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ECONOMIC DEVELOPMENT IN INDONESIA

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ECONOMIC DEVELOPMENT IN INDONESIA

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DEFICIT SPENDING AND ECONOMIC DEVELOPMENT

✓The following is a full translation of an article written by E. Konomicus, in Mimbar Umum (Public Forum), Djakarta, Vol. XIV, No. 36, 3 September 1960, page 10,11, 31.✓

My article on "Deficit spending as a method of financing economic development" seemed to have attracted the attention of Mr. Raden Pandji Suroso. This is very encouraging, since the problem of economic development should obtain the full attention of the Indonesian citizens, and especially encouraging since the attention came from a man like Mr. Raden Pandji Suroso who not only has once been appointed as cabinet minister, but also because of his many writings, he is well-known as a man with keen interest in economic problems; he cannot be considered a stranger in this fields, although he has called himself not an expert in economics. Every sincere and scientific opinion, including counsels of warning about dangerous aspects of the desired development process, will be very fruitful. This is my intention as well as Mr. R. P. Suroso's.

If we read the article of Mr. Raden P. Suroso's carefully, we discover some misunderstandings which I am sure were not intended, but which nevertheless should be corrected in order to avoid further misinterpretation.

(A) Among others, Mr. R. P. Suroso made the following quotation: ".....that Lord J. M. Keynes created the deficit spending policy only for his country.....etc., etc.," After rereading my own article it was quite clear that the sentence "Only for his own country....." was not found in it and it was not my intention to say that Keynesian analysis is only applicable to his own country. This analysis is a part of a theoretical framework on investment, savings, employment etc. It is impossible that all these theories, as fruit of scientific work, have such a limited scope of validity. The sentence that might be closer to the quotation of Mr. R. P. Suroso could be: "It is quite reasonable that Keynes in the first place considered the situation in his own country, namely England".

(B) Further, Mr. R. P. Suroso made the following quotation: "For Indonesia, where the economy depends a great deal on agriculture (75%), the policy of deficit spending cannot be applied" is not the conclusion which I came to, on the contrary, I have explained that deficit spending as a "depression policy" can also be applied to Indonesia as well as to any country; but because of the agricultural structure of the country, this policy should only be applied in some very limited sectors, so that it will not disturb the economy as a whole.

These are some corrections of the misunderstandings, which I consider necessary in order to prevent a further and deeper misinterpretation.

With regard to Mr. R. P. Suroso's question "It is true that deficit spending cannot be applied at all here?" I could say that actually the answer to that has been given in my article which has become the object of discussion by Mr. R. P. Suroso.

To repeat once again, it has been clearly stated that in a period of depression, deficit spending as a policy to prevent a further decline in economic activities can also be applied to Indonesia, but only in more limited sectors than in countries with more advanced economic structures.

Not one word that I have used, or the article as a whole implies the conclusion that deficit spending cannot be applied to Indonesia at all.

What I intend to put forward in my article are two problems: First, the goal desired, and second, the way or method for securing the goal. With regard to the goal itself, there is no difference in view; we all want economic development that will raise the standard of living of the population, and this development should be the largest one obtainable. To achieve this goal we could choose various ways, it is true that there are many roads that lead to Rome. Of course, we will choose the best road; on this principle, I think there is also no difference of opinion. Now a very fundamental question arises; Is the road that encompasses deficit spending (the printing and issuing of new currencies), and, if necessary, deficit spending on a large scale, the best road that we could take? I think Mr. R. P. Suroso will share my opinion that the answer to such an important question (one which will govern the life of 92 million people) should not be given without deep contemplation. A man with some feelings of responsibility will not say: "Well, first we will see the results, and if they are

bad, what can you do!" Mr. R. P. Suroso will agree with me, that in order to answer this question it is necessary to make an accurate investigation of the method that will be used. What is this method really? What are its consequences? Will it guarantee the attainment of our goal? What are the experiences of countries that have used it? These questions must first be answered before we decide which method we will choose so that in the future we will not be surprised by consequences we do not desire. If this occurs, a man with responsibility cannot defend himself by saying, "Well, how could I know beforehand that such serious consequences would arise, or, I did not have the slightest idea that such serious consequences would arise, but my intentions were good, weren't they?" In order to prevent this possibility, the road that may be chosen should be investigated more intensively and for this purpose, I have tried to analyze the problem of deficit spending in my article.

It is quite possible that the formulation of some aspects in my article were not quite clear, and for this reason I would like once more in the following to clarify my premises and conclusions, all of them necessarily abbreviated and accompanied by more colorful examples.

Deficit Spending Will Lead to Inflationary Pressure

The first one of the premises that should be investigated is whether deficit spending in itself will definitely cause a rise in prices.

Deficit spending means that some of the Government expenditures cannot be covered by Government revenue, so that it must be financed by printing new currencies. (or, as is the case with highly-developed countries, by domestic loans).

Money, either of metal or paper, represents a certain purchasing power. If through deficit spending the Government makes use of this new money, it will circulate in society, and will become an addition to the existing volume of purchasing power (in practice this increase in purchasing power (in practice this increase in purchasing power is much greater than the addition to the money supply because of the velocity of money transaction during a certain period of time; but in order not to complicate this analysis we will leave out this aspect). I hope that this matter is clear enough already, so that a further explanation is not necessary.

If the increase in purchasing power created by deficit

spending is not immediately compensated for by a sufficient increase in commodities, what will then happen? Or using daily language, if the demand for commodities is greater than its supply what will happen to prices? Daily practice as well as the price theory proves that in this situation prices will move upward. Is this true? If this is not true, then economics will need a new price theory which can prove that if the supply of commodities is less than its demand, prices will not rise. Such a theory will certainly enrich economic knowledge because it will emerge as a revolutionary scientific invention.

If deficit spending through the issuance of new currency will create inflationary tendencies, what are the practices in more economically-developed countries with regard to deficit spending financed by domestic loan?

In those countries no "new money" and no "new purchasing power" are created, are they? Does this kind of deficit spending also create inflationary pressure? The answer to this question is: YES, even though deficit spending is financed by domestic loans, there will be inflationary pressure. What are the reasons? The answer is that the purchases of Government securities as domestic loans by individuals or corporations are financed out of surplus money, savings, and not out of money that is needed for day-to-day expenses or for working capital in the case of corporations. This kind of money does not yet form a part of effective demand for commodities. If this money is transferred to the Government which will use it to finance its deficit spending, then purchasing power that was idle before, will immediately become active because the recipient of this money will now spend it on different commodities. Of course, this newly created purchasing power will become an addition to the existing purchasing power. An increase of this kind will also create inflationary pressure which is similar to that caused by issuing new currencies for financing deficit spending. There might be some differences in the method of financing through domestic loans or through the issuance of new currencies, but their effects are almost the same; both create inflationary pressure.

The conclusion that can be drawn from the above analysis could not be other than Deficit spending, whether financed through issuance of currencies or through domestic loans, basically will lead to inflationary pressure (price increases).

If this is true, then logically we can draw another conclusion, namely that the greater the price increase, the larger the deficit spending.

Both above-mentioned conclusions should be used as starting points for further investigation. There must first be an agreement on the substance and principles of these starting points before we answer such questions as: "Is it true that deficit spending in Indonesia cannot be applied at all"? Exchange of views will be fruitless if the participants start from varying points of departure. If the starting points were the same, but the conclusions arrived at different, then mistakes are to be found in the ways of thinking that produce these conclusions. For instance if we start from the point: "the Sundanese are Indonesians", and "Achmad is Sundanese", then with usual logic we can only draw one conclusion, namely: "Achmad is an Indonesian". Can we from this premise conclude, "No, Achmad is not an Indonesian, he is an Englishman"? Thus I would like to ask Mr. R. P. Suroso, if he now will agree with me that deficit spending in itself will create inflationary pressure, and such pressure will be the greater, the larger the deficit spending.?

If there is agreement on the starting points, then we can now begin answering questions that have been discussed in a previous article, namely:

- (A) Can deficit spending be used in a period of depression?
- (B) Can deficit spending be used in a period of prosperity?
- (C) Can deficit spending be used in economic development especially in a large scale program?

All these three questions have been discussed and answered in my previous article, but let me repeat again:

Deficit spending during depression:

In my previous article I have discussed at length that deficit spending as a policy is more suitable in a period of depression, because its price leverage effect will activate the economy declining as a result of the depression. However, we should be careful to see that the price increases will not pass above a certain level that will hamper exports etc., because the international price level is still very low during this kind of period. Thus, in developed countries, deficit spending for recovering from a depression, can only be used in limited sectors.

Basically, deficit spending can also be used in Indonesia during a depression, but because of the nation's agricultural structure, this policy should be used only in even more limited sectors than in developed countries.

Deficit spending during prosperity

During a period of prosperity, the economy of a country usually runs quite smoothly, and for this reason it is not necessary to formulate a policy to smoothen what is smooth already. The application of deficit spending in such a period will result in increases in prices and wages that will endanger exports, etc. No Government that knows the consequences of deficit spending will apply it on a large scale during a period of prosperity, although the policy is intended for economic development.

Deficit spending for economic development

If it is true that deficit spending basically will lead to price increases and inflationary pressure (the contrary has yet to be proved), then from this thesis it should be concluded that deficit spending, basically, is not suitable for financing economic development, especially development on a large scale, because the price increases that will be stimulated (and these increases will be greater the larger the deficit spending) will complicate all computations and plannings.

In this connection I would like to give a concrete example. The construction of the head office of the Peoples Bank of Indonesia was budgeted at ten million rupiahs. Today only half of the building is completed because of the rise in the prices of construction materials and wages, and the original estimate was impossible to maintain. Now the estimate has been increased to 60 million rupiahs and it is possible that even this estimate may seem to fall short. I think the same thing will happen with the construction of the building of the Bank Indonesia in Thamrin Street. What will happen if both banks do not have more funds than were estimated before? Won't the plans become confused? Doesn't the inflationary pressure prevailing now complicate all their estimates?

The Government also cannot avoid the consequences of inflationary pressure through rising costs. Unfortunately the Government is compelled to raise electric and water bills, etc.

And what are the primary factors that lead to the inflationary pressure? Scientifically the answer should be: Deficit spending that at this time cannot be avoided. This answer is also given by a government agency, namely the Bank Indonesia, which in its annual report has always stated that the inflationary source primarily lies in the Government's

deficit. A causal relationship between the deficit (that increases the volume of money supply) and the rise in prices can also be observed from the figures presented here below from the Bank Indonesia:

| Years | Money supply (millions of rupiah; currency and deposit) | Price index of 19 food articles. (Djakarta 1953 =100) |
|-----------------|---|---|
| 1950 | Rp. 4,307.9 | 54 |
| 1951 | " 5,033.9 | 89 |
| 1952 | " 6,603.8 | 94 |
| 1953 | " 7,486.5 | 100 |
| 1954 | " 11,116.5 | 106 |
| 1955 | " 12,234.0 | 141 |
| 1956 | " 13,393.5 | 161 |
| 1957 (December) | " 18,913.4 | 177 |
| 1958 (December) | " 29,366.2 | 258 |
| 1959 (December) | " 34,880.0 | 325 |

The figures above show that the money supply since 1950 to December 1959, as a result of the Government deficit, has increased from Rp. 4,307.9 millions to Rp. 34,880.0 millions by 8 times. During the same period, the prices of 19 food articles in Djakarta have increased by more than 6 times. Can we propose a "theory", that the increase of those prices was not primarily induced by the inflationary pressure as results of the deficit spending during that period?

Inflation and prosperity in Japan

Further, Mr. R. Pandji Suroso gives an example about Japan, where the money supply is in very large volume, and in this connection, he posed a problem: "Thus in Japan people bathe in inflation, but nevertheless they experience prosperity".

It is indeed a fact, that the money supply in Japan is in huge volume, at the end of June, 1960, not less than 951.2 billion yens (see The Oriental Economist, August 1960. But from this figure alone we cannot conclude that people in Japan are bathing in inflation, because what is the primary phenomenon of the period of inflation? It is nothing else but

prices in a perpetual state of increase. Is it true that at present, prices in Japan increase perpetually? The answer is: No! The level of wholesale prices in Tokyo shows an index of 98.4 in June, 1959, while in June, 1960 the index was 100.7 (see The Oriental Economist mentioned above). The increase in one year was only 2.3%, and this cannot be called an inflationary increase. It is clear then that there is no inflation now in Japan.

The truth is that between 1945 and 1948 Japan had indeed experienced a period of inflation. In those years Japan had to spend hundreds of billions of Yen for repatriation of 3 million civilians and 2.5 million members of the armies who during the war were outside Japan, among other places, in Manchuria, Korea, Taiwan, China, and Southeast Asian countries. These expenses could not be avoided while the Government revenue was very low, because almost all means of production (factories and cities) had been almost totally destroyed by allied bombings. This was the reason for the enlargement of the money supply by hundreds of billions, and this factor only was sufficient to create a severe inflation, and which was strengthened by shortages of many commodities as a result of the widespread destruction. But this inflation was halted, primarily through Marshal aid from the USA, and later through orders by the USA amounting to hundreds of millions of dollars for military supplies during the Korean war. Afterwards the Japanese economy was stabilized, although the volume of money supply still seems to be very large. This situation creates no problems, because wages and other prices have been adjusted to that level. This case can be checked with the Japanese merchants now in Djakarta. Perhaps they will add: "The people of Indonesia should not have to face the bitterness and miseries experienced by the people of Japan during the inflationary period between 1945 and 1948."

These are my answers to the questions of Mr. R. P. Suroso. Meanwhile it has been announced in several newspapers that the President, as well as the Head of the National Planning Council, have stated clearly that the overall development will not be financed by deficit spending or by an increase in taxes. For the realism behind this statement in its concept as well as in its policy, we should offer our greatest respect to the President and the National Planning Council.

WHAT FOLLOWS RUPIAH REHABILITATION

[The following is a full translation of an article in Mimbar Umum (Public Forum) Djakarta, Vol. XIV. No. 36, 3 Sept 1960, Pages 5, 25, 26.]

On August 24, 1959 the cabinet took drastic action in the monetary field, and problems related to this is what I would like to discuss here. It may be recalled that the policy which in daily terminology is called "rehabilitation" consists of three parts:

1) depreciation of the value of the monetary units that have denominations of Rp. 500.00 and Rp. 1000.00 at 90%, while the demand and saving deposits for the amounts above Rp. 25,000.00 are frozen at the same percentage and converted into government bonds;

2) devaluation of the official exchange rate between rupiah and the US dollar from Rp. 11.40 plus BE (export certificate) to Rp. 45.00 for each dollar;

3) the abandonment of the BE system and the creation of new taxes for imports and exports which are called Pu-im (import levy) and Pu-ex (export levy).

As it has been explained by President Sukarno, this effort is intended to curb the wild hot money which is very difficult to control and manage, and for this reason hampers the planning of economic development. If some legitimate groups suffered because of the first regulation, their number is small, because if they did not have the intention to use their money for speculation, as was the case with the owners of hot money, then they probably kept it in the banks. And if their purposes were good but they still suffered, as was also implied by President Sukarno, then it was the sacrifice necessary in the situation for which this action had to be taken.

It is obvious that the purpose of the Government in taking that action was to regulate the distribution of money in the society, as seen from the regulations that followed later. In the sectors of production and transportation the Government extends credits to overcome the insolvency of many firms. Moreover, Government expenditures are constantly increasing, so that the present volume of money exceeds the volume of August 1959, which according to the report of the Bank Indonesia of August 17, 1960, amounted to Rp. 39.7 billions, compared with the volume of August 24, 1959 which

amounted to only Rp. 34 billions. After rehabilitation the volume of money was reduced to Rp. 21 billions.

Although the money supply has remained almost the same, there have been other developments that can be considered as improvements.

What are those beams of light, those shining rays? First, the wild money amounting to about Rp. 10 billions has been absorbed, and will be used as capital for the Overall Investment Bank, thus being transferred to productive sectors.

One aspect that is not quite realized by the general public is that the commodity stock of the State enterprises now becomes a part of the monetary base for money in circulation. It is obvious that Indonesia does not have a gold standard, because the paper money can not be converted into gold at the Bank Indonesia. Some people remark sarcastically that the monetary base of the Indonesian currency is now the fist (power). If you belong to the group that possesses the fist (arms) you have what you want, but if you don't, you continue to suffer and stagnate. I only put this forward jokingly, although we have to acknowledge its truth.

The gold base is computed by comparing the amount of circulating money with the value of the gold reserve at the Bank Indonesia. With regard to the valuation of this gold reserve there was also a difference in views: should it be valued at the old price (Government price) or at the free market price? Later it was agreed to adjust it to the free market price, which then became the official price. That is why the percentage that formerly had declined to under 20% had increased to 37.88% after accepting the latest method of valuation, according to the consolidated balance of the Bank Indonesia dated August 17, 1960. And the free (black) market price has risen again!

In my opinion, in evaluating the rupiah we should also not forget that the commodity stock of the State enterprises at the present time has the value of about Rp. 13.9 billions, and if we add this to the gold reserve, it will give our finances better appearance.

Why is the distribution of goods difficult?

The factors that reflect this difficult situation are mainly caused by the Government (State enterprises) that seems to be very reluctant to release its commodities. There must be

some reasons, but for us as outsiders, it is difficult to establish them. The State enterprises blame the cooperatives (it is said that the cooperatives have not sufficient money to claim their quotas), and on the other hand, the cooperatives blame the State enterprises, (the people do not like the commodities etc; the State enterprises are very bureaucratic, using back-door tactics etc.). It is not necessary to continue this here; the people know that there are some shops selling basic necessities which are not very honest or uncorrupted, and some of them have been sentenced.

The merchants are not willing to buy larger stock because they are afraid they will be accused of piling up the stock for speculative purposes. In my opinion this problem lies in the existence of a severe inflation (hyper-inflation according to economic terminology). There are people who think, Well, let the inflation continue because income will also be multiplied. But this is not completely true. Unfortunately, not all the prices of goods and services will have a proportionate increase during an inflation. If, for instance, we look into a magic mirror where everything is enlarged by ten times, then there will be no problem for any of us. Or put it another way, if our income is multiplied by ten and the prices are also multiplied by ten then there should be no complaints. But what is peculiar in an inflation is that the multiplication of money for one group of people is not the same as for another group. It is obvious that the workers and Government employees who have fixed incomes are most hard-hit by this inflation, but it is not the same for merchants and doctors.

After giving this analysis, I come now to answer the question I put above. Has Indonesia rehabilitated its money? I don't think it has yet. What has been done is only devaluation: acknowledging that the value of the rupiah is declining relative to that of foreign money. Formerly the exchange rate between the rupiah and the dollar was 1 to Rp. 3.89 (1950), then Rp. 11.40 plus BE, and since August 1959, Rp. 45.00 As we still remember, the rehabilitation of 1950 was the decimating of currencies with the denomination of Rp. 5.00 and above. These halves could later be exchanged with the R. I. Bonds.

If we think about the origin of our rupiah, then we ask where it comes from. It comes from the Netherland Indies, from the Japanese occupation, from the URI (money during the revolution), the NICA (Netherland Indies Civil Administration), from the RIS (The United States of Indonesia) and finally from the Republic of Indonesia.

The increase in money supply is obvious from the following table, which I took from the report of the Bank of Indonesia for the corresponding years.

The development of the money supply (millions)

| | currency | deposits | totals |
|----------------------------|----------|----------|----------|
| End 1938, March (estimate) | 240 | 180 | 420 |
| 1950 (December) | 2,581.6 | 1,726.3 | 4,307.9 |
| 1951 " | 3,328.1 | 1,705.8 | 5,033.9 |
| 1952 " | 4,349.2 | 2,254.6 | 6,603.8 |
| 1953 " | 5,217.7 | 2,268.8 | 7,486.5 |
| 1954 " | 7,473.7 | 3,642.8 | 11,116.5 |
| 1955 " | 8,646.8 | 3,587.2 | 12,234.0 |
| 1956 " | 9,372.4 | 4,021.1 | 13,393.5 |
| 1957 " | 14,091.4 | 4,822.0 | 18,913.4 |
| 1958 " | 19,871.7 | 9,494.5 | 29,366.2 |
| 1959 " | 26,380.3 | 8,499.7 | 34,880.0 |

From this table it is obvious how the money supply had increased.

What next?

As is obvious around us daily, the existence of hyperinflation benefits only a small group of people and makes the majority without money suffer, because those who have money protect themselves from the consequences of the inflation. The people do not want to keep money but they want to buy goods. This leads to a larger velocity of circulation of the money, so that it circulates several times. Goods gradually disappear from open distribution. The desire to become black-market dealers is increasing, so that there are even people who are willing to sell their bodies and souls and if possible, their country, for dollars.

All regulations seem to be side-stepped, not only by merchants, but also by those in charge of controlling them because of the financial difficulties they have to face.

For these reasons we think, that since State enterprises already have adequate commodities under their control, it is necessary to start with monetary rehabilitation, for instance a reduction in the value of money by 90% without any exception. Before this, in order to control the circulation of money, it is necessary that the trade in gold should be taken over by the Government, and centralized in State banks.

Accompanied by a distribution system of goods (coupon system for instance) we believe that this action would be useful for our people and country and in agreement with the ideals of establishing a just and prosperous society.

In passing, allow me to mention some news from Nafas, on August 23, 1960, where it was said that Russia will depreciate the Ruble at the beginning of 1961, of ten present rubles to one new ruble, and this new ruble will have a value equal to the American dollar.

PRIVATE CAPITAL AND THE COOPERATIVE MOVEMENT

The following is a full translation of an article written by R. P. Suroso, in Mimbar Umum (Public Forum), Djakarta, Vol. XIV, No. 34-35, 23 August 1960, page 29.

The exchange of ideas that went on for a few days during the Third Kensi Congress in Surabaya has made it clear that the private entrepreneurs and investors have come to terms with the positions that they will occupy within the nation during the implementation of USDEK and the Political Manifesto of Indonesia. That this is truly the case can be seen from the Joint Declaration that was issued following the conclusion of the Third Kensi Congress, and which reads as follows:

"It is hereby declared that the private national enterprises and businesses, including cooperatives, are to be utilized as economic instruments of the guided economy of Indonesia; and they, together with the State enterprises are equal in regard to their responsibility and prestige in the general economic structure of Indonesia, which structure or framework is not liberal, not capitalistic and certainly not totalitarian."

This Joint Declaration makes it apparent that cooperatives are to be included within the group that has been designated as the private national enterprise group, or at the very least it means that cooperatives maintain an equal position with private national enterprises in the economy.

While admittedly the Kensi Congress appears to have included cooperatives within the group designated as the private enterprise group, the matter does not rest there, as far as I am concerned, because the fundamental aims of the two groups are quite different. That both of them share in the private sector of the economy termed, or that both are of a private (individualistic) nature, is irrefutable, but the important question of the "fundamental aims", as I have shown, is not settled, for it points up the radical differences between the two. Or is it perhaps that the private entrepreneurs consider themselves to be on an equal footing with the cooperatives, for such is as it should be if they have accepted USDEK and the Political Manifesto of Indonesia and have ascribed to the aims, "not liberal, not capitalistic and certainly not totalitarian". What then is to be added to this

declaration of belief is that private capital possesses a social function.

If later events serve to prove that the private enterprises have really and truly bent themselves energetically to the realization of the ideals and principles enunciated in the Joint Declaration, then the cooperative movement can only make progress as a result, for, in practice, the private enterprises will have placed their capital at the services of the cooperatives, or at least will have worked with them.

As we have understood the matter, so also has the Government, for the Government foresees cooperatives as occupying one of the most important positions in the guided economy program, not only in the distribution of basic necessities, but also in their production.

At the present time, the Government fully expects the cooperatives to take steps in their role as distributors of the basic necessities and, if possible, to assume the position once held by the Chinese middlemen, as effected by Presidential Decision No. 10/59. But the wish so entertained by the Government can only be fulfilled under extreme difficulties, due to the fact that the cooperatives lack the adequate resources and funds to achieve this. The cooperatives cannot possibly collect the money from the people in the short time necessary to bring the Government's wish to realization.

The Chinese middlemen, in the interests of transporting and distributing the various basic necessities from the cities and towns to the villages, and of purchasing village agricultural products in return, were in the custom of lending out billions of rupiahs. It is more than obvious that the cooperatives are in general not prosperous, and they cannot build up a capital of several billions of rupiahs.

So, at the present time, for cooperatives to attain an actual or true identity, it would require the private entrepreneurs to undergo a complete change of attitude, placing their capital at the disposal of social efforts, no longer ones of a capitalistic nature.

If such a fundamental change occurred in their mental attitude, it would certainly follow that the cooperatives would then be able to deliver their goods and products to the enterprises in order to accrue the needed capital.

It is equally apparent that the same thing would be achieved if the Private Development Bank, with its one billion rupiah assets from the Government and the assets from the sale of securities and notes to the private enterprises, could adopt a more lenient attitude toward lending money to the cooperatives and also charge them lower interest rates.

It is certainly not my thesis that cooperatives should have a monopolistic position regarding the distribution and the production of goods and basic necessities. Not at all. It should be recalled (see MI No. 22, case 6) that I have even proposed that the private enterprises, during this period of transition, be given the opportunity to assume an active role in the development of the State. Whether it is necessary to form shared or mixed enterprises, with the Government and private capital both playing a part, or not to have such mixed enterprises at all, the fact remains that in either case what must be safeguarded and supervised adequately is that any enterprise firmly adhere, in the conduct of its business, to the principles of USDEK and the Political Manifesto of Indonesia. It is only in this way that we will be able to place our manpower and our capital at the service of the nation.

While it is apparent that the Government maintains the same position, or so it would appear from the statements by Commerce Minister Arifin Harahap, it nevertheless feels that the time is not yet ripe to set clear and concrete limits in the field of private investment and private enterprise. So, it is not only possible, at the present time, for private capital to range over a wide latitude in the field of its endeavors, but it can even participate in the fields that are included in the vital area of the economy. And apparently the possibilities for private enterprises to extend and expand their efforts are increasing and will continue to increase if the private enterprises continue to make it clear that they are making every effort toward the achievement of the goals enunciated in the Joint Declaration, - not liberalistic, not capitalistic.

It is my contention that there still remains a difference between cooperatives and private enterprises; and if this difference is disregarded, it is my belief that the cooperatives will gradually recede into the background and the private enterprises will assume an increasingly important role in the economy. It is for this reason that I cannot agree that the cooperative movement ought to be stated in the same context (in one breath) with the private enterprise. And I am not even convinced that the cooperatives would be able to get the needed

capital through the Private Development Bank, which is to be established. In my opinion, it would be preferable if the cooperatives would get the necessary capital from some kind of cooperative bank.

At the present time, there already exists a Central Cooperative Bank with branches in a few capital cities in the provinces. The principal function of this Cooperative Bank is to provide needed capital to the cooperatives. But the resources of the Cooperative Bank are far from adequate when compared with the financial needs of the cooperatives.

I would like to draw the attention of the Government and particularly the Transmigration Minister, Cooperatives, and the Village Social Development Service, to the Central Cooperative Bank.

In view of its cooperative functions, namely as one of the principal instruments in the area of our present guided economy program, the capital aid from the Government to the Central Cooperative Bank has been as extensive as possible in this area. Assuming that there are one billion rupiahs available as bank assets, it would be even better if these assets were regarded as "risk funds" (dana risico, literally "risk storages", probably emergency funds of some kind) to be put at the disposal of the cooperatives to more effectively achieve a just and productive society. If such an endeavor were to be successful, even the one billion rupiah "risk funds" would not be enough. But the Government could expect that the bank asset would bring returns.

And therefore, I want to draw the Government's attention to the cooperatives' assets amounting to tens of millions of rupiahs that were not accounted for in the fiscal policy of 1959. Isn't this money going to revert to its original purpose as is the case with money of the social collectives? At the time that the fiscal policy was instituted, the position occupied by the cooperative movement was not quite as visibly important as it now is. Indeed at the present time it is clear that the position of the cooperatives is even more important than that of the social collectives which have already been facilitated as a result of the fiscal policy.

It is advisable for the Government to consider these questions in order to assure an improvement in the development of the cooperatives.

SOME FACETS OF THE NATIONALIZATION OF DUTCH
MARITIME INDUSTRIES

✓The following is a full translation of an article written by M. Husseyn Umar, in Suluh Nautika (Nautical Torch), Dkakarta, Vol. X, Nos 5-6, May-June, 1960, pages 164, 165, 186.7

As announced by Presidential Decision No. 45, 1959, eight maritime industries owned by the Dutch were declared nationalized. The industries were the N. I. S. H. M. (the Netherlands-Indonesian Coal Producers Company), the V. P. V. (United Small Craft Ferrying), the NISE (Netherlands-Indonesian Navigation Establishments), the Dock Improvement Company of Tandjung Priok, Radio Holland, the I. M. P. (Industrial Works of Palembang), Semarang Dockworks, and the Surabaya Dockworks Company. The nationalization policy with respect to these companies applied to all of the branches of the companies and their divisions of industrial works in Indonesia and was declared to be retroactive to 3 December 1957.

The Presidential Decision referred to represented an enforcement of the Nationalization Law (Law No. 86, 1958) and of Presidential Decision No. 2, 1959 concerning the bases for enforcement of that Law. As was made clear in the explanation of Presidential Decision No. 45, 1959, the maritime industries essentially affected by the nationalization policy were industries considered to be extremely vital to this country's progress in the field of cargo shipping. It is for this reason also that other companies such as the Royal Interocean Lines and the Royal Cargo Company remain to be investigated. The cases of nationalized industries referred to still present certain specific problems for our consideration.

The principal problem that we face at the present time is, What kind of follow-up policies are in order for the nationalized maritime industries?

What specific structure is to be given to these industries? Is it to be that of the management type?

Presidential Decision No. 21, (section 4), 1959, declared that there would be uniformity of approach in the enactment of nationalization measures with respect to various industries. The industries are to be controlled by boards of directors, and the uniformity of structure and operations of the industries is to be implemented by a coordination board whose

function will be to carry out the general policies of the board of directors. The Coordination Board is called Banas (The Board for the Nationalization of Dutch Industries), which was organized as a result of Presidential Decision No. 3, 1959.

Affidavit No. Th. 8/3/22 by the Ministry of Shipping, dated 13 June 1959 and recently amended by Affidavit No. Th. 8/10/5 by the Minister of Light Crafts Sea Traffic, dated 10 December 1959 made it possible for the Maritime Department to act as a board of directors of the Dutch Maritime Industries which were controlled and nationalized by the Government. Its name was the Central Board of Control of the Dutch Maritime Industries.

Its tasks were: a) to take over, as satisfactorily as possible, the management of the industries that had been nationalized, so that those industries could carry out their functions as maritime industries which, from the economic point of view, could be made to operate in a responsible fashion through the board's having coordinated and implemented all of the management policies of the respective industries; b) to initiate a follow-up program for the nationalized Dutch Maritime Industries using the Government's stipulations as guides, and c) to manage other necessary matters related to the control of those industries.

To be added to these responsibilities are those that are stipulated in articles 6 and 7 of the affidavit authorizing the formation of the board; and all of the responsibilities may be listed as follows:

1. To take over the general management;
2. To do everything necessary to maintain the present level of industrial output and to even increase that output;
3. To do everything necessary to maintain the present volume of work and to even increase that volume;
4. To assist the industries in obtaining certain materials and, wherever necessary, assure them a continuing supply of those materials;
5. To carry out the process of Indonesianization;
6. To carefully examine all of the facets of the problem concerned with the possibility of effecting a change of status for the industries concerned;
7. To create the administrative and controlling apparatus for those industries;
8. To assure the continued supply of governmental and military manpower in those industries, as provided for in Presidential Decision No. 23, 1959.

The term "Control" which is used in the name of the board referred to actually indicates the extent of the power that the board has in managing the industries concerned. The power that it has is actually capsulized in its function of general management supervision that is executed by way of the board's coordinating and supervisory activities with regard to the respective management staffs of those industries. From this it can be seen that in actual fact the board has only coordinating and supervisory powers while the industries themselves still possess freedom in managing their operations. The board may exercise certain special functions, in addition to those already mentioned, only in the case of emergency, or whenever it is considered necessary.

This system is quite different from the one followed by Bappit with respect to the industries that it governs, for in those cases the association of Bappit with the industries is an organic one. What it actually amounts to is that Bappit acts as a super industry or cartel that exercises an interest in several industrial fields so that, through this, it can achieve close ties, both vertically and horizontally, in the industries; and, as regards the top management of those industries, it attempts to place men there who are experts in the various fields which engage the industry's efforts.

In view of what has just been said, it is evident that at the present time differing systems of control exist side by side, which is as it must be. The Board for the Nationalization of Dutch Industries is one type of system that is considered appropriate and efficient.

It is my contention that limiting the control over the maritime industries to just coordinating and management supervisory activities is precisely the form of control that can be accepted. The enforcement of the guided economy program and policies does not require the creation of management centralism, for a centralized management would be eventually controlled by bureaucrats.

The next most important step to be taken by the Maritime Board is to make some determination regarding the status of the various industries, and to submit its proposals to the Sea Communications Department, namely whether a particular industry is to continue to maintain its status as an industry or whether it is to be liquidated or incorporated into one of the servicing agencies.

It is my view that such questions that come under the jurisdiction of the Sea Communications Department should be decided upon on the basis of efficiency or reason and logic. It is only after that has been done that the time will be ripe for the creation of the leadership of the industries.

The leadership will have to be in the form of a board of directors that will be directly answerable to the Maritime Board. The Maritime Board is free to appoint persons who would sit as members of the leadership council of the industry, and it would also appoint a chairman of the board who would be responsible for moderating the discussions of the board.

In conducting the coordinating and supervisory activities vis-a-vis the management staffs of the industries, the board will have to rely on the Sea Communications Department for any technical instructions. Political matters that have relevancy to the enactment of the nationalization policy in itself are to be settled upon instructions from the Board for the Nationalization of Dutch Industries.

In addition to this, we should insure that the ideas and outlook within the maritime industries be integrated by means of the control that can be exercised over those industries. In my view, the creation of the Sea Communications Department (formerly the Ministry of Shipping) was a step in the right direction in the interests of concentration and efficiency. In this context, it is certainly difficult to understand in any objective way why Presidential Decision No. 268, 1959 was ever issued, which decision resulted in the transfer of the Shipping Industrial Service from the Sea Communications Department to the Basic Industries Department; the decision also affected the dock industries which had been nationalized in accordance with Presidential Decision No. 45, 1959, a fact which is very surprising since the decision referred to specifically said that docking and berth activities would not be transferred. It is extremely difficult to see why this statement about the docking of ships and cargo loading and unloading was made and why no distinction was drawn between them, for the result has been the inclusion of a clause in the arrangement without prior study or investigation as to its consequences.

A national economic policy requires conditions in industry which promote unified thinking, so that, for example, any of the enterprises can act freely in the area of creating appropriate and necessary facilities for the field of work which is its concern.

Such conditions would certainly have an influence on the general management supervision that is to be carried out by the Maritime Board and not only on it but also on the various management staffs of the industries, so that they could all think and work in terms of a clearly defined maritime outlook, for example a unified maritime outlook that would apply equally to ship building as well as to ship maintenance and which would be in keeping with the national maritime policy which, in its implementation is guided by the Sea Communications Department.

In my opinion, if the nationalization policy is to involve political as well as economic measures (in order to change the economic and social structure of the nation), which measures hopefully will not regard the exercise of reason with disrespect, then the carrying through of the nationalization policy should really involve rational and logical thinking and analysing.

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