politics".

In retrospect it has never been. If it looked as if it was under the New Order, it was because of Suharto's will and because he made it look as if it was. But those days are over. Though the institutional foundation is now in place for the independence of Central Bank, fiscal prudence for the Ministry of Finance and the planning function for the BAPPENAS, their performance will depend very much on who run these institutions and in what political processes.

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[i]Satrio Budihardjo Joedono was born on December 1, 1940 in Pangkalpinang, Bangka. A graduate of UI (Economics), he obtained his Ph.D. in Public Administration from the State University of New York, Albany. While teaching at UI (promoted to professor in 1987) and serving as director of the Institute for Economic and Social Research (1970-1978) and Dean of the Faculty of Economics (1978-1982), he also served as assistant to the Minister of Trade (1970-1973) and to the Minister of Research (1973-1978), Assistant Minister of Research and Technology (1978-1982 and 1986-1988) and Assistant Minister for Industry and Energy (1988-1993) before being appointed as Minister of Trade (1993-1995). Known to be incorruptable, he was elected Chairman of the Board of Audit, 1998-2003.

[ii]Radius Prawiro, a graduate of the Nederlandsche Economische Hogeschool, obtained his Ph.D. from the University of Indonesia. He began his technocratic career as Governor of BOI (1966-1973), and served as Minister of Trade in 1973-1983, Minister of Finance (1983-1988) and finally Menko (1988-1993).

[iii] Kwik Kian Gie, born in Juwana, Centeral Java, is of ethnic Chinese ancestry. A graduate of the Nederlansche Economic Hogeschool (The Netherlands Economic High School) Rotterdam in 1963, he worked as an investment company executive and joined the Indonesian Democratic Party (PDI). He served as a member of the People's Consultative Assembly (MPR) from 1987 to 1992. He became the chief economic advisor to Megawati Soekarnoputri after her election as the Chairman of PDI in 1994. He headed the party's research and development department until Megawati elected as vice president before he was appointed as Menko under Abdurrahman Wahid.

[iv]Born in Temanggung, Central Java, on October 8, 1952, Sudibyo, a graduate of Gadjah Mada University and a Ph.D. (Business Administration, University of Kentucky, 1985), spent most of his career at Gadjah Mada University. He joined the National Mandate Party when it was established in 1998 and served as chairman of its Economic Council before he was appointed as Finance Minister under Abdurrahman Wahid.

[v]Under normal circumstances, Djunaedi Hadisumarto should have inherited the mantle from Boediono to serve as State Minister for National Development Planning and Chief of BAPPENAS. But Abdurrahman Wahid did not appoint any minister for national development planning. Djunaedi, a UI graduate and UI professor of economics, had served as Secretary General of the Ministry of Transportation and Vice Chairman of BAPPENAS under Boediono before being promoted to Chairman of BAPPENAS.

[vi]Rizal Ramli, a graduate of the Bandung Institute of Technology and a student activist, obtained Ph.D. in economics from Boston University in 1990. Upon completion of his graduate work, he established an economic research and publishing firm, Econit, and emerged as a critic of Suharto's crony Liem Sioe Liong, Freeport, and the IMF. He served as Head of the National Logistic agency (Bulog) before he was appointed as Menko from 2000 to2001. Prijadi Praptosuhardjo, a Abdurrahman Wahid confidant, is a graduate of the Bogor Institute of Agricultural (IPB) where he studied fishery. He spent his career in (Bank Rakyat Indonesia (BRI) where he became friends with Abdurrahman Wahid. He was appointed as BRI director in 1992 but failed in his bid to become the bank president despite Abdurrahman Wahid's recommendation. Instead, he was appointed Minister of Finance.

[vii]Dorodjatun Kuntjara-Jakti, an UI economics graduate, holds a Ph.D. (Political Economy) from the University of California at Berkeley, and was ambassador to the U.S. before being appointed as Menko under Megawati.

[viii]For a discussion of the institutional changes, see Takaaki Oiwa, "Indonesia ni okeru Seisaku-Seido Kaikaku to sono Enjo he no Koui: Kikaku, Zaisei, Kinyu Bumon wo Chushin ni," unpublished manuscript in my possession, 2005; Shinji Asanuma, "Zaisei no Jizoku Kanousei: Indonesia no Kesu," unpublished manuscript, 2005; Satoru Iijima, "Indonesia Kokka Keikaku Sistem Ho no Seitei to sono Igi

ni tsuite," *Kaihatsu Kinyu Kenkyu-sho Ho* (Journal of JBIC Institute), No. 25 (July 2005), pp. 167-197.

[ix] Interview with President Susilo Bambang Yudhoyono, December 23, 2005.