

THE INDONESIAN CRISIS: A STRUCTURAL VIEW

Hastu Prabatmodjo

ABSTRACT

The financial crisis starting from July 1997 has become an unparalleled problem for the New Order government, leading to its downfall. Before the crisis, Indonesia did not have a reliable regime of accumulation. At the same time, rapid engagement with globalization was not accompanied by adjustments in modes of regulation. External and internal factors have contributed to the current crisis which cannot be resolved without a major overhaul in the national system. It requires total changes in the paradigm and culture.

The financial crisis starting from July 1997 escalated into deep economic and political crises within months. Current crisis has become an unparalleled problem for the New Order government, leading to its downfall. Millions jobs losses, enterprise closes, soaring inflation, shrinking essential goods, international disconnection, paralyzed banks, and losing government's credibility indicate multi-dimensional crises which cannot be resolved with partial approaches. Indonesia needs a total solution consisting of economic, political, law and moral reforms. It means thorough, structural reforms which have to be undertaken carefully to prevent national disintegration.

Many nations ever experience crises, albeit in different scale, nature and causes. For instance, Western nations experienced two big economic crises, i.e. the great depression in the 1930s and the 1970s crises. In the meantime, small crises might occur frequently. The great depression led to the emergence of the Keynesianism which advocated government intervention to correct market failure. After the depression, the Western Europe had to deal with the devastating effects of the World War II. In the 1970s, the West experienced economic and industrial crises resulted from external (foreign competition and oil embargo) and internal (the disintegration of the mass-production system) forces (Piore and Sabel, 1984). Developing nations are not immune

to crises, especially in a globalized economy. Before the current Asian crises, Mexico experienced a big crisis in 1995. The Mexican and the Asian crises demonstrate the power of global capitalism.

What can we learn from the 1970s crises in the West? Instead of pointing fingers on the 'scapegoats' (Asian competition and the jumping oil prices), Western scholars posit that the capitalist system has endemic crises because of labor-capital contradictions. To sustain accumulation, adjustments in the *modes of regulations* are necessary (Boyer, 1990). Those in the West even learned 'the Japanese System' to enhance industrial competitiveness. For the Indonesian crisis, we can blame speculators, panic fund managers, reckless borrowers (and lenders) or even international conspiracy. However, this attempt will be unproductive in resolving the current or in preventing future problems. It does not mean that speculators, panic investors and reckless borrowers do not share responsibility. The IMF might also have its own hidden agendas. Nevertheless, the conditions leading to the meltdown of the economy have existed long before the crisis (McLeod, 1997).

Before the crisis, Indonesia have already had two major internal problems. The first is the absence of a reliable 'economic machine' for creating growth (*regime of accumulation*). From the early 1970s to the mid

1980s, the Indonesian economy was supported mainly by resource extraction (oil, gas, mining) plus foreign loans. Only after the fall of the oil prices in 1982 did the government promote the non oil exports. This attempt was successful by virtue of the international restructuring. Inflows of international investments (and loans) sustained economic growth. Since the early 1990s, the private sector has recklessly grabbed cheaper international funds many of which have been misallocated or simply corrupted. When experts warned about the danger of the escalating debt, people generally ignored them given the continuing growth. Second, rapid engagement with globalization was not accompanied by adjustments in the 'rule of the game' (*mode of regulation*). Indonesia encountered the unforgiving globalization, which requires transparency and accountability, with old-fashioned political and legal systems. Politics became very closed and even personalized; state became intrusive and uncontrolled; laws became retarded. The results were uncompetitive crony capitalism and unchecked, systemic corruption which hamper the development of a healthy *regime of accumulation*.

The whole system is rotten inside. It only required speculative triggers to breakdown. When foreign capital suddenly stopped, followed by massive outflows of capital because of collective panic and improper crisis management, our vulnerable *regime of accumulation* melted quickly, putting us in the condition like in the early five-year Plan. Thus, external and internal factors have contributed to the current crisis. Restoring economic growth requires massive inflows of capital which cannot be expected at present because of the fall of confidence and the political uncertainty. Indonesia is now even under a 'de facto' partial economic embargo.

How can Indonesia recover from the crisis and prevent it from happening in the future? This structural crisis cannot be resolved

without a major overhaul in the national system. The recovery of our economic machine cannot be undertaken shortly because of the high external dependency and technological deficiency. Withdrawal from the globalization is out of consideration. First thing first; what is required now is restoring integrity of the *modes of regulation* (including fiscal/monetary system, industrial relations, modes of competition, the character and role of the state) (Dunford, 1990: 307). Their integrity is important for restoring confidence. This is the essence of the structural reforms. Restoring the monetary system or creating fair modes of competition is not easy (including debt resolution). However, the most complicated issue is refurbishing the character and role of the state which are very influential in determining 'rules of the game'. How can we control the government? How can we establish reliable laws? But more important is, how can we create a new moral or spirit for restoring the integrity of *modes of regulation*? It requires total changes in the paradigm and culture. The main objective is creating transparent and accountable government -- the foundation for a durable economic machine and long term resilience.

The recovery of the *regime of accumulation* will take some years even if we successfully restore the integrity of the *modes of regulation*. Bad practices and their proponents will not fade easily. Production system and capital inflows need time to recover. It means that for some years, we have to live with bare necessities and to rely on internal cycles of production and consumption. However, this crisis has proven that corrupt and uncontrollable system eventually lead to a devastation. Efforts to overcome this crisis, perhaps, will lead to a national rejuvenation.

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