

**Rethinking the Dynamics of Capital Accumulation
in Colonial and Post-Colonial Indonesia:
Production Regulation**

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Abstract

This thesis explores the forces driving a series of momentous transformations to Indonesia's production and distribution systems since early colonial rule. The analysis of these forces is anchored in four conceptual themes: the basis of these systemic transformations, their politico-economic ordering as driven by a surplus-creation imperative, labour's role in this imperative and its response to the 'ordering', and the mode of production as the historical setting within which the transformations occur. This thesis illuminates an analytical gap in the literature by nominating labour as the key force in wealth-creation and recognising its active role in challenging ruling appropriation regimes and in the broader social struggles against exploitation and oppression.

The thematic focus defines the boundaries for an exploration of successive colonial and post-colonial ruling regimes. Early chapters examine how the Dutch penetrated the Indonesian politico-economy, entrenching their systems of production organisation and creating an exclusionary system of wealth appropriation. Appropriation systems are characterised by transitions in European political and economic systems, especially from mercantilism to industrial capitalism. The entrenchment of colonial power is considered in relation to the expansion of capitalist organisation in Indonesia. The state's stimulation of this expansion is associated with an undermining of the country's reproductive base and a growing challenge to foreign rule. The Japanese occupying force' demolition of colonial productive and distributive linkages and encouragement of independence activism is connected with a post-war struggle for independence. Links are drawn between colonial rule and the tensions and organisational difficulties faced by Republican regimes leading up to the New Order's re-establishment of a strict regulatory regime, and the development of an indigenous system of capitalist organisation. The surplus-generation and appropriation perspective informs the evolution of Indonesia's productive and economic systems across colonial and post-colonial epochs and the challenges to the system of social and production regulation that heralded the

destabilisation of New Order rule and the rise of the contemporary era of political democracy.

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Glossary

<i>abangan</i>	poor peasants or blue-collar workers
<i>ABRI</i>	<i>Angkatan Bersenjata Republik Indonesia</i> (Indonesian Armed Forces)
<i>adat</i>	custom, used in the context of customary law
<i>aliran</i>	stream or current
<i>appanage</i>	division of land between villagers and rulers
<i>asli</i>	indigenous Indonesian people
<i>Atlantic Charter</i>	1941 US/British declaration of common national principle as the basis for the Allies' opposition to foreign intervention
<i>bakul</i>	merchant importers and suppliers of raw materials
<i>BANGUNAN</i>	series of 5 year development plans, from <i>pembangunan</i> (to build, develop)
<i>bapak</i>	father
<i>BAPPENAS</i>	National development Planning Board
<i>batik</i>	the drawing and dying of designs on textiles employing a waxing technique
<i>bekel or tengkulak</i>	in Javan tradition Chinese paddy brokers, working on a commission basis
<i>Benteng</i>	'Fortress' program of indigenous business support introduced by the Republican government in 1950
<i>Berdikari</i>	<i>Berdiri diatas kaki sendiri</i> (to stand on your own feet) Sukarno credo promoting national self-sufficiency
<i>Bimas Gotong-Royong</i>	agricultural credit or input-provision program to increase rural production (based on concepts of

	community cooperation, self-help)
<i>Birorat Kapitalis (Kabir)</i>	derogatory popular reference to Indonesian bureaucrats' entrepreneurial connections and graft
<i>boew, bahu</i>	measure of land, equals 1.75 acres
<i>bucho</i>	department head
<i>bupati</i>	local rulers
<i>bupati</i>	regent
<i>cukong</i>	Chinese word meaning 'middleman', applying to Chinese entrepreneurs
<i>Cultuurstelsel</i>	Dutch name for the Cultivation System
<i>daerah</i>	region
<i>desa</i>	village
<i>DEKON</i>	Sukarno's <i>Deklarasi Ekonomi</i> , or Economic Declaration
<i>DPR</i>	<i>Dewan Perwakilan Rakyat</i> (Parliament)
<i>erfpacht</i>	land obtained on heritable lease from the government
<i>FBSI</i>	All Indonesia Workers' Federation
<i>Gerindo</i>	<i>Gerakan Rakjat Indonesia</i> (Indonesian People's Movement)
<i>Golkar</i>	<i>Golongan Karya</i> (Functional Group); political party
<i>Gotong rojong</i>	mutual aid, collective assistance – especially during rice harvests, a key element of Sukarno's 'konsepsi'.
<i>guilder</i>	basic unit of Nederlands Indies currency
<i>halus</i>	refined, cultured, sensitive
<i>HIP</i>	<i>Hubungan Perburuhan Pancasila</i> (Pancasila Industrial Relations)
<i>heerendienstein</i>	paid-labour for public works
<i>hongki</i>	raids to destroy competition in the growing of

	export crops
<i>Industri Hilir</i>	‘downstream’ - manufactured goods:electronics, consumer goods, and footwear.
<i>Industri Hulu</i>	‘upstream’ - chemical steel, heavy industries, goods and some manufactured goods.
<i>IGGI</i>	Inter-Governmental Group on Indonesia
<i>Jabotabek</i>	planning region covering Jakarta, Bogor, Tangerang, and Bekasi
<i>Kadin</i>	<i>Kamar Dagang dan Industri</i> (Chamber of Trade and Industry)
<i>kalang</i>	wealthy merchants
<i>kampong</i>	population centre of desa
<i>Konsepsi</i>	Sukarno’s credo (conception) for a new, post parliamentary democracy era, parliament
<i>Kopassus</i>	Special Forces Command
<i>Kostrad</i>	Army Strategic Reserve Command
<i>kretek</i>	clove cigarette
<i>ladang</i>	agricultural system whereby uncultivated land is cleared, burnt off, and crops planted
<i>LBH</i>	<i>Lembaga Bantuan Hukum</i> (Legal Aid Office) NGO offering legal support
<i>liburan</i>	religious holiday
<i>lurah</i>	village chiefs, headmen
<i>Malari</i>	<i>Malapetaka Januari</i> (January disaster) the Jakarta riots of Juary 1974
<i>Masyumi</i>	The Consultative Council of Indonesian Muslims
<i>Masyumi</i>	<i>Majelis Syuro Muslimin Indonesia</i> (Muslim Consultative Council, Muslim Political party
<i>merdeka; kemerdekaan</i>	free, liberated; freedom, liberation
<i>MPR</i>	<i>Majlis Permusyawaratan Rakyat</i> (People’s Consultative Assembly)

<i>mufakat</i>	consensus and agreement
<i>Muhammadiyah</i>	Muslim Organisation
<i>musjawarah</i>	mutual consultation, discussion, deliberation
<i>Nasakom</i>	acronym from Nationalism, Religion, Communism
<i>Nekolim</i>	Neo-colonialism, Colonialism and Imperialism
<i>nogyo kumiai</i>	agricultural cooperation
<i>NU</i>	<i>Nahdatul Ulama</i> . Moslem Theologians' party
<i>padi</i>	rice in the husk
<i>Pancasila</i>	Indonesian state ideology
<i>pangreh praja</i>	in the colonial era, 'rulers of the realm'; in contemporary parlance, civil servants
<i>pasar</i>	market
<i>pemborong</i>	labour contractors
<i>pemuda</i>	youth, especially politically active youth
<i>pengusaha</i>	business person
<i>peranakan</i>	locally born Chinese or European who is acculturated to local society
<i>perintah halus</i>	persuasion used by officials to implement policy
<i>Pertamina</i>	Indonesian state-owned oil company
<i>Peta</i>	Japanese established Indonesia armed units in Java
<i>Peta</i>	<i>Pembel Tanah Air</i> (Defender of the Motherland)
<i>pikul, picul</i>	Dutch unit of weight, one pikul equals 61.9kg
<i>PKI</i>	<i>Partai Komunis Indonesia</i> (Indonesian Communist Party)
<i>PNI</i>	<i>Partai Nasional Indonesia</i> (Indonesian Nationalist Party)
<i>pribumi</i>	indigenous Indonesian
<i>priyayi</i>	Aristocrats, member of the Javanese gentry, or higher officialdom
<i>PSI</i>	<i>Partai Sosialis Indonesia</i> (Indonesian Socialist Party)

<i>Putera</i>	nationalist organisation set up by the Japanese
<i>Repelita</i>	<i>Rencana Pembangunan Lima Tahun</i> (Five Year Development Plan)
<i>romusha</i>	forced labour during Japanese occupation
<i>RTC</i>	November 1949 Roundtable Conference Agreement on Indonesian independence
<i>santri</i>	pious Moslems.
<i>Sarekat Islam</i>	Islamic Association
<i>sawah</i>	irrigated land cultivated with <i>padi</i>
<i>SOBSI</i>	<i>Serikat Organisasi Buruh Seluruh Indonesia</i> (All-Indonesia Workers Organisation) the national association of trade unions
<i>tebasan</i>	system of forward-selling of cash crop prior to harvesting
<i>tegalan</i>	dry (not irrigated) field near the rice fields but used for vegetables and other secondary crops
<i>TNI</i>	<i>Tentara Nasional Indonesia</i> (Indonesian National Army)
<i>Totok-Chinese</i>	Chinese-Indonesian people born in China and settled in Indonesia for a relatively short time
<i>transmigrasi</i>	transmigration
<i>VOC</i>	<i>Vereenigde Oostindische Compagnie</i> (Dutch East India Company)
<i>wayang</i>	puppet shadow-play
<i>zaibatsu</i>	large Japanese business conglomerate

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Introduction

From the earliest days of western colonial occupation the production and distribution systems of the thirteen thousand islands of the archipelago now known as Indonesia have been comprehensively transformed by powerful international forces. The winds of economic change have forced shifts in national priorities from subsistence and tribute-good production to export commodity production. In the modern era this has taken the form of pressures for Indonesia to massively restructure its economic system as a condition of receiving financial assistance. This thesis will investigate the sources of these momentous changes and refocus critical attention on the history of Indonesia's political and economic evolution.

The research was inspired by an ambition to determine the origin, character, and objectives residing in the imperatives impelling fundamental changes to what Indonesians produced and the systemic basis for the organisation of production. The concern has also been with identifying the interests served by the changes, the source of their authority, and the political and economic impacts of these changes on Indonesia and Indonesians. The thesis investigates these issues for the various epochs of economic organisation since colonial times, considering the factors that cohered them and tore them apart. It is contended that an understanding of the sources and impacts of these changes on Indonesia's productive and distributive systems can be used to illuminate contemporary political and economic developments in Indonesia.

A core ambition for this thesis has been to fundamentally redress a major *lacunae* in established texts' conceptualisation of the processes of economic order and capital accumulation within Indonesia. Thus, for example, Richard Robison's book, *The Rise of Capital in Indonesia*, although a seminal exposition of the character and origin of Indonesia's ruling class neglects to systematically analyse the role of the Indonesian working class in this "rise". It is intended that this thesis will address this gap by illuminating the mechanisms of accumulation from the perspective of the ruling class' systemic application of succeeding forms of labour regulation.

International political economy

The research task is addressed within an international political economy conceptual framework. This analytical approach is introduced in the context of the early colonial-era relations between Holland - as the metropolitan 'centre' of colonial authority – and Indonesia as the 'peripheral' site of the colonial enterprise. Whilst the established literature tends to focus on this relationship as the prime determinant of colonial development, an international political economy approach broadens the analytical focus to encompass the wider European arena of imperial struggle and economic change. The penetration of western productive and economic relations in the periphery is thus investigated within the gradually unfolding context of European productive and commercial development. This development is perceived as the 'powerhouse' that drove western resource-seeking enterprise to the archipelago. The successive transformations sparked by the western colonial project are thus seen as inextricably tied into European and, later, US and Japanese centres as part of an evolving world economic system based on capital accumulation.

This perception of the processes of Indonesian political and economic change as residing within the context of an unfolding international capitalist system aligns my research with 'world system' analysis. The origins of this analytical framework are to be found in the work of Immanuel Wallerstein. Wallerstein defines a 'world system' 'quite simply as a unit with a single division of labor and multiple cultural systems' (Wallerstein, 1980:5). Its chief characteristic is that 'production is constantly expanded as long as further production is profitable, and men constantly innovate new ways of producing things that will expand the profit margin' (Wallerstein, 1980:15). The international political economy focus of this research thus locates Indonesia's development within, and interacting with, an evolving capitalist world system.

Analytical themes

The research project is organised around an historical appreciation of Indonesian development and a critical re-interpretation of an established, though contested, historiography. In undertaking this re-interpretation task I have focused on the historical analysis and sought to reconcile the diversity of understandings by restricting the analytical focus to four major themes. The first theme recounts the

systemic transformation of Indonesia's production and distribution systems by successive ruling regimes. The second focuses on the mode of production as the historical setting within which these transformations occur. The emphasis here is on the struggle between capital and labour¹ and the relationship between this struggle and political and economic change. The third theme concentrates on the creation of a productive surplus as the basis of capital accumulation **as well as** the political economic focal point for change and struggle. The fourth theme represents labour as the principal agent in the production of a surplus, as a politically active element in the struggle for a share of that surplus, and as a key actor in the shaping of Indonesia's political history. In sum, this thematic framework forms the analytical basis and anchoring point from which to investigate successive Indonesian systems of production organisation and wealth generation.

Structural change

Indonesia's colonial and post-colonial economic history has incorporated a series of transformations of Indonesia's production and distribution systems marked by 'watersheds' of profound political and economic change. The distinctive character of this history is brought out in this research by examining the way successive ruling regimes controlled the production system to determine what is produced and how it is produced.

A contemporary example of the sorts of productive and economic transformations undergone by Indonesia is the enforced shift of employment from rural to Indonesian industrial manufacturing production. A prominent Indonesian economic analyst, Sjahir, favours the expansion of the continuing transformation that has seen Indonesia's productive base consolidated through the bringing a much higher proportion of the labour force into the 'modern sector' to 'reduce the proportion of workers dependent upon agriculture for their livelihood' (Sjahir, 1993:13). This underscores the state's policy focus on the expansion of manufactured export-commodity production. He argued that whilst 'only 18 per cent of GDP is contributed

¹ In the following discourse, 'labour' can, depending on the era and context, refer to the peasantry or the combined class of labour and the peasantry. 'Labour', however, generally refers to paid workers. Labour/peasantry in combination or separately is conceptually associated with their role as producers of an extractable surplus over and above what is used for subsistence and reproduction.

by the agricultural sector, it still accounts for roughly half of the labour force. To reduce the proportion of workers dependent upon agriculture for their livelihood will require perseverance with the struggle to cut back the privileges and protection now enjoyed by particular firms and industries, so that others which are more able to expand into world markets – thus rapidly creating more job opportunities for Indonesia's millions of low-skill workers – will be given a better chance to make their contribution to Indonesia's development' (Sjahir, 1993:13).

Indonesia's peasantry, thus, must move to that employment site offering the greatest world-export market opportunity. The liberal economic logic that posits this imperative is that the restructuring, by advancing Indonesia's productive efficiency, enables the economy to more effectively respond to international market pressures. Sjahir's 'ordering' of the supply and regulation of labour would thus improve Indonesia's world-market opportunities and thereby expand national employment and income. Sjahir's policy prescription is a powerful example of the sorts of restructuring imperatives imposed on Indonesia by successive colonial and post-colonial ruling regimes. It thus illuminates the key theme of successive transformations to Indonesia's productive and distributive base.

Mode of production

The 'world systems' analytical framework reflects a conceptual understanding of the 'mode' of production to describe the *modus operandi* of the dominant system of economic organisation. I draw upon Wolf's understanding of this conception to define and distinguish various phases of economic organisation in Indonesia (Wolf, 1982). Wolf argues that '[s]ocial life is shaped by the ways human beings engage nature through production. The idea of society centres upon the social alignment of groups; the idea of mode of production aims at identifying the forces that guide those alignments. To speak of a mode of production, therefore, draws attention to the ways in which human beings confront their world in order to modify it in their favour, and focuses on the dynamic consequences of that confrontation' (Wolf, 1982:386).

An example of the way this theme is used to focus the analysis of successive systems of production organisation can be observed in 18th and 19th Century imperial

confrontations between England and Holland. The Dutch empire represented the declining age of mercantile power, overtaken on the world-stage by the immense industrial and commercial power of the British Empire. This struggle is seen as reflected in the forms of economic organisation applied in the periphery, specifically – as shown in the following research, in the forms of labour regulation underpinning surplus production and appropriation. The specific mode of production defining the political economy character of the centre is thus seen as a key element of centre-led transformations to Indonesia's production system. The research builds on the mode of production, world-system analysis to critically assess Indonesia's colonial and post-colonial transformations.

The creation of a productive surplus

The 'social alignments' shaped by a 'confrontation of the world in the modification of nature through production' referred to by Wolf introduces the question of the basis for those alignments. From the perspective of this research Indonesia's economic direction can be usefully regarded as being framed by an imperative of generating wealth from the country. This determined the character of the particular social alignments instituted to generate wealth. The concept of a 'surplus' is key to this analysis. Following Howard and King, an economic surplus is defined as the difference between 'the net product of society and the consumption requirements of the producers, or in short, as the difference between social output and socially necessary input' (Howard and King, 1985:64). The thesis investigates how a productive surplus was generated through the exploitation of Indonesian resources, the political interaction between the actors involved in its creation, and the way this interaction impacted on, and defined the character of, succeeding production regimes.

It is argued that the way in which the surplus product is appropriated and distributed largely determines the structure of social relations in every epoch. This location of surplus-creation within the production process parallels that of world systems theory where '(c)apital is accumulated by appropriating surplus produced by labor' (Wallerstein, 1980:273). The creation of a surplus is regarded as the essence of accumulation and growth.

This theme is evident in the Indonesian wealth-generating transformations instituted in the late Dutch colonial era. The research demonstrates how traditional social relations based on surplus generation and distribution through the tribute system were overtaken by a capitalist wage-based system of surplus production. This approach, emphasising the production of surplus and the patterns of surplus extraction, mirrors that of Hoogvelt who locates the surplus-extraction process in a world systems context. Hoogvelt emphasises the 'core-periphery hierarchy and the exploitation of the periphery by the core' as involving 'not only appropriation of the surplus value by an owner from a labourer, but also the appropriation of the whole economy by the 'core' areas' (Hoogvelt, 1997:60).

This surplus-generation and appropriation perspective, it is contended, informs not only the evolution of Indonesia's productive and economic systems across colonial and post-colonial epochs, but also the basis of the contemporary flux over control of Indonesia's production apparatus between local and international interests, and the political struggle over surplus distribution.

Role of labour

Labour is the core element of each analytical theme. Labour is seen as playing a key role in Indonesia's economic and political transformation. Labour is regarded as the pivotal element in surplus creation and, as well, a politically active element in the struggle for distribution of the shares of surplus. The centrality of labour in this analytical framework is further manifest in the way in which the surplus product is appropriated and distributed and thereby largely determining the structure of social relations in every epoch (Howard and King, 1985:64). All modes of production incorporate a division of labour or specialisation of activities, and can be characterised by the way which 'surplus ... is pumped out of the direct producers (i.e. labour)' (Howard and King, 1985:6). This is based on the perception that the 'defining characteristic of a social system [is] the existence within it of a division of labor, such that the various sectors or areas within are dependent upon economic exchange with others for the smooth and continuous provisioning of the needs of the area' (Wallerstein, 1980:5).

This priority to 'order' labour as the basis of national wealth-creation introduces the concept of the political economy of class and the process of class regulation of surplus production. Shifts in the mode of production are seen as crucial in the understanding of processes of change in production systems, but the relation between the 'actors' in the wealth generating process in their response to the 'top down' imposition of production agendas is also key to this understanding. This elaboration of Wolf's analysis is informed by the argument that the 'ordering' of society for economic ends incorporates a political and social, as well as a technical engagement between the economic actors. In this scenario, the production process – and thus the process of capital accumulation – is ordered by a ruling class, with the prime consideration in this 'ordering' or 'regulation' the organisation of labour as a collective entity. This is seen as determining the conditions for a collective struggle for shares from, and control over, the surplus-generating process (Wolf, 1982:386). My research considers the implications of this struggle for political challenges or 'confrontations' with the ruling regime, and the 'dynamic consequences' of that struggle in terms of transformations in the production system and the process of wealth distribution.

By bringing labour and the peasantry to the forefront of Indonesian economic development, this research is premised on the need to redress a crucial analytical deficiency in the literature. Whilst processes of capital accumulation in Indonesia have been well researched, labour's role in this accumulation generally receives scant attention. Whilst labour's role has received reasonable attention in the accounts of the way wealth was extracted from the peasantry under colonial rule, this has not translated into an appreciation of the economic impact of this extraction on the peasantry as a class, nor has it generated contemporary comparisons with the way in which labour as a class is regulated to create a surplus. A prime example of these lacunae is seen in Robison's research on the rise of capital in Indonesia. Robison describes the Dutch as superimposing 'themselves upon an existing system of peasant production in which the surplus was extracted by means of political coercion' (Robison, 1986:5). Robison's focus on the rise of capital-interests provides a tantalising glimpse of the importance of class relations but neglects an appreciation of the process of collective labour regulation for surplus production as a core element and function of these relations.

This gap in the analysis of labour's pivotal role in Indonesian political economic history is reflected in other important ways. It excludes an appreciation of the political dimension, both in terms of labour's political struggle and of the political ordering of labour to comply with ruling regimes' production objectives. Sjahir promotes the transformation of the peasantry into an industrial labour force. As with all the 'grand plans' to restructure Indonesia's productive base, the prime consideration is the enforced supply of a strictly regulated labour force. However, Sjahir makes no reference to the social and political implications of this transformation, either in terms of the political force required to carry out the shift or in terms of possible political responses to this massive reorientation of Indonesian working-lives. A further core concern of this research was thus to determine the political impact of transformations to Indonesia's productive and distributive systems by successive ruling regimes.

Phases of political and economic development

The above themes provide the conceptual backdrop for an overview of the unfolding phases of Indonesian political and economic organisation undertaken in this research. Early chapters outline the relationship between the dominant mode of production within which Dutch colonial authorities defined their system of surplus-production organisation and the consequent fundamental transformations in Indonesian production and distribution systems. This established the basis for the long-term organisation of the colony as a productive enterprise, and of labour and the peasantry as pivotal elements in this process. These chapters outline the forces determining the Dutch presence in Indonesia, the metropolitan political and economic agenda for Indonesia, and the colonial consolidation of political rule and economic dominance.

Chapter 1 establishes the European historical context for this research. It describes the Dutch industrial and commercial environment that led to the institution of a long-distant trading concern, the Dutch East India Company, which became the 'surrogate state' carrying out Dutch state-corporate objectives in Indonesia. The essence of this era is captured in my answer to the question of how a small group of Dutch merchant-traders and military could overthrow local and international competition to dominate the trade and supply of Indonesian export commodities. The answer is seen as

residing in the singular character of Dutch mercantilist wealth-extraction as applied in Indonesia, the nature of indigenous surplus-generation and distribution systems – described as the existing ‘social, political and economic infrastructure’, and the contradictions between centre-ambitions and the logistics of territorial control. The analysis of the Dutch construction of a substantial colonial outpost from these small beginnings constitutes a crucial element in the understanding of later, differing forms of state-corporate intervention in Indonesia.

Chapter 2 builds on these defining features of Dutch corporate and state intervention to describe how a remote colonial outpost could develop into a powerful colonial state apparatus able to control much of the archipelago. The focus is on the transition from private corporate intervention to state territorial sovereignty and the role of centre economic and strategic forces in defining this intervention. An appreciation of the crucial role of the state in creating the conditions for wealth creation heralds the introduction of capitalist production relations and private corporate accumulation. The analysis considers the impact of the European forces seen as fundamental determinants in this transitional process, in particular the Napoleonic Wars. The recurring Indonesian struggles for independence culminating in the 1825 to 1830 Javan war, it is contended, triggered the institution of the Cultivation System of social, political and economic regulation. The transformation in production organisation instituted by the Cultivation System of production regulation is seen as a crucial determinant in the transition to a political economy dominated by private capital accumulation.

Chapter 3 elaborates these defining moments of state regimentation of Indonesia’s production apparatus within the late 19th Century context of a vast penetration of private corporate enterprise into Indonesia’s primary-produce export sector. Connections are drawn between this introduction of a *laissez-faire* system of market regulation and the state facilitation and institution of controlling mechanisms such as employment contract and land-use laws. This is represented as a powerful new dynamic in the process of producer regulation. The Chapter considers the implication of this dynamic for the introduction of a vastly consolidated expanded financial and commercial sector.

The processes of factor commodification described in Chapter 3 are associated with an erosion of Indonesian social systems' ability to assure resource and workforce reproduction. The analysis of the Corporate Plantation era thus requires an investigation of some of the political implications of threats to the security of surplus creation and the threats to the survival of the colonial economic and social order posed by unregulated private corporate appropriation from Indonesia.

This leads into the review in Chapter 4 of the subsequent phase of colonial organisation encapsulated in the 'Ethical Era'. The political and economic complexities of this era are examined in relation to major shifts in the metropolitan state's agenda for the colony and Indonesians' political responses to the expanded state intervention. A growing political and industrial challenge to Dutch political sovereignty and foreign economic control brings to the fore the role of labour in a struggle for shares of the surplus. The analytical focus concentrates on the connection between the mass political and industrial struggle and the fight for political independence. A distinction is drawn between the mainstream literature perceiving the political struggle as essentially driven by popular opposition to foreign political control, and this thesis' alternative perspective of the independence struggle as primarily a class struggle driven by economic considerations.

This political struggle is associated with a growing Japanese political and corporate influence within Indonesia. As Indonesia faced the prospect of being drawn into a world war, the research emphasis on the nature of the nationalist struggle draws the analytical focus back to the 'world-system' arena. Indonesia's internal political and economic conditions are considered in the context of international movements for liberation from colonial control and the international political and economic struggles for international corporate control over Indonesia's resources and for a political and economic strategic presence in the region.

These internal and external political and economic struggles culminate with a rupture in the western regime of colonial appropriation riven by the Japanese wartime occupation of Indonesia. Chapter 5 outlines the role of the Japanese occupation in redirecting Indonesia's productive resources to produce war-needs, and how this impacted on national production and distribution linkages and influenced the

character of post-war economic systems. The significance of the Japanese occupation is also considered in terms of the role the Japanese presence played in defining post-war political struggles for national independence and challenging western economic influence.

The post-World War Two struggle between Republican and Allied re-colonisation forces over political and economic control of Indonesia is examined in the light of a mass political and military mobilisation for which the Japanese occupation acted as a catalyst, late-colonial shifts in the apparatus of state-rule, and the struggle between western interests for control of Indonesia's export production system. Pressures for political independence are associated with a struggle for economic independence and for the dismantling of colonial systems of industrial regulation and wealth appropriation. Chapter 6 develops an analysis of the linkages between colonial politico-economic relations and republican economic ambitions. These pressures on the Indonesian production and distribution system are considered within a broad context of international pressure to institute a new corporate agenda for Indonesia in a post-war 'jockeying' for economic and strategic power.

The emphasis in this Chapter concerns the character of those early post-colonial ruling political forces and uncovers why they were in a position to dominate the Republican agenda. The major consideration is the sources of, and interests served by, the implementation of a policy-agenda designed to shift the economy from the colonial primary-commodity based production system to an urban-based industrial developmentalist trajectory. This introduces the element of political and class-interest in the formation of Republican state policy. Republican reformism is posed against a developing mass political pressure for economic sovereignty and control over the production and distribution of the national surplus, and the rising power of the military as a political and corporate, as well as military, force.

The inability of succeeding parliamentary regimes to address these economic and political challenges led to the overthrow of parliamentary democracy and the institution of a system of autocratic presidential rule. This research considers why this brief trial of western democratic institutional systems was doomed to failure, drawing on the themes of the political organisation of labour, surplus-extraction and

structural transformation to illuminate the forces at work. From this understanding the experiment of 'democratisation' can be seen to illuminate much of the contemporary political struggle and economic conflict within Indonesia. This forms the background to an understanding of the subsequent violent repression at the hands of the military and also to the political and economic conflicts that plagued the immediate post-war ruling regimes. The seizure of control of Indonesia's production apparatus and workforce by a military-corporate clique will be considered in this context.

Chapter 7 describes Sukarno's ascendancy as all-powerful 'Supreme Ruler'. This ascendancy is informed by successive parliamentary democratic Republican regimes' inability to address political conflict and the divisive issues facing the young nation. It is also informed by an analysis of the undercurrent of international corporate and strategic opposition to the rise of the extremely nationalist and independent Sukarno regime. His regime's intention to resolve these political and economic tensions and struggles is seen in its institution of a ruling coalition that incorporated the chief protagonists in the struggle for economic and political control. Strong emphasis is given to Sukarno's role in the development of a national political and economic ideology that established the basis for national unity and common goals. The institution of mechanisms and systems for the promotion and entrenchment of these credos as a fundamental element of nationalist rule heralds their enforcement as an institutional component of the developmentalist credo imposed by the New Order regime.

The collapse of Indonesia's economic base in the Sukarno era is described in terms of the regime's inability to institute structures and systems to replace the colonial regimes of extraction. The key challenges facing the Sukarno regime are seen as international corporate and strategic objectives, military ambition, the popular pressure for economic independence and self-sufficiency, and indigenous corporate demands for expanded economic opportunity. In my analysis, this resolves to the question of the class-orientation of the protagonists and the competing ambitions for the control over surplus production and distribution. This class undercurrent forms the basis for an understanding of the consequent rupture of the Sukarno system and the brutal ascendancy to power of the New Order regime.

Chapter 8 locates the New Order regime's ascendancy in this context of class struggle. The regime's systematic destruction of all institutional structures and the massacre of all political and industrial opposition is described in these terms. The establishment of a military-authoritarian regime is considered in terms of its role in creating an autocratic state based on a developmentalist ethos, and defining the regulatory processes underpinning surplus production and appropriation under the New Order. This encompasses developing an understanding of the way the regime addressed tensions between local and international capital and the formation of a rentier-capitalist state system. This system is associated with a dependency-relation between Indonesia, world-markets and western strategic interests.

This analysis of the final phase of the chronological reconsideration of Indonesia's engagement with the international political economy thus covers the entrenchment of a patrimonialist regime and the incorporation of this regime within the international system of production and distribution relations. This relates the economic and political links between the Indonesian ruling elite and international capital in terms of systems of wealth generation, especially in the context of rentier income, and corporate patronage systems and relations. The primary focus is on the class interests served by the state institutional and structural systems imposed to enforce social discipline and production control.

This historical perspective on Indonesia's political economic development seeks to illuminate the current dilemmas facing the nation. It shows that the changes and challenges to the system of social and production regulation arising from international corporate demands were the primary determinant of the destabilisation of New Order rule. In a postscript to the New Order, the thesis assesses the systemic basis for its collapse. It draws upon the conceptual concerns of this study to understand the processes of accumulation under the Soeharto patrimonial regime, and the way this ordering precipitated the undermining and political collapse of that regime heralding an era of political democracy.

A note on sources

I have drawn principally upon the established body of literature, taking issue with it, and building on this material to recast the analysis of Indonesian history within the dominant themes and conceptual approach upon which this study is formed. Dutch and other western accounts and records provide the major sources for the investigation of the colonial period. Indonesian critical perspectives of the historical processes at work are scarce having been effectively prohibited by the exclusionary system of colonial control. Some of these gaps have been redressed by critics, such as Pramoedya Ananta Toer for example with his epic trilogy describing Indonesians' struggles for political independence (Toer, 1984). As with other critical perspectives of ruling regimes, Toer's manuscripts were destroyed by the New Order regime as well as the Dutch. Toer and those other Indonesian authors and playwrights who have critically analysed the way in which ruling regimes have exploited the Indonesian people have been forced to obscure the critical perspectives of their work within fictional accounts. This literature makes profoundly important historical and analytical points but, unfortunately, does not provide an appropriately scholarly foundation for substantiating historical evidence in the context of doctoral research.

The extensive use of European histories of Indonesia has led to the occasional need to 'force' a resolution over differing understandings of the impacts of regimes of regulation on the economy and the people. Whilst I have, wherever possible, cross-checked the evidence to affirm particular developments, the emphasis on secondary sources begs further research to affirm its validity, especially for those early eras where the available research is severely contested. I have sought, however, to balance the inadequacies of primary evidence against the analytical contribution of this thesis, relating the evidence to the conceptual perspective underpinning this work.

Contemporary secessionist struggles in Indonesia have forced a widespread appreciation that any understanding of Indonesia as a unified nation with uncontested state boundaries is highly contested. This serves to introduce a major proviso relating to the use of the term "Indonesia" in this thesis. Clearly any perspective representing 'Indonesia' as an undifferentiated monolith misconceives the cultural and political diversity within the archipelago. There were also obvious significant regional

variations created in the process of the formation and expansion of the Netherlands Indies State. Whilst it is inevitable that any broad analysis of the rich tapestry of Indonesian history can lay itself open to the charge that the exposition does not give adequate attention to these variations and diversities, the reader needs to bear in mind that the analytical emphasis on wealth-generation predicated the focus on those regions that constituted the fundamental sources of resources and factors of production for any particular epoch.

Thus much of this history focuses on Java as the centre of national development, as the territorial basis of early colonial penetration, and as the Indonesian heartland of the transformations that flowed throughout the archipelago. However, this 'Java centric' emphasis has inevitably led to gaps in the vast mosaic of historical consideration necessary to provide a complete picture of Indonesia's political economic development. These gaps are acknowledged, but it is argued that as this thesis' primary concern is to investigate production and labour regulation for surplus production, and as Java reflects the core elements of these processes, the research must inevitably focus on Java as the primary centre of productive and distributive transformations within Indonesia.

It is the objective of this thesis to glean essential ideas and information from the available sources in order to construct an alternative perspective on Indonesia's economic development and inform the analysis of processes of change. Thus whilst this research relies on the literature describing each period under review, the main criteria for inclusion of particular studies is the extent to which they provide an insightful contribution to the contested understanding of those forces and processes vital for the organisation of capital accumulation and class struggle in each era. The reflection of the available evidence through the prism of my conceptual and methodological framework in refining the source-material thus produces a significant reinterpretation of Indonesia's political economy.

Chapter 1

The formation of the Dutch East Indies

'Monopoly of one kind or another, indeed, seems to be the sole engine of the mercantile system' Adam Smith, *Wealth of Nations*, (volume 2, 1933:126)

At the dawn of the 17th Century Holland's dominant business grouping of traders, manufacturers, merchants and bankers created a state-supported trading company establishing Holland as a world economic power. This company achieved its ambition to monopolise the supply of East Indies spices for the hugely profitable, but high-risk, European trade. The company's rapid defeat of all competition in the Indies heralded the early 17th Century establishment of an international productive, commercial, and trading empire. In the periphery, the Dutch East Indies Company control of the supply of Indonesian export-commodities prefaced a three and a half Century system of colonial extraction. The following analysis illuminates the mechanisms and political economic forces driving the development of this joint stock trading company, and the way in which it imposed monopoly control over the trade in Indonesian commodities.

The appreciation of the rise of the Dutch as an international economic and political force foreshadows the consequent incorporation of the Indonesian productive apparatus within the Dutch system of economic organisation. In introducing the nature of Indonesia's incorporation into the European orbit, I primarily want to focus on the way in which the company imposed its trading, production and appropriation ambitions on the Indonesian people. The chapter sets out to examine this interaction as a developing process, one organized initially in terms of the company expanding from a trading concern monopolising trade in Indonesia's international market commodities, to a surrogate colonial state that controlled the production of supply for that trade. In doing so, the chapter will also reflect back upon the entrenchment of a Dutch system of appropriation from Indonesia in terms of its role in creating the

wealth underpinning the 17th Century Dutch metropolitan ‘Golden Age’ (*Gouden Eeuw*).

This investigation and analysis of the processes of Dutch colonial intervention for wealth-appropriation is organized in three sections. These cover the forces driving the corporate expansion from the European arena, indigenous political and economic organisation, and the processes of Dutch East India company entrenchment in Indonesia.

The three sections encompass the processes of financial, industrial and state power that enabled the metropolis to institute long-distance trading company, the existing political and economic infrastructure that provided the elements of surplus generation and internal political rupture facilitating a corporate and military ‘beachhead’ in the country, and the transformation of the productive and trading base to a company-controlled monopoly enterprise. A primary consideration in examining the institution of these corporate extractive arrangements will be unravelling the relationship between the corporation and the productive apparatus. In considering how the Dutch corporate imperative ensured the appropriation of wealth from the country, it is also essential that the dynamic for this extraction as the maintenance of the existing social and economic ‘order’ of tributary relations be taken into account. In considering the significance of the foreign business presence, the analysis will reflect on its status as an agency of facilitation, rather than exploitation, of the existing system of economic organisation. This reflection introduces what I contend was a common structural feature that underpinned control over wealth production and surplus appropriation throughout the colonial and post-colonial eras. This is the pivotal place of monopoly – generally foreign – agencies institutionalised in a variety of ways in order to exercise control over wealth production and surplus appropriation being instituted by insinuating social regulation and production control *via* existing institutional systems. It is this emphasis that locates the research within a vastly different conceptual framework to most established perspectives on Indonesian history. The key point of difference is with the perspective that the Dutch achieved their goals by political conquest and subjugation.

A further essential element of the general theme of processes of wealth extraction during the early colonial period that this chapter will explore focuses on the transformation of Indonesia's productive base into what is conceptualised as a 'factory' manufacturing commodities for the Dutch metropolitan state and its agent, the Dutch East Indies Company. This introduces a further distinctive conception of Indonesian history contrasting with the established readings that represent Holland as a 'free and fair' trading nation. The following exposition draws out the ways in which the Indonesian people were excluded from any participation in the 'free and fair' exchange of their commodities. The argument that Indonesia was a 'factory' for the Dutch company illuminates this contradiction in established conceptions of Indonesian history.

The drive from the centre

The Dutch East India Company represented the culmination of years of commercial and industrial development. This base supported the development of powerful international shipping companies that were combined to form the conglomerate of the Dutch East India Company. An investigation of the metropolitan system of economic organisation development and the development of this company is crucial for an understanding of the sources of Dutch commercial strength. This section focuses on how this state and military-supported international trading company was created and how it established a system of long-distance trade and production organisation to extract wealth from Indonesia.

The following evidence suggests that Holland's economic power was built on a highly efficient agricultural-industrial base, supported by an extensive financial banking and investment system, and a decentralised system of political and economic support. These factors determined that Holland would become the greatest hegemonic power of the capitalist world-economy between 1625 and 1675 (Wallerstein, 1982: 95). The fundamental determinant of this hegemony was perceived to be Holland's ability to produce goods more efficiently than other core-states, making it 'the primary beneficiary of a maximally free world-market' (Wallerstein, 1982:95).

The origins of Dutch economic strength

It has been argued that 17th Century Dutch economic success resulted from the psychological strength, motivations and abilities of ‘stubborn hard work, comparatively rational business organisation, and Calvinist work ethic’ (Peacock, 1973: 39). This research suggests, however, that Dutch economic power was more a function of its strategic trading position in Europe, and the material and political conditions defining the survival of a small country holding limited land-resources and under threat from territorial takeover.

Seafaring and related trades such as merchants, skippers, masters, pilots, sailors, and shipwrights supported Holland’s 16th Century economy. The Dutch had developed sailing and navigational skills in ‘farming’ fish from the North Sea and the Atlantic Ocean, and the fishing industry was supported by value-adding trades (curing, industrial and consumer products), and capital-goods production (nets, ropes, sails, and woodworking). Holland made advances in agricultural production to produce the industrial crops needed for the fishing industries (flax, hemp, dyes) as well as food (Wallerstein, 1982: 98). Holland’s overall commercial advantage then grew with the development of textile, dyestuffs, sugar refining and shipbuilding industries. Wallerstein contends that ‘no other country showed such a coherent, cohesive, and integrated agro-industrial production (industrial capitalist) complex’ (Wallerstein, 1982: 100). This enabled the ‘United Provinces (as Holland was then known) to flower in about 1600 into the principal ... production centre of the European world economy’ (Wallerstein, 1982:101).

This industrial efficiency and maritime skill underpinned Holland’s 17th Century domination of trade in the North Sea and the Baltic, North America, and much of Asia. Daniel Defoe said that this supported Holland’s rise as an international trading power. For Defoe, the Dutch were ‘the Carriers of the World the middle person in trade, the factors and brokers of Europe: they buy to sell again, take in to send out: and the greatest part of their vast commerce consists in being supplyd from all parts of the world that they may supply all the world again’ (Wilson, 1966:4). Holland’s merchant shipping took the trade from all their European competitors and succeeded Portugal as the major carrier.

Military strength and brute power is often taken as the single most important reason for the Dutch ability to defeat its trade-opposition. Thus in the long-distance trading context– to be described – Van Leur sees the Dutch’ successful defeat of trade opposition to have resulted from ‘the sturdier rigging and greater speed of the ships, the more powerful cannon-royal, the greater mobility of armed troops’ (May, 1968: 5). Dutch companies’ trade dominance was certainly a function of the companies’ strategic employment of large numbers of lighter, better built, more manoeuvrable ships that were equipped with superior long-range cannon and backed by a substantial navy. By 1670 Dutch companies owned three times the tonnage of English ships, and greater than that of England, France, Portugal, Spain and the Germanies combined (Wallerstein, 1982: 102). Haley contends that Dutch companies held about 568,000 tons of shipping and employed 80,000 sailors (Haley, 1972: 29).

Whilst the strength of the trading-power determined Dutch success, this strength could only have occurred as the result of the capital formation that resulted from the industrial organisation and technical innovations that underpinned lower production costs. The material conditions defining Holland’s survival lay in an ability to ‘farm’ the sea, providing fish supplies to feed the population and generate export earnings. The technical and industrial innovations supporting production efficiencies and shipping requirements were themselves the result of the years of maritime experience in this seafaring industry, with ship builders working closely with seafarers to improve ship-capabilities. The financial and commercial backgrounds of the merchants, and their seafaring experience, determined ship-owners’ ability to reduce costs of production and of running their vessels in the carrying-trade. In about 1590 a Dutch company developed the *fluyts* (‘fluteships’) incorporating major design advances, and innovative, labour-saving construction techniques effecting significant reductions in production costs. These *fluyts* became the dominant design for the long-distance trade, and cost less than two-thirds of an equivalent English vessel to construct (Haley, 1972: 19).

The Dutch had developed large scale and standardised production techniques, incorporating labour-saving equipment such as cranes for handling heavy timber, and wind-driven sawmills (Haley, 1972: 20). The ship design represented great advances, chiefly that of the ability to contain substantially greater cargoes than other ships of

the time, and required about a third of the crew required on English vessels (Haley, 1972: 22). With lower wage bills, and reduced supplies of provisions compared to their competitors in other countries, *fluyts* owners could offer freight rates a third to a half lower than their major competitors (Haley, 1972: 22). By 1644 the Dutch had in operation over 1000 vessels 'fit for use as warships', and a further 1,000 topsail merchant ships, as well as 6,000 herring *busses* (keeled barges) used on the inland waterways (Boxer, 1965: 59).

The development of a Dutch manufacturing industry with Holland as the major production centre of Europe originated in the material conditions under which the Dutch economy survived. Holding few natural resources, the Dutch depended on fish-farming to generate export income. With Holland being located at a strategic point for European trade, the Dutch sea-faring experience led to the growth of the carrying trade, and used this experience for shipbuilding, and associated trades and industries. Thus Holland's rapidly expanded manufacturing capacity developed from a state-supported, corporate concentration on surplus-creation through fishing and associated industries. Dutch economic hegemony was thus a product of its productive and commercial strength, and its institutional and technical expertise as a carrying agency. This established the conditions for Dutch traders' ability to dominate international trade.

Institutional support for trade hegemony

The development of production efficiencies created surpluses for Dutch trading and industrial companies. The possibilities for re-investing this wealth for further accumulation depended on a further economic fundamental: strong financial organisation. Dutch mercantile strength was underpinned by a substantial system of financial institutions such as banks, insurance companies and trading entrepôt.

Financial institutions had been employed in the European trade-arena from the early Italian mercantile era when goldsmiths and merchants created banks and used their profits to make loans of money at interest to princes or merchants. The facility of the clearing house developed, whereby bills of indebtedness, instead of being paid directly, could be 'cleared' by other bills from other sources, so 'saving the risks of transporting gold, and greatly facilitating business between different countries' (Flenley and Weech, 1936:448).

A further fundamental factor defining the strength of Dutch commercial relations was the federalist character of national political organisation. The character of this decentralised federal system was influential in determining the form of national corporate ownership and decision-making, and underpinning strong corporate expansion. Towards the end of the 16th Century the Dutch republic consisted of a federation of provinces (the 'United Provinces of Holland') with political control resting in the hands of a group of merchant traders, finance capitalists and industrialists. Although each of the seven provinces was politically autonomous, each provided regional elite' representatives to the States-General as the Federation's parliamentary body, (Haley, 1972:67). The States-General was a 'meeting of allies rather than a parliamentary assembly' (Haley, 1972: 67). This flexible and cooperative organisation enabled the United Provinces to more effectively mobilise resources and gain investor confidence for overseas expansion investment than a centralised state. '(In early modern Europe, republics inspired more confidence among businessmen and investors than absolute monarchies, while centralised republics, such as those of Italy, were less well equipped to mobilise resources than a federal republic.' (Israel, 1989:188).

The federalist character of political and economic organisation played a crucial role in subsequent economic developments that supported mercantilist accumulation, especially through the sharing of the risks and opportunities of investment and the development of monopoly economic control. These two factors apply to all contexts of economic development of the Dutch corporate-state in the 17th and 18th Century. However, the key factor underpinning the joint stock company's commercial success was the company-financing system, especially through the sharing of corporate costs, profits and losses. The practice of broad, collective ownership of productive enterprise appears to have commenced with a mid 16th Century Holland, Zeeland, and Friesland ship ownership divided into numerous shares. This spread the risk of the investment across a variety of United Provinces' companies (Israel, 1989: 22).

The strength of the commercial institutions backing the 17th Century Dutch entrepôt was a further major factor supporting long-distance trade. Thus the entrepôt added to its role as a central store of commodities for world trade, by providing the financial and insurance services that were the basis of sound international finance and investment. In summary the entrepôt was 'the hub of its system of commercial finance and exchange ... a comprehensive set of mechanisms of exchange, remittance, commodity classification, insurance and credit' (Israel, 1989:73). In particular the Amsterdam stock exchange developed from a conventional European type of commodity exchange into 'a world exchange which itself became an instrument of trade control' (Israel, 1989: 75). Brokers determined commodity quality and classified goods, dealt in present and future stocks, handled shares, organised shipping and storage space, arranged insurance and help arrange financial backing for trade. The borrowing for trade was at lower rates than all competitors, and was consolidated by the 'unrivalled array of mechanisms for settling bills and balances, financing trade, and investing in commodities expected or already stockpiled' (Israel, 1989: 78). 'Buying ahead and on advantageous terms was 'to be one of the most characteristic features of the Dutch trading system' (Israel, 1989:79). These commercial arrangements and institutions supported the easier movement of wealth, specie and credit necessary to gain international commercial support for the Dutch trading system. This enabled Amsterdam's financial development to become the centre of the international payments system and money market.

Wallerstein summarises the key factors determining the superiority of Dutch accumulation processes: Holland's advantage was productive, distributional, and financial; its financial strength was the result of its productive and commercial strength. Holland's worldwide commercial network and control over the international money market permitted the export of Dutch capital providing income far greater than that generated by national productive activity (Wallerstein, 1982:111).

The spice trade

The wealth and economic power that resulted from the Dutch establishment's effective melding and strategic use of its strong productive, financial and distribution systems determined Holland's international economic hegemony. The interesting question for this thesis in particular is what drove Dutch traders from the European trading arena to directly trade with Asian suppliers. The analysis addresses this question in the context of political constraints on the supply of profitable trade-goods from Asia, the metropolitan pressure to reinvest accumulating bullion, and the Dutch-state's strategic ambitions.

In the late 16th Century, demand for Asian commodities was a major contributor to European traders' profits. The wealth from the Malay region was in spices, especially cloves, nutmegs and mace (Bagchi, 1982:69). For most of the 16th Century the Portuguese monopolised the major spice route using the trade winds to travel around the Cape of Good Hope to Malacca. Lisbon was the spice centre of the West, and Antwerp was the northern distribution centre. Malacca received its supplies from Javanese traders, who collected them directly from the Malaccan Islanders. Supplies of the spices were abundant and cheap, and it was clear to the Europeans that if the European prices were to be kept high, they had to monopolise supply.

Whilst Dutch traders obtained spices for the European trade from Lisbon and Cadiz, Spain had annexed Portugal in 1680. The States of Holland were also under the political control of Spain, but with Philip's repression of Calvinists, the Dutch determined to free themselves from Spanish control. As a consequence the Spanish king closed Lisbon and Cadiz to Dutch shipping. The expansion of Dutch accumulation enabled the States of Holland to directly challenge the Portuguese

domination of the spice trade by despatching Dutch traders' to obtain spices from Indonesian suppliers.

The Spanish closure of Portuguese ports to Dutch traders precipitated the States of Holland' decision to bypass Portuguese suppliers (Israel, 1989: 68). This engendered a transformation in both the role of the state and the character of capital accumulation. It foreshadowed the extension of the Dutch state as a military-trading power able to defend its trade against major competitors, and the overseas organisation of trade commodity production and supply.

The formation of the joint stock company

The United Provinces' financial ruling group of merchant traders, finance capital and industrial capitalists were capital rich and thus able to finance risky long distance trade expeditions. Their Mediterranean, Levant, and South Atlantic early 1590s trade was extended to the Indian Ocean region. In March 1594 nine northern Netherlands' merchants organised a Company of Far Lands (*van Verre*) and sent two fleets to Indonesia for spices (Boxer, 1965: 22). In 1597 the first fleet of four ships returned with the loss of a ship and 160 men. The second fleet, however, returned to Holland with a huge cargo of 600,000 pounds of pepper, and 250,000 pounds of cloves together with nutmeg and mace (Haley, 1972: 24). In 1598 twenty-two ships from five rival trading companies left Dutch ports for the East Indies. Of the thirteen ships that sailed via the Cape of Good Hope, one vessel was lost. Nine ships sailed via South America but only one ship arrived safely (Zainu'ddin, 1968: 77). Simple mathematics determined a company imperative to employ the former route in later expeditions.

Despite such losses, the Far Lands Company' ships returned greater than 400 per cent on investment (Boxer, 1965: 22). The Chairman, Van Neck, contended that these huge profits were not obtained by 'force or fraud... but by free and honest trading with the Indonesian merchants, in accordance with the Directors' orders "not to rob anyone of their property, but to trade uprightly with all foreign nations"' (Boxer, 1965: 23).

This 'upright' trade generated huge corporate returns, but involved substantial costs of human lives and privation. Boxer shows that Company cost saving led to fierce workloads and privations on sailors, who lived 'on the edge of bare subsistence' (Boxer, 1965: 69). The high level of unemployment in the United Provinces, and the pressure for seafaring jobs from Scandinavia and Germany Companies meant employers paid barely subsistence wages and provided minimal food supplies (Boxer, 1965: 69). The dangerous and oppressive working conditions led to 'frequent mutiny, insubordination, and riots' (Boxer, 1965:72).

The institution of the Dutch East India Company

Dutch trading ships entered a market dominated by the Chinese, Gujeratis, Portuguese, Arabs, British, Spanish and Danish. Portuguese attempts to occupy Indonesia and seize control of spice production were repulsed by the solidly entrenched and powerful kingdoms on the major islands of Java, Sumatra, and Madura but the Portuguese retained the greatest share of the European trade in spices. However, by 1600 the state-supported and heavily armed Dutch competition overthrew the Portuguese trade (Israel, 1989:68).

By the end of 1601 fourteen fleets of sixty-five ships had sailed from the United Provinces to the East Indies. Intense Competition between rival Dutch companies forced the price of pepper to rise by 100 per cent in the first six years of trade (Israel, 1989: 68). However, the subsequent accumulation of pepper and fine spices in the United Provinces caused a fall in prices to consumers, and whilst supplies of the spices were abundant and cheap, it was clear that if the European prices were to be kept high, exports from Indonesia had to be under monopoly control. The merchants convinced the States General that profits would evaporate or the Portuguese would regain the market 'unless the state intervened to curb this ruinous rivalry and rescue the investors from their predicament' (Israel, 1989: 69).

In 1602 the States-General moved to counter this threat by chartering the United Dutch East India joint-stock company (the *Verenigde Oost-Indische Compagnie* - VOC). The VOC was initially capitalised by nine businessmen with a share capital of 290,000 guilders. This triggered the flow of capital from all states, with the state-

source of capital shown in Table 1. Whilst there is a paucity of scholarly information as a guide to estimate the comparative values of the sums invested, some idea of the value of the investment can be gleaned from Boxer's evidence of the mid 17th century wages paid to VOC employees. The basic rate of pay for VOC seamen was 7 to 10 guilders per month, with merchants' salary 4 to 60, masters 60 to 80, and boatswain 22 to 26 (Boxer, 1972:300,301). The VOC wage for sailors represented a basic subsistence level of income (Boxer, 1972:68).

Table 1.1: VOC starting capital (guilders)

Amsterdam	3,674,915
South Holland	
Delft	469,400
Rotterdam	173,000
West Friesland	
Hoorn	266,868
Enkhuizen	540,000
Zeeland	1,300,405
Total	6,424,588

Source: Israel, 1989: 71

The final subscription amounted to in excess of ten times the initial capitalisation of the English East India Company (Glamann, 1981: 6). Whilst the private investor capitalisation suggests that the company was determined by business objectives, the state held clear political ambitions for the VOC's operation: 'The States General had use for a financially strong central organism which might divert the war of Spain against the Netherlands and wage the war in India without any expenses on the part of the Government' (Glamann, 1981: 6).

The state thus supported the trade-expeditions with subsidies, armaments, military forces and tax (especially customs) exemptions. The Company was granted the power to make, protect, and enforce trade agreements (Israel, 1989: 67,70). The VOC had its

own 'treasury, currency, executive, laws, army and navy' (Fischer, 1959:18). The VOC was a "*staat-buten-de-staat*" with its own administration, own jurisdiction, and finally also a right to make agreements with the foreign, Asiatic powers' (Glamann, 1981: 7). The political as well as economic objective was to appropriate a surplus, as well as attacking the competitive 'power, prestige, and revenues of Spain and Portugal in Asia' (Israel, 1989: 71). This determined that within three years, the trade-only policy of earlier companies had been 'transformed into a full-scale strategic offensive, involving dozens of warships and many hundreds of troops' (Israel, 1989:73).

Overall, the VOC was established 'in part to contain ruinous competition among the Dutch, in part to provide a stable outlet for the smaller investor, in part to create an economic and political weapon against Spain, and in part simply to get more spices than were then available in Europe' (Wallerstein, 1982: 102). The subsequent VOC profitability was accomplished by the transformation of company policy from the trade organisation to the military enforcement of production control.

This outline of the formation of the VOC has shown how the Company came to be in a militarily and diplomatically stronger position than their European and Asian competitors to seize control of the Spice Islands trade.

The infrastructure of Malay trade and production

The existing Indonesian social, political and economic environment

The indigenous system of political and economic organisation operating in the late 17th Century incorporated a hierarchical system under the overall control of a monarch, with the kingdom divided into various provinces largely autonomously controlled by princes. Java had been ruled by the Mataram monarchical dynasty for more than a thousand years (Day, 1966:10). It appears that rulers and their subordinate governors extracted severe taxes, tolls, and labour-obligation to support their rule. The Mataram king and the ruling elite obliged landholding peasants to provide paid-labour for public works (*kerig aji, heerendienstein*) (Suroyo, 1990: 154). The rulers controlled local markets, taxing exchange and prohibiting any exchange outside this trade monopoly (Day, 1966:25). The production surplus was used to support the state administration, a military force, and the trappings of power.

Dynastic wars and wars of succession weakened the Mataram state's ability to defend itself from foreign attack, and its chief characteristic was a lack of trust between feuding princes. Whilst Day considers that the political conflict was based on feuding princes' power ambitions, Zainu'ddin's research shows that the 16th and 17th Century princely wars were driven by the substantive economic considerations of territorial control and trade-dominance, especially through the control of local market monopolies (Zainu'ddin, 1969:80-87). From this latter viewpoint, the disputes represented a competition for control of systems of production, distribution and exchange.

Traditional surplus creation and distribution

The evidence of monarchical and princely rule suggests a feudal, land-ownership based, power relationship between the peasantry and the rulers. It is argued, however, that as land was not in short supply, the power-relationship consisted of ties of social obligation and patronage rather than the European social relations of feudalism. Reid refers to this as the holding of society together through 'the vertical bonds of obligation between men', whereby 'the wealth of the rich, and the power of the

strong, lay in the dependent man-power they could gather around them' (Reid, 1983:8).

Warren argues that there was a material basis underpinning these bonds. She contends that 'inequalities in power, wealth and status existed in all of the pre-capitalist states of South East Asia which we must certainly define as class societies' (Warren, 1985: 131). In this understanding the relations of production conformed to the Marxist model of the Asiatic Mode 'where the centralised state is superimposed on relatively self-contained agricultural village communities which provide tribute in labour and kind' (Warren, 1985: 131).

Marx's conception of the Asian pre-colonial production systems was that they generally did not create their surplus production through feudalist or slave labour production relations. Marx argued that Asian social formations were part of a distinctively different, 'Asiatic mode of production' (Howard and King, 1985: 227). In Marx's conception the typical Asian production environment consisted of a multitude of small isolated villages under the political control of an authoritarian state. He contended that there was minimal commodity production, but – at least in the context of the ruler's organisation of labour – major production schemes relating to large scale public works, especially for irrigation. The despotic state taxed the peasantry to pay for these works from the villages' surplus production (Howard and King, 1985: 227). This conceptual understanding suggests the existence of a dominant system of production control, hierarchically based, including an administrative structure supported by the 'tax farmer' appropriation of surplus.

Zainu'ddin affirms that in the context of the village social organisation, Asian production relations were vastly different from the feudal system in that village elders did not hold the power of land ownership over farmers and the rural producer was not tied to a feudal lord. 'The peasant in Java, unlike the serf under the European feudal system, was not bound to the soil' (Zainu'ddin, 1969:109). Warren argues that whilst there is difficulty in precisely determining class relations prior to colonial occupation, control over labour was the crucial factor defining pre-capitalist production relations (Warren, 1985:131). In her view, access to land did not become a significant factor of labour-control until the nineteenth Century (Warren, 1985: 131).

Warren argues that a surplus was created and distributed through a complex system of tributary relations and social obligation. These ranged from collective services and tribute paid by corporate villages to personal patron-client arrangements between landowner and dependents or landholder and state. She contends that these arrangements meant that duties were individual responsibilities, and ‘that much greater flexibility existed and that the degree of surplus extraction was considerably less severe in pre-colonial times’ (Warren, 1985: 131).

A more sanguine appreciation of the severity of this system of surplus production is advanced by Reid, who argues that South East Asia was a ‘peculiarly fruitful place to examine the interaction of different concepts of servitude – Islamic, Indic, Chinese and modern European, as well as a range of indigenous forms’ (Reid, 1983:2). For three centuries prior to the European imposition of control on labour in Sumatra and Java people were forced into slavery. In his view, the various forms of bondage in the last eight centuries of recorded history were ‘indigenous developments having their origin in a characteristically South East Asian acceptance of mutual obligation between high and low, or creditor and debtor’ (Reid, 1983:8).

Social and cultural rather than pure property relations generally formed the substantial cultural infrastructure of bondage. This could be seen in the strong connection between the obligation to sell one's own labour when in debt. Wilken provides an example of the Toba-Bataks who, when going to market expecting to gamble, were ‘equipped with a special form of rope (*tali pasa*) as an indication of good faith that their bodies, as labour power, constituted the surety for their gambling debts’ (Reid, 1983:10).

A common means of obtaining capital was to ‘pawn’ an individual or dependents, or to enter a very unequal partnership where the creditor became the patron, if not the master. In these relationships the labour service of the debtor became a continuing process of bondage whereby payments were for the cost of the debt (the interest on the debt), and not towards reducing the debt itself (the principal). In this way bondage was passed to succeeding generations. Slavery was also an accepted part of society. Slave ownership was a measure of social status, generally recognised as a symbol and trapping of power. Slaves were primarily employed as servants rather than as

producers of commodities for exchange. The scarcity of workers determined the ownership of domestic slaves as a particularly important status symbol in Javanese society.

Whatever the severity of the system of surplus production and appropriation, there is clear evidence that an institutional system of unfree and coerced labour operated in the Indonesian archipelago for centuries prior to the European occupation. This institutionalised basis of production organisation represented a 'social legitimacy' for unfree labour. The enforced compliance with this system determined the 'social infrastructural' basis for the superimposition of Dutch appropriation, and the cultural/social basis for the subsequent direct colonial system of labour coercion.

Labour organisation for commercial production

These systems of labour organisation for production and surplus appropriation appeared to have been applied in the dominant system of rural production organisation rather than in the trading context of urban production organisation and the carrying trade. In Indonesia's pre-colonial mercantile cities such as Aceh, Makassar and Bantem, trading work generated a substantial demand for labour. There was a limited supply of labour with the then small populations and priorities for rural production work, especially in the production of subsistence produce. The large demand for trade labour was thus generally supplied by slave traders, as captives of war, or from the traders' retinue. No entrepôt trade could function effectively without the ready availability of a passive bonded workforce, and harsh laws were enacted to ensure the compliability of the slaves and the protection of slavers against murder and theft, or from their slaves absconding (Reid, 1983:16).

Trading infrastructure

The Malay islands had a long tradition and culture of accommodating and assimilating new systems of trading and commercial organisation introduced by foreign traders. Whilst the Arab traders who engendered the spread of Muslim culture and thought to Indonesian seaboard dwellers arrived three centuries prior to the European traders, they were merely the latest in a series of long-distance foreign trade forays to the region. It appears Chinese traders had travelled to Java for textiles in the

1st Century BC. The Arab traders had, however, established a much stronger and more pervasive commercial presence than earlier traders. It is argued that the Arab system provided a solid foundation for Dutch commercial expansion.

The exact influence and role of Islam is open to conjecture, but Wertheim contends that there is strong evidence to suggest that the Islamic religious and cultural system was profoundly influential in establishing the values of 'typical' and 'mature bourgeois individualism' prior to the development of capitalist social relations (Wertheim, 1959:212). Further, Islamic scholars go to the extent of giving Islam the credit for 'providing a blue-print for the organization of trading diasporas' and 'providing a symbol around which ethnic boundaries could consolidate' (Dobbin, 1983:260). Whilst Dobbin did not elaborate on this latter proposition, the role of Islam in engendering certain of the values underpinning capitalist development appears to be undisputed.

Peacock contends that the main components of this influence relevant to the facilitation of trade were the introduction of market values, fair dealing and social equality in exchange (Peacock, 1973:31,32). Islam teachings supported the belief that trade 'was meaningful and legitimate ... all believers should deal honestly and impartially with one another (on the basis of) frugality, diligence, honesty and dependability. In this way Islam stimulated the growth of trade' (Peacock, 1973:31). In the political context, the Islamic tradition of fair trading, impartiality over competing interests and dependability in agreement made Muslim traders more readily accepted by local rulers.

Caldwell and Utrecht postulate a more invasive, and material imperative in the spread of Muslim ideology. They argue that Islam had profound consequences for South East Asia, 'paving the way for modernisation *before* the arrival of European power' (Caldwell and Utrecht, 1979:10). Islam is seen as 'a catalyst in the European revival' This is seen to have resided in the widespread use of Malay as an Islamic '*lingua franca*' facilitating trade and commerce; a Muslim perspective that all believers are equal facilitating a 'free give and take of bargaining and the free operation of the law of supply and demand; and helping 'to undermine the traditional oligarchic, rigid and hierarchical structure with a god-king at the apex' (Caldwell and Utrecht, 1979:10).

In summary, for the regions where Islam spread, the ruler became ‘the chief merchant; he controlled all external trade and traders, for he directed and controlled all supplies of the basic commodities required by them, rice on Java and in Macassar to exchange for spices in the Spice Islands, pepper at Bantam and the ports of SE and SW Sumatra, pepper also and especially gold at Aceh’ (Hall, 1966:202). It was evident that the facilitation of good trade relations was paramount for the Indonesian rulers. In this context Hall remarks that the ruler’s most important official in dealing with foreign merchants ‘was the Shahbander (‘Ruler of the port’) who, by reason of his duties, was in most cases a foreigner’ (Hall, 1966:202).

Thus, distinctive elements of the existing social, political and economic organisation provided a basis on which the VOC could construct a regime of appropriation. The pre-existence of a traditional infrastructure of unfree labour and collective coercion for surplus production and distribution constituted the fundamental institutional base for foreign extraction. Further, divisions within the ruling establishment ensured that the Dutch were in a strong position to advance their commercial interests through the cultivation of divisions between these rulers, and the negotiation of peace agreements that would advantage the Company’s interests. Arab traders had established the general legitimacy of trade over three preceding centuries. The corporate imperative of profits over territorial expansion provided the mechanism for the insertion of the VOC within the existing regime of surplus production. This foreshadows the capacity of the VOC to exert political and economic domination of the traditional ruling class in order to enforce control over the peasantry for production objectives.

The entrenchment of VOC political and economic power

The Secretary to the Makasarese Sultan in 1641 addressing local leaders after their defeat by the Dutch: 'Listen sirs, to my advice: never make friends with the Dutch. Possessed of a sort of devilish cunning, no country can call itself safe when they are around' (Zainu'ddin, 1969:86).

The Dutch introduced a strikingly different system of surplus extraction to Indonesia than had been attempted by their European mercantilist competitors. The singular nature of the VOC's intervention into the Javanese economy determined an ability to control supply where its competitors had failed. The nature of this successful intervention is considered in the context of Dutch corporate imperatives and the interaction between these imperatives and needs of the indigenous ruling establishment. The way in which the Dutch reconciled these ambitions and attached a system of wealth extraction onto the indigenous political, social, and economic 'infrastructure' informs the process of the incorporation of the Indonesia system of export commodity production into the Dutch system of capital accumulation. The key consideration concerns the transition from indigenous to Dutch domination of export commodity production.

The entrenchment of the VOC within the Indonesian politico-economy established structures and systems that underpinned the subsequent colonial state system of appropriation, in particular the entrenchment of an administration and infrastructure to control labour for the extraction of wealth from the colony. The chapter concludes with an overview of the forces determining the collapse of the VOC. It is argued that the forces determining this collapse influenced the institution of major changes in the way in which wealth was appropriated from Indonesia, and in the structure of production organisation that supported this appropriation.

VOC entrenchment for trade control

The initial VOC forays to establish trade links did not appear to represent a significant threat to Indonesian political and economic sovereignty. Dutch corporate imperatives

determined the application of a gradual expansion of 'commercial' relations with the indigenous leadership. This constituted a vast and crucial distinction between earlier European, especially Portuguese, mercantilist approaches to dominate trade through territorial occupation.

The VOC was unsuccessful with their first attempts to negotiate monopoly trade-agreements with the major spice-suppliers of Ternate, Ambon, Banda and Ceram. The Company then moved to control the 'transit' ports of Makasar and the northern Javan ports (Robertson, 1972:80). The Dutch negotiated a trade advantage by exploiting political conflicts between the ruling Sultans warring for control over vassal kingdoms (Robertson, 1972: 80). The Dutch employed their military strength to back trade-treaty bargaining. An example of a typical treaty was the 1667 treaty for control of Ujung Pandang. The Dutch conditions included the requirement of a strong fortress with a supply of good drinking water, and a safe harbour in order to make it 'a bastion of the valuable eastern districts' (Zainu'ddin, 1969:87). The Dutch' method of consolidating the opportunities for long-term territorial control was evidenced by the fact that whilst the provision of the fort was negotiated on a temporary lease, the Secretary of the defeated Makarese Sultan believed the Dutch thought it to be a 'fairly permanent' arrangement (Zainu'ddin, 1969:87).

It seems the Dutch went to great lengths to avoid committing their troops and armaments to imposing trade control by force. Nevertheless, in the instances where negotiation failed, they brutally repressed all opposition to their establishment of a trade-monopoly and imposed severe penalties for non-compliance. Reporting an Batavian judge's sentencing of a crew of black marketeers who seized a Company vessel in the Sunda Straits in 1680, a VOC surgeon noted that: '[o]f the whole (crew), one part was broke upon the wheel, some were quartered, some were whipt, some had their ears and noses cut off, and some were burnt in the forehead. The three Hollanders were hang'd; the two Danes beheaded' and the others sent into slavery' (Zainu'ddin, 1974: 79).

In 1621 the VOC entered into formal contracts for exclusive deliveries of spices with local headmen in Amboyna and Banda. It allowed only a few farmers to grow specific quantities of high value spices in order to keep the market price high (Zainu'ddin,

1975:79). When the Bandanese continued to trade outside the Dutch embargo, they were murdered by Company forces and replaced by Dutch settlers (*perkenier*). The *perkenier* were granted land tracts and Company slaves were imported to cultivate nutmeg plantations.

The Dutch directed high-ranking chiefs ('regents') to impose nominated penalties for growing produce in excess of the Dutch quota, including the destruction of the plantation, burning of the produce and often the execution of farmers. 'Company policy was to punish enterprise wherever that was not in accordance with its own (or its servants') profits' (Caldwell and Utrecht, 1979:15). Thus the *hongi-tochten* (traditional tribute-gathering war parties) destroyed unlicensed Moluccan spice trees that were surreptitiously planted to evade the Dutch monopoly to gain profit from the strong world demand. The subjugation of Macassar in 1669 determined that the VOC had a complete monopoly over the Indonesian spice-trade (Wertheim, 1956:238).

Competing priorities for economic and political organisation

Johan van Oldenbarnevelt, the Advocate of the States of Holland, had directed the VOC to build militarily strong outposts from which territorial control for trade-good supply could be assured. VOC merchants employed Dutch naval and military power to establish fortified bases in several Asian trading centres. These *entrepôt* were backed by Dutch warships based permanently in the region. In the first and second decade of the 17th Century, the VOC constructed a chain of fortified trading posts along Java's Northern seaboard, with their Indonesian headquarters at *Jacatra* (renamed Batavia, now Jakarta). William Dampier described his visit to the fort at Pulau Dinding, which had been established to secure the monopoly control of the tin trade from Bangka Island. The fortifications were said to be necessary because the Dutch 'dare not trust them (the Malays) so far, as to be ranging about the island in any work of husbandry' (Zainu'ddin, 1974: 78). Clearly, the Dutch gradual establishment of a trade-control beachhead generated substantial political opposition.

The establishment of fortified centres and ruthless defence of trading points to enforce a trade monopoly was not, however, indicative of the Company's ambition to assert colonial sovereignty, VOC officials were 'anxious to avoid the responsibilities and costs of territorial government' (Spruyt and Robertson, 1972:78). Nevertheless,

Company officials ‘on the ground’, believed that trade control could only be assured by production control, and control over production could only be enforced through territorial occupation. This conflict over corporate ambitions and the necessity for state intervention to protect long-run corporate accumulation foreshadowed a continuing tension between investors and the state.

Jan Coen, the Dutch East Indian commander of the provincial capital of Batavia, was a ‘partisan of a strong manner in Asia’ and strongly independent of the VOC directors. His views – shared by succeeding proconsuls – were evidenced in a 1614 memorandum to *De Heeren Zeventien*: ‘Your Honours should know by experience that trade in Asia must be driven and maintained under the protection and favour of Your Honours’ own weapons, and the weapons must be paid for by the profits from the trade, so that we cannot carry on trade without war, nor war without trade’ (Bagchi, 1982:70).

Coen argued for the peripheralisation of the spice producing regions through the construction of fortified bulwarks from which political control and thus production control could be exerted over spice supply. This was considered necessary in order to enforce trade control over local potentates, to repress local opposition and to reorganise production. This production reorganisation would result from the exporting of a ‘white settler class, both to help with supervising cash-crop production and to provide a secure initial market for European exports other than bullion’ (Wallerstein, 1982: 103). Coen said that the peripheralisation could not occur whilst the Republic was intent on ‘administering trade, and required the operation of a market principle’ (Wallerstein, 1982:103). The issue concerned the capitalist priorities of ‘the profits of exploitation or the profits of speculation’ (Wallerstein, 1982: 103). Wallerstein argues that the pro-consuls had two choices: to ‘transform the nature of the trade by incorporating the Indies as a peripheral zone of the capitalist world-economy’ or to administer the trade as long-distance commerce between world empires (Wallerstein, 1982: 103).

It was evident that the Company could not seize trade control over its competitors without the support provided by the military-backed strong corporate presence. Nevertheless some shareholders were unhappy about the use of force, and others

opposed the costs of enforcing a territorial presence. The war-like conduct of business alienated some investors who were opposed to the use of force in business. These withdrew their financial support upon learning of the State's supply of armaments for early expeditions. Other investors were more concerned about the loss of profits with the costs of armaments. They bemoaned the 'money spent on arms, munitions, troops and fortifications' employed to establish *entrepôt* in Asia (Israel, 1989:72). They believed the Company priority should not be concerned with territorial expansion but with trade profits. It appears that Dutch merchants held the view that business transcended international political relations. Thus it was 'widespread practice' for the Dutch to trade with the enemy at wartime. During the Dutch attempt to break from the Spanish yoke the 'Dutch continued to trade with Spain without official disapproval' (Haley, 1972: 46). The VOC shareholders were apparently unconvinced that their Indonesian investment faced a political threat and considered that the state's objective of seizing territorial control was a threat to the profits on their investment. Those supporting the profits of speculation prevailed over those supporting the profits of productive exploitation, and the Company continued the traditional system of 'administering' long-distance trade between Indonesian suppliers and Company agents. The matter was far from being resolved, however, and subsequent chapters investigate the implications for Indonesia's production system of the contestation over the degree of state intervention required to assure company profits.

Expanding the trade monopoly by controlling supply

We have seen that where there was an adequate workforce to generate surplus production the Dutch preferred to 'seek out countries which could be exploited rather than settled and developed' (Braudel, 1982:235). Thus whilst the priority of trade over territorial control persisted, the Dutch were obliged to exploit the existing system of surplus-production and appropriation. Their steady extension of political control to establish trade-commodity supply commenced with the negotiation of trade agreements. The Dutch employed the threat of Portuguese occupation to negotiate a closed-trade agreement with the ruler of the North West Javanese province Bantam. The Bantamese took advantage of the agreement to build support against the aggressive Portuguese attempts to occupy their territory.

The fortified *entrepôt* that have been described above were represented by the Company as purely part of the capital apparatus to secure trade with Indonesia, and as such 'external' to the continuing system of traditional political rulership. The VOC officials maintained this façade of political non-involvement in indigenous affairs by leaving the control of internal political organisation 'as much as possible in the hands of the traditional indigenous authorities' (Penders, 1977: 3). The trading centres facilitated the export of trade goods for the Sultans, and Company officials readily accepted a role as 'impartial' conciliators resolving disputes between feuding local rulers. Thus various pretenders to the throne of Mataram in wars of succession gained Dutch support by ceding areas of land to the Company so that by the end of the 18th Century the Company had extended its influence over much of Java (Legge, 1977:81).

The Company extended its political control over the economic supply of trade-commodities. The traditional leadership were now obliged to sign agreements committing them to supply fixed amounts of specified crops at fixed prices (Zainu'ddin, 1974: 109). The '*bupati*' (chief of the class of traditional rulers) extracted the agricultural surplus as tribute from peasants for the sultan or king, who, in turn, supplied this to the Dutch. The Dutch paid pensions to the traditional rulers, and provided them with military backing to defend their realms. The largesse provided to the Sultans led to them forcing the peasantry to replace staple subsistence crops with trade crops (Peacock, 1973: 41).

This gradual extension of political control meant that whilst the class of traditional rulers (the *bupati*) retained their traditional place within hierarchy of production organisation and labour-control until the end of 18th Century, power relations between the Dutch and local rulers were reversed. In the early days of the Dutch trade intervention the Dutch officials had to prostrate themselves before the regents and suffer other humiliations to curry favour in trade negotiations. As the VOC entrenched and expanded its economic influence, its growing political strength determined that the regents now had to pay tribute to the Governor General as they had done towards Sultans in earlier times. The VOC was said to have domesticated the indigenous elite leadership employing that elite's 'customary authority over the peasantry' (Elson, 1986:140). The *bupati* 'extracted agricultural tribute from the

peasants and turned it over to the VOC instead of the sultan or king' (Wolfe, 1982:14).

By the mid-18th Century, the VOC was increasingly intervening directly in the supervision of the Regents to enforce their stipulated cultivations of produce for the export market (Zainu'ddin, 1974:109). It was in a position to demand the fixed-price production of annual quotas of trade commodities such as indigo, cotton and some sugar. The regents received as payment the right to collect from the peasants the traditional taxes of labour and rice (Caldwell, 1977:14).

The severity of extraction

A later (English) ruler of Java, Stamford Raffles, provides us with a liberal perspective of the brutal nature of the VOC extraction system. He considered that Indonesian labour was more harshly treated under this system than under slavery: 'The Dutch Company, actuated solely by the spirit of gain, and viewing their Javan subjects with less regard or consideration than a West India planter formerly viewed the gang upon his estate, because the latter had paid the purchase money of human property, which the other had not, employed all the pre-existing machinery of despotism to squeeze from the people their utmost mite of contribution the last dregs of their labour' (Raffles, 1830: 330). In a further indictment of the Dutch system of unfree labour, as distinct from wage-labour, Raffles contended that 'Dutch officials universally employed the services of the people without regular hire' so that '[t]he system of contingents and of forced services reduced the people to the lowest state of vassalage and subjection (Fischer, 1959: 23).

VOC decline

From 1613 to 1693 the Dutch Company's net annual profit averaged 600,000 guilders, with a total income over the eighty years of 48 million guilders (Fischer, 1959:23). However, the long-distance system of trade could not sustain VOC shareholders' profits. A complex set of factors determined the change in the Company's fortunes, but it appears that the essential consideration related to the Company's inability to compete with the rapidly expanding English mercantile-industrial capitalist system. This meant that there was a decline in Company revenues

from the beginning of the 18th Century (Day, 1966: 61,62). This appears to have consolidated costs and sources of declining revenues in the periphery.

The Company relied on the Netherlands worldwide commercial network, its international money market and international payments system from the export of Dutch capital to keep trading until the end of the 18th Century. Over this period VOC shareholder' dividends were subsidised from VOC reserves (Wertheim, 1956:111). Between 1613 and 1779 the VOC's cumulative losses were nearly 85 million guilders. In 1798 the directors in Amsterdam ceased trading and transferred the debts and possessions to the Dutch state. The Company left a total debt of 134 million guilders (Hall, 1966:320).

The decline and fall of the VOC and the transference of its interests to the Dutch state triggered major changes to the way the Netherlands extracted wealth from Indonesia and the system of political rule. An analysis of the forces determining the collapse of the Company is seen to illuminate these changes and the motives driving the state's subsequent transformation of the system of foreign wealth-appropriation from Indonesia.

Local forces leading to the collapse of the Company

The VOC's collapse is usually explained as due to an international inability to compete with the English competition. Nevertheless, the peripheral cost-factors – associated with VOC shareholders' demands for greater returns, and the English regional threat to the VOC's trading monopoly – were crucial elements in the Company's demise.

A major peripheral source of declining corporate returns related to the direct pressures on producers as a result of VOC losses. Company officials reduced emoluments paid to the indigenous leadership. To maintain their traditional prestige and relative wealth the regents increased compulsory villager servitude and tribute. Villagers had no redress against the regents, or the regents against the Company. There was increasing poverty and starvation amongst an increasingly resentful population (Schrieke, 1957:73).

In regions where VOC or traditional leadership could not exert absolute control and where the level of extraction was harshest, producers migrated from Company-controlled regions, or neglected cash crops to cultivate their subsistence crops. The Dutch related the decline in productivity to Indonesians' alleged 'natural indolence'. Where military resources enabled, they increased the severity of extraction 'for their (the natives') own welfare as well as for commercial profits' (Tarling, 1962: 514)

There were other peripheral sources of Company losses associated with a declining corporate ability to enforce its regime of appropriation. Local officials became heavily involved with the black-market trade. Smuggling, corruption and nepotism constituted the most visible component of the rising costs of the Company's peripheral operations (Zainu'ddin, 1974:118). Clearly, the VOC had lost an ability to control its remote regional operations. This inability to enforce centre objectives foreshadowed the state's entrenchment of a peripheral infrastructure and administrative system of production organisation and control.

Finally, as each new treaty was negotiated with indigenous leaders the local administrators required additional resources to enforce the terms of the treaty. The major cost was that of maintaining VOC authority in the face of growing popular discontent arising from the extension of Company control and the severity of the extractive regime.

Overall, the declining corporate ability to maintain acceptable rates of return and to enforce Dutch East Indies Company control foreshadowed the introduction of a regime that would reduce the role of the local rulers in appropriating a surplus from the country, and one that would replace collectivist enforcement systems with new forms of production regulation.

Metropolitan pressures undermining the VOC

Whatever the extent of the declining output and increasing production costs involved in running a peripheral regime of extraction, these did not constitute the fundamental source of the VOC's collapse. The fundamental threat to the VOC's corporate

viability resided in England's emerging industrial capitalist strength. The crisis of accumulation in Indonesia – and thus the increasing severity of the extraction regime – was a symptom of the Dutch attempt to retain mercantilist power against this competition. As a large proportion of the profits from Indonesia went into supporting English industrial capitalist development rather than recapitalising in Dutch manufactures, the mercantilist endeavour contributed to its own demise (Dobb, 1976: 195,6). To explain this complex of factors and conditions determining the shift in Company fortunes, it is necessary to consider the competitive impact of the increasing commercial and productive strength of industrial capitalism.

Conditions in 17th Century England encouraged industrial investment, with increased capital investment in agricultural production, cheap wages and the growth of financial institutions (Wilson, 1966: 200). The greater intensity in the utilisation of agricultural resources resulting from increased capitalisation liberated resources for industrial investment. By contrast, however, the Dutch ability to effectively and efficiently combine their systems of production, distribution, and finance into a coordinated basis for imperial expansion had been eroded by the early successes of the VOC. It appeared firstly that the leaders at the helm of the Company's early 17th Century 'engine of growth' had been replaced by a self-styled superior merchant class of overseas traders who rejected the need for a corporate association with industrial capitalists. The joint stock company had excluded competition, with its profits from previous trade self-financing new investment rather than expanding the manufacturing base and employing investment funds from alternative sources. Dobb notes the traders' 'stress on privilege and the exclusion of interlopers (with their) limitation on the number of those engaging in the trade and their emphasis on favourable terms of trade at the expense of its volume, increasingly acted as fetters on the further progress of industrial investment and brought them into opposition with those whose fortunes were linked with the expansion of industry' (Dobb, 1976:193)

The VOC and Dutch state's dependency on the monopolist system of trade-control was now under severe attack from English industrial capitalist pressure to 'open up' world trade to English merchant access. A fundamental ideological pillar supporting English industrial expansion was the anti-monopolist, free trade ethos of liberalism. Free trade was seen as 'the best way to perpetuate Britain's industrial monopoly'

(Nabudere, 1978:106). It provided 'the clearest vision of a free trade Britain as Workshop of the World' (Barrett Brown, 1974:107). This signalled a developing political and economic pressure for Holland to dismantle the system of monopolistic trade control that underpinned its peripheral appropriation. More particularly, it represented an economic pressure to bypass the monopolistic systems with expanding 'black markets', smuggling and the search for alternative suppliers.

The trigger for the Company's demise was the fourth Dutch (1780-1784) war against the English. In 1780 the English fleet blockaded Dutch homeports as retaliation for Holland's support of Russia in that country's conflict with Britain over sea-lane rights. English forces cut the Indies' connections with the centre thus breaking the monopoly trade constraint through the Malacca Straits. The Dutch government pressed the VOC to bypass the blockade by selling its accumulating goods to foreign traders. However the Amsterdam directors insisted on keeping to the old monopoly. The directors' policy was disastrous for the Company, the fortunes of which declined further when the 1784 Treaty of Paris allowing free trade in the East gave the British freedom to sail in the Indies' seas. This allowed English traders to smuggle spices from the Moluccas. The British largely operated from the Outer Islands and could undercut Dutch markets by arranging competitive deals with local princes and corrupt Company officials. The Treaty was the final blow for the Dutch trade monopoly in the Indies (Zainu'ddin, 1974:118). The Dutch refusal to break their monopoly and compete on the open market with British traders encouraged Company servants to tap the rich returns in the black market. The Dutch Company was could not compete with the English commercial power and was bankrupted.

Marx suggests that the decline of mercantilism was particularly evident 'in the history of the carrying trade, as among the Venetians, Genoese, Dutch, etc., where the principal gains were not ... made by exporting domestic products, but by promoting the exchange of products of commercially and otherwise economically undeveloped societies, and by exploiting both producing countries' (Marx, 1974:329). In his view, merchants' profits were dependent on the exploitation and lack of development of these undeveloped societies. This lack of development then became a source of disintegration for the carrying trade. The decline in 'merchant's capital wherever it rules over production is strikingly illustrated not only by the colonial economy (the so

called colonial system) in general, but quite specifically by the methods of the old Dutch East India Company' (Marx, 1974:329)

VOC Finale

In January 1795 France's European territorial expansion reached the Netherlands, and William V, the official Republic representative (Stadholder), took refuge in England. The Stadholder gave the English crown trusteeship responsibility over the East Indies for the duration of the war with France (van Klaveren, 1953:74-78). However, the Patriot government proceeded to declare the VOC charter of monopoly and tribulation at odds with the spirit of reform and revolution, and on December 31st 1799 assumed control of the VOC for the price of its debts (van Klaveren, 1953:76). This purchase signalled a brief respite from the Dutch oppression, and an era of liberal reform for Indonesians.

Conclusion

Holland's well-established financial and industrial system of textiles, fishing, shipping and ancillary industries Dutch economy can be characterised as the 'engine' that enabled the expansionist mercantilist regime to blossom into an international joint stock company, part-state and part-private corporate enterprise. This was the core mechanism underpinning the successful 'transplantation' of the processes of accumulation into Indonesia *via* a monopolist long-distance trading company. Contrary to the established view, the VOC's success was not solely or even substantially, a function of its military capacity and strength or of Calvinist dynamism. The Dutch Company's long-term entrenchment within the Indonesian political economy and its successful insinuation within the Indonesian political economy was primarily a factor of its mercantilist preoccupation with trade control rather than territorial domination.

Whilst this argument explains the substance of the Dutch successful trading intervention into Indonesia, the analysis points to the necessity for a more critical appreciation of the role of existing local political tensions within Indonesia that acted to facilitate Dutch corporate intervention. However, the following discussion shows that the Dutch' motivation in the exploitation and 'taking sides' with these internal

political conflicts was intended to promote corporate ambitions rather than achieve territorial conquest *per se*. Thus whilst their tactical support for particular political interests lead to the eventual control of the major trading ports, the corporate objective was to gain control over trade. This trade control led to an expanding production-control *via* the enforcement of the supply of particular commodities within the hinterlands of North Java. Dutch officials' political and economic insinuation into the ruling echelons of the traditional hierarchical system facilitated this production control and the creation of a surplus without the costs of reproduction of other unfree labour systems such as slavery. Day forcefully affirms the point that the Dutch exerted their rule through the indigenous elite by exploiting traditional Javanese customs of government and 'attaching itself like a parasite to Javanese society' (Day, 1966:3).

The direct trading between the Company and its European buyers in the centre was an exclusionary process in so far as Indonesian producers were concerned. The Dutch monopoly control over supply meant that the trading company effectively owned all the commodities that it produced for the export market whilst Indonesians were totally excluded from process of exchange and thus from any share of the value of Indonesian commodities. By excluding Indonesians from the exchange process, restricting them to the realm of cultivators and harvesters of their produce, the Company enforced direct control over the production process. This exclusionary resource extraction system enabled the VOC to grow from being 'small fish in the Eastern oceans at the start of the 17th Century, where in 1625 a Chinese junk could earn in a single shipment a tenth of the VOC's annual capital', to become by 1700 the only traders of Javanese commodities to world markets (Peacock, 1973: 38).

As the Dutch enforced their monopoly over trade and supply, the Indonesian elite and producers were incorporated into the production process, with the rulers effectively taking the role of production managers. This meant that Indonesian rulers were increasingly politically and financially dependent on the Dutch. A core element of this thesis' analysis of production and distribution-control systems is thus encapsulated in the Dutch' monopoly production-control. This is seen as the foundation for the consequent colonial-state system of production control and wealth appropriation.

The nature of this relationship is explicit in the colonial distinction between trade and production. This has been explained as in the analogy of the Dutch peripheral enterprise as the productive apparatus or 'factory', with the extraction 'overseers' the indigenous hierarchical system of surplus generation, and Dutch officials as 'management'. That is, the periphery can be characterised as an industrial system, with all traditional forms of open access to Indonesian product superseded by the trading monopoly, and all traditional forms of exchange in local *entrepôts* superseded by the Dutch imposition of monopoly production controls.

This relationship is explicit in the contradiction between the forms of exchange as applied in the periphery and that carried out in the European metropolitan trading centres. The essence of this transformation from the traditional indigenous trading system is evidenced through the eighteenth century European view that the Dutch company were paragons of ethical business practice, carrying out their exchange through 'free and unrestricted trade'. Thus 'the thing which most impressed observers in those states which still groaned under mercantile restrictions, was the comparative freedom of Dutch trade. It was a free trade conditioned by the requirements of an *entrepôt* system, and enabled by the fact that trading interests controlled government, preferring a sound economic policy to the fiscal considerations which were too often the deciding factor elsewhere' (Wilson, 1966:4).

Whilst this 'prudent conduct' by Dutch merchants and traders prevailed in the context of distribution and exchange, it clearly did not apply in the context of the production and extraction of Indonesian trade-commodities. Here, as with employment on sailing vessels or in manufacture, Indonesian producers were part of the system of production and excluded from the fruits of trade. The traditional leaders, by allowing the Dutch to usurp their process of tribute distribution, became part of the production process. They effectively supported the institution of the colonial process establishing the basis of a collective extraction. The peripheral state excluded indigenous interests in the application of political and economic control over the generation and appropriation of the country's surplus.

The silver specie given as largesse to the regents by the Dutch was a means of ensuring the maintenance of the indigenous rulers' prestige and relative wealth in the

process of preserving the system of surplus production and appropriation. The rulers' sinecures, pensions or emoluments were effectively payments to maintain their role as production agents for the Dutch. The fact that these payments were not regarded by the Dutch as payment for the supply of trade-commodities is affirmed by Bagchi's evidence that, whilst Hague records show there were extraction and transporting costs, there are no records of internal payments for exchange (Bagchi, 1982:xxi). In terms of the organisation of supply, treaties with regents determined the tribute required and the terms on which further trade was to be carried out. Trade-commodity supply '(forced deliveries) was fixed by the buyer, not the seller; and the amount to be delivered was also specified, whether it bore any relationship to the size of the annual crop or not'. Thus the forced deliveries were really 'tribute disguised as trade' (Zainu'ddin, 1974:108).

The forces driving the peripheral development and system of production control enabled the Dutch to defeat their trading rivals, but also created the internal contradictions and divisions that led to the Company's demise. Competitive dominance of the English industrial capitalist-based empire led the VOC to attempt to expand revenues by increasing the severity of extraction, but this led to a decline in productivity and political confrontation. Schrieke contends that with their 'short sighted' monopoly control the Dutch 'were blind to the fact that by undermining the purchasing power and prosperity of the people, they were killing the goose with the golden eggs' (Schrieke, 1957:72). 'The people ... became more and more averse to the Company - in whose monopoly they rightly saw a threat to their prosperity and traditional emoluments - because of the heavy service it demanded' (Schrieke, 1957:73). The collapse of the VOC heralded the formal introduction of colonial rule with Indonesia becoming Netherlands sovereign territory. The fundamental importance of the interaction between the forces of the centre and the forces of the periphery is seen in the way in which they defined a particular regime of foreign appropriation. The crucial importance of these defining factors is in the role that they played in engendering the subsequent system of colonial appropriation.

Chapter 2

The first phase of colonial intervention:

The Liberal eras and the Cultivation System

'Upon the back of Java, therefore, the Kingdom was kept afloat; Java's wealth, Dutch commerce and industry were revived and Dutch railways were built' (Tarling, 1966:120).

The transfer of VOC assets and liabilities to the Netherlands government marked the direct intervention of the Dutch state into Indonesia's politico-economy. The Dutch acquisition of the VOC 'property' has been often represented as solely a commercial transaction (Legge, 1977:82; May, 1978:18). This representation belies the immense economic political and social significance of the transfer. The significance of the transfer was the explicit and vastly expanded state-control over the apparatus of wealth production and appropriation. This is an extension of the continuing argument as established in Chapter 1 that, at least in terms of Indonesian participation, the colony was best regarded as being constituted as an enclosed and exclusionary system designed to 'order' the process of surplus-generation in the production of international market commodities. This characterisation pinpoints an essential difference with the established view, locating the Dutch East Indies as form of 'property' for metropolitan interests. The prime mechanism for the 'ordering' is seen in the way the colonial state imposed a system of social relations for surplus production and appropriation and enforced a widespread expansion of Dutch political as well as economic dominance in the archipelago.

This chapter develops an appreciation of this by examining the transformation from state-supported private corporate intervention under *De Heeren Zeventien's* trade administration policy to the direct state control of the indigenous system of social organisation for wealth production and distribution. How the state transformed the social relations of production to generate a surplus is considered in the context of the

interrelationship between the centre's ambitions and colonial politico-economic conditions.

The direct intervention of the Dutch state into the Indonesian political economy is represented as proceeding in two discrete phases: a part-liberal system of production organisation, followed by a consolidated and more intensive form of coerced cash-crop production. Orthodox economic scholars have argued that the latter form of surplus-production constituted a vital mechanism for locating Indonesia on a developmentalist trajectory by facilitating both the development of its productive base and engagement in world markets. I want to take issue with this view by developing an alternative interpretation that emphasises the Dutch efforts to assert control and management of Indonesia as a productive enterprise, and by examining this control as being specifically designed to exclude Indonesians from commodity markets and thereby foreclosing the opportunities for Indonesians realise and hold on to economic surplus.

In contrast with the dominant established appreciation of Indonesian politico-economic development, the chapter will also examine the character of established structures and institutions with a view to considering how these influenced the character of subsequent regimes' wealth production and distribution structures and institutions. This approach aims to avoid what is essentially an ahistorical analysis that poses the development of each regime or epoch almost wholly in terms of the nature of the regime being primarily a function of the form of rule and the associated policies specific to the respective periods as if these are completely historically self-contained. The interpretation advanced will emphasise the distinctive characteristics of the liberal vis-à-vis coercive production systems, with each system contributing vital components to define the unique character of subsequent regimes.

The liberal phase

French economic and strategic intervention

The immediate objective driving Dutch entrenchment of a secure state-regime within Indonesia was the strategic imperative to secure the major islands against attack from European imperialist competitors. This political and military consideration operated in

tandem with centre wealth-appropriation objectives, and is seen as a key factor in establishing the conditions for wealth appropriation. The first era of the liberal phase thus concerns the construction of the security infrastructure, the imposition of a new regime of wealth appropriation, and the challenges to indigenous rule implicit in this entrenchment of state power. The character of the resulting system was shaped and influenced by existing forces and conditions in the periphery. Thus the interaction between central and peripheral forces was a key determinant of the direction and character of peripheral colonial organisation, defining the form of production organisation imposed on the colony.

Centre ambitions and objectives

The Straits of Malacca were a crucial part of the major trade route joining Europe, India, China and Indonesia. Securing the Straits constituted a key strategic objective for European mercantilist empires. The European state able to secure territorial control over the major Indonesian islands of Java and Sumatra was in a powerful position to monopolise the European trade in Asian produce. As Holland's economic power declined, English and French governments fought for territorial control in the region.

With the Dutch Republicans supporting the French in Napoleon's march across Europe, their overthrow of Holland's monarchy meant that Indonesia became an outpost of the French empire. Napoleon appointed Marshall Daendels, of the Patriot (Napoleon supporters') Party, to govern Indonesia and construct a defence of Java against English territorial expansion. Daendels was commissioned to construct a defensive bulwark against attack and built a series of forts along the Northern Javan seaboard to defend the Malaccan Straits, and to construct a road from West to East Java (Zainu'ddin, 1968:119).

Operating conjointly with these defensive territorial operations, colonial administrators moved to buttress political and strategic control by expanding income from the export trade. This rekindled debates over the optimum means of generating an income from the Dutch East Indies (Tarling, 1966:158). Liberalism was now the dominant political and economic discourse in Holland, and French Revolutionary

values of humanity and ‘freedom in all forms of intercourse’ influenced the direction of colonial policy. From this perspective VOC monopoly systems and appropriation of the Indonesian hierarchical system of production-coercion and tribute were a straitjacket on producers’ self-motivation. They had to be demolished in favour of open labour and produce markets. Thus Van Hogendorp, a former governor of the NE coast province of Java, contended that trade must be separated from government and forced deliveries and that *heerendiensten* (compulsory tribute) must be abolished as an incentive to private investment in the cultivation of export crops. The aim was to replace ‘exploitation (as wage labour) for tribulation, laissez faire for feudalism’ (van Klaveren, 1953:77).

Peripheral forces countering liberal reforms

State and corporate policy-objectives devised in far-off Amsterdam often conflicted with the aspirations and ambitions of indigenous leaders, colonial officials and the expatriate community in Indonesia. The colonial expatriate ruling class had prospered from VOC appropriation and were threatened by reforms that destabilised or demolished systems of authority, prestige, and patronage.

Further, Governor Daendels saw that for export crop prices to rise to levels that would encourage producers to grow them, prices would be uncompetitive against the prices of other colonial suppliers employing coerced labour. Thus forced cultivations were retained for fear that to loosen the controls over the indigenous population would threaten surplus generation, and pose a threat to the value of the colony for the home country (Zainu’ddin, 1968: 119).

Liberal redefinition of social relations as exchange relations

Daendels retained state cultivations and labour coercion, but moved to undermine the regents’ traditional power and prestige by employing them as paid officials directly subordinate to the colonial state. Daendels built on this key change to traditional institutional relations by replacing the tributary system with a direct colonial tax. This consolidated the transition from the hierarchy of indigenous relations to the state’s direct extraction of a share of the surplus via taxes on the general population.

Pressures on the colonial state to generate finances to protect the colony from English takeover led Daendels to sell large areas of Javanese land (Zainu'ddin, 1968: 120). This alienation of Javanese land on the presumption that it was sovereign territory of the Dutch state instituted the distinction of the colonial use of Dutch law as related to property ownership, market and commercial relations, retaining traditional Muslim law (*adat*) for all other aspects of Indonesian life. This affirmed the separatist nature and role of colonial rule.

The demolition of the regents' status and authority was an affirmation of the Dutch' political, as well as economic, authority in Indonesia. The transformation of the regent into an official agent of Dutch signified that they had – by indirect means – achieved the territorial dominance sought, but not achieved, by the Portuguese. Land commodification and the replacement of indigenous cultural and social relations with direct Dutch state rule constituted a fundamental undermining of the mercantilist monopoly system of production organisation and control. As such it heralded a later penetration of market-driven production and distribution systems.

English imperial expansion in Indonesia

The continuity of the regime of appropriation was, however, constantly threatened as European powers continued to battle for political and economic supremacy. This struggle for world economic hegemony was reflected in the periphery, with the major protagonists, England and France, determined to expand their imperial boundaries, and exploit Indonesia's resources. By the late 18th Century, the English controlled the greater part of the Outer Islands' trade, and were in a strong position to control the Malacca Straits.

The exiled Dutch king had granted the English government trusteeship responsibility for the Dutch East Indies, and the English used this to justify an invasion of Java. As the Patriot colonial government moved to shore up defences on Java, an English naval fleet sailed from British Imperial Headquarters in Calcutta and attacked Patriot forces at Batavia. Daendels' removal of princely authority determined that the Patriots received no military support from the Javanese rulers, and the Dutch forces were

easily overthrown. The English installed former English East India Company official Thomas Stamford Raffles as Lieutenant Governor of Java and Madura.

The wars between European empires had precipitated yet another transfer of 'ownership' of Indonesia and its resources. The ambitions and dominant values of the English colonial regime are seen as key determinants of the processes of production organisation established to appropriate wealth from the country.

English liberal reformism

Raffles' idealism on behalf of the English empire was shown in a contemporary biographer's remark that the English occupied Indonesia to further the cause of 'liberty' in the region by 'wresting from her rival the islands that Napoleon's genius would have made the base of his designs on our Eastern possessions' (Boulger, 1897: 84). The reference to 'liberty' implies, however, that a more substantive objective of territorial occupation was the regional enforcement of free trade to further England's corporate objectives. Thus whilst it was politically expedient for England to represent the takeover of Java as a principled defence of free trade against French monopoly, a more fundamental economic objective was to extend world markets for English manufactures. Wertheim affirms this with his view that the raising of the British flag at Batavia signified: '[t]he British colonial expansion, largely directed by the rising need for a market felt by a developing young textile industry, had won a victory' (Wertheim, 1956:58).

Raffles was determined to institute greater changes than those introduced by Daendels, and to establish Java as another jewel in the British Crown. Lord Minto wrote that Raffles 'set himself with dogged determination to the task of showing that Java could be made as valuable a possession as any under the British crown; and that it might become the seat of an eastern empire extending throughout the Archipelago, and onwards to the ports of China and Japan' (Boulger, 1897:158).

Raffles believed this could be accomplished by replacing the remnants of mercantilist monopoly and labour-coercion with free enterprise. He considered that 'feudalism and fixed delivery is no security against oppression nor any excitement to industry. It

leads to degradation and migration' (Wurtzburg, 1954:284). He aimed to disengage the production system from its enforced supply of commodities to European markets as a colony, 'dependant on the state of a foreign market for the irregular and uncertain sale of its colonial produce' would be a drain on the Empire's resources and thus could not adequately develop its own productive potential' (Wertheim, 1969: 60). The peasantry should be freed from forced labour, as a peasant 'found insufficient incentive in the low and dwindling payment given for growing crops unfamiliar to him, not for his own needs but to satisfy the capricious requirements of foreign overseers' (Raffles, 1835:116)

To achieve colonial self-sufficiency Raffles established a land rental system with the native princes based on the British India *ryotwari* system. This derived fixed money revenue to the state based on land productivity (Tarling, 1966: 159). Raffles believed that revenue would expand from the extension of free peasant cultivation of export products like cotton or rice. He encouraged rural producers to grow what they wished and to sell in an open market at prevailing prices. All land was vested in the colonial government and leased to peasants for a rent paid in produce. This freed the peasant from forced deliveries and the granting of a net yield of the crop was intended to spur the producer to higher production that would enable the peasant to pay the tax, cover needs, and still reap a profit. Raffles imposed a severe tax: he asked half, a third or a fifth part of *sawah* crops and 2/5, 1/3 and 1/4 part of *tegalan*-crops, depending on the fertility of the soil (Wertheim, 1956: 92). This was effectively a tax on product but, as an occupying power, the English state determined sovereignty over the land and its ownership, how the wealth generated by the land was valued, and how the produce was distributed or sold (van Klaveren, 1953:90). The tax arrangements were made with the village headmen, and not the regents as under the VOC (Tarling, 1966: 159)

Whilst wages had been a means of payment for services since well before the Mataram empire, Fischer contends that Raffles was responsible for promoting the more widespread and regular use of wages, as opposed to payment-in-kind, as the usual form of exchange for land cultivation (Fischer, 1959: 23). Raffles' considered that '(the natives of Java) are neither so indolent as to refuse to labour when they feel that the fruits of it are their own' (Boulger, 1897:164). Suroyo affirms that, under

Raffles' regime, *heerendiensten* was vastly extended with the payment of wages to the landless as well as the land-owning peasantry (Suroyo, 1990: 154).

Valuing the produce of the land for tax purposes determined that land was increasingly valued as a commodity generating monetary value. The colonial government instituted this shift firstly by setting the quantum of tax as a proportion of the market value. This replaced the traditional system of obligatory peasant-contributions to the local ruler. This 'market mechanism' was later corrupted by the state when straitened circumstances led it to set land values above market prices. Secondly, the English government now owned land that was previously used by peasants and generating surplus for traditional rulers and owned by them per *adat* land law. Thirdly the monarchy/peasant tributary relation was now a market relation, with rent required to be paid by the peasants for the use of the land now owned by the state.

There was a negative impact here on the objective of land commodification to expand land available for cultivations. As taxes increasingly made land possession more of a burden, landowners converted their land to communal ownership to impose an equal division of the burden of tributes and services amongst villagers. The institutional change thus engendered two land ownership forms: communally owned land with fixed shares, and communal ownership with periodical redistribution of shares (van Klaveren, 1953:91).

Wertheim perceived Raffles' changes as precipitating a transformation of 'the feudal system of government into a modern Western bureaucratic hierarchy' (Wertheim, 1956:60). If we disregard the European connotations of the concept of 'feudalism', this is a useful conception of the changed power relations superseding the VOC's maintenance of traditional political control with an entrenched Western-state system of surplus extraction.

Raffles faced difficulties in abolishing forced labour and payments-in-kind within the limited time frame given to transform the Indonesian political economy. Allen and Donnithorne argue that there was an inadequate circulation of money to support Raffles' major reforms (Allen and Donnithorne, 1962:22). However, it was more

likely that the imperatives of generating expanded export income determined that, like Daendels, Raffles was obliged to maintain the VOC system of forced cultivations.

The end of the Raffles regime

England's defeat of Napoleon was followed by Indonesia's return to Dutch rule. Raffles' idealistic objectives for the colony evaporated in the face of England's strategic decision to establish good relations with Holland as a means of extending colonial sovereignty in other regions, and ending their trade-debilitating territorial disputes. Raffles was well aware that, rather than establishing the conditions for an improvement of Indonesians' economic opportunity as part of the British Empire's international idealism of free trade and free labour, he, and Indonesia, were pawns in the European imperial battles for political and economic supremacy.

English capital had extended its international division of labour to India, but the VOC's preoccupation with rural commodity appropriation had determined that Indonesia was not in the position to develop as a wage-based, capitalist enterprise and consumer based society. This determined a continuing colonial preoccupation with cash-crop coercion as a means of generating income for colonial self-sufficiency. The liberal era's immediate legacy of a deficit of ten million guilders became a colonial justification for the reintroduction of forced labour (Penders, 1977:10).

The return of the Dutch – the final Dutch liberal era

European war, civil war with Belgian separatists, the decline of its manufacturing industry, and the erosion of its *entrepôtal* position in Europe had debilitated the Netherland's economy. With England's defeat of the French and the consequent restoration of the East Indies to Dutch control, the Dutch determined to make the colony the major source of income for metropolitan development, and sought to maintain liberal forms of labour organisation for that end (Tarling, 1962:159).

The instability of political rule in Indonesia resulting from European-based imperialist battles was ended with the 1824 English-Dutch Treaty of London demarking Dutch and English territorial ownership with the Straits of Malacca as the dividing line. To the South was the Dutch Empire, to the North the British. Thus the Dutch exchanged

Malacca for Bencoolen and the Malayan *entrepôt* for Indonesia (Allen and Donnithorne, 1962:22).

In 1824 the King of Holland registered a new private joint-stock company, the Netherlands Trading Company (*Der Nederlandsche Handel-Maatschappij NHM*) giving it monopoly rights over private investment in the colony. This company was the commercial agent for more than two-thirds of Indonesian exports and all imports from the Netherlands. This enabled the Netherlands' reassertion of merchant power and reduced English shares in Indonesian trade (Utrecht, 1987:174).

The collapse in coffee prices resulting from an expanded Brazilian supply triggered the Dutch state's decision to protect Javan trade from British competition by reviving VOC treaties with Indonesian princes (Tarling, 1962:159; Day, 1966: 241). The NHM was given a monopoly of the buying, transporting and selling of Dutch East Indies government estate produce on the European market. This heralded the introduction of an expanded white settler class, both to help with supervising cash-crop production and to provide a secure initial market for European exports.

Whilst the post-Raffles regime maintained the role of the regency as paid agents of commodity production, they gradually dismantled liberal producer organisation systems on the presumption that liberalism had been tried and failed. It was considered necessary to reassert strong centralised control over producers and the production system (Tarling, 1962:159).

However, further changes to the mechanism of extraction were postponed when Javan princes rebelled against the liberal-era dismantling of their traditional powers, status and authority (Wertheim, 1956:51). In 1825 Governor General van der Capellen discovered that many private Dutch and Chinese estate-owners were leasing land from village leaders and employing peasants to work the export commodity crops (Spruyt and Robertson, 1972: 110). This violated colonial law enacted to protect government enterprise. Van der Capellan's cancellation of the leasing and employment arrangements in those princely territories that had given seigniorial rights to European planters was seen as a violation of local autonomy and sparked a major war against the Dutch (Tarling, 1962:159). With the replacement of salaries in lieu of

the customary tributes of labour and produce, regents passed on their increased costs to the peasants by increasing peasant services and forced tribute. This ‘paradoxically, produced widespread support for a princely revolt against the Dutch’ (Tarling, 1962:159). In 1825 members of the Javanese princely courts led by Jogjanese Prince Diponegoro took up arms against Dutch rule, launching a rebellion that took Dutch forces five years to repress.

The liberal era: summary

The liberal interregnum was characterised by the establishment and entrenchment of a permanent system of rule on behalf of colonial interests. This replaced the VOC transient policy of immediate profit (Day, 1966:130). The state rule incorporated some dismantling of collective labour control, the widespread implementation of wage-relations, and the breaking down of traditional hierarchical social relations. The state facilitated private extraction by maintaining the VOC institutional structure of appropriation, by codifying structures of labour regulation and enforcement, and establishing a legal and commercial infrastructure to enforce control over surplus production. This marked the transition from the corporation as state, to an entrenched state apparatus for the institutionalisation of cultivation control.

The key mechanism of change was the replacement of traditional social relationship of surplus-as-tribute with the direct extraction of a surplus by the state and private companies. The liberal preoccupations determined that the concept of land ownership by right of ruler sovereignty was transformed firstly to a foreign sovereign, then into a commodity of financial value. The principle force driving the establishment and extension of this state control were the European battles for imperial political and economic dominance, and in particular, England’s struggle to attain world political and economic hegemony. Indonesia was drawn into this struggle as a pawn in the regional strategy for territorial dominance. England’s decision to resolve the struggle with Holland in order to pursue its other territorial ambitions meant that Indonesia was formally returned to Dutch control in return for free trade and open access through the Malacca Straits.

The battles for territorial dominance in the region determined that the priorities for Indonesian development were for colonial financial self-sufficiency and the

construction of defensive infrastructure. These war imperatives formed the basis for a strong state entrenchment within the Indonesian political economy, establishing the infrastructure and enforcement apparatus to repress internal dissent and regulate production.

The conservative phase – the Cultivation System

‘With the Cultivation System den Bosch struck gold in Java like Moses struck water from the rock in the arid desert’ (Fasseur, 1992:24).

Declining colonial returns and Indonesians’ animosity towards Dutch rule that culminated in the five-year Javan war were the deciding factors driving a Dutch reassessment of their system of colonial appropriation. They considered control over the production apparatus could be best achieved, and surplus-extraction maximised, by re-establishing the indigenous social structures on which the VOC imposed its appropriation regime. The Dutch believed by dismantling the traditional systems of law and custom the liberal regimes had removed the key agency of indigenous hierarchical rule as the principal source of the VOC’s profits. This precipitated the reintroduction of a system of dual political administration with the Dutch-state as ‘big brother’ guiding the Indonesian rulers as ‘younger brother’ in the production of a surplus for the centre.

This distinction between indigenous political authority and foreign economic control is examined in terms of the way in which the state entrenched its political and economic authority. The primary focus is on how the state built an expanded apparatus of production organisation and labour regulation employing the indigenous hierarchical system of tributary relations. The key issue is the impact of this intervention on the organisation of labour and the development of wage-relations in Indonesia.

The impact of the centre on the periphery

The Netherland’s economy was devastated by European wars and the costs of the Java War (Suroyo, 1993: 151). The metropolitan state envisaged that by readdressing the processes of appropriation from the colony, its profitability could be restored and

the Netherland's financial problems overcome. King William 1st charged Johannes van den Bosch with the task of restoring colonial profitability. The King gave den Bosch the imprimatur to carry out the financial role of banker to the Dutch Government. He was given the authority to grant loans on the security of future crops. To support the redevelopment of the colonial property, den Bosch took to Indonesia two million guilders in cash with the authority to obtain another two million on credit.

The Dutch King's confidence in den Bosch' ability to return a profit from the East Indies was based on den Bosch' experience in enforcing labour-discipline as Commissioner-General of the Dutch slave-colony of Suriname in the West Indies. Den Bosch had generated substantial profits for the Netherland's state from the colony. He considered liberal regimes to be less productive than slave regimes and that the VOC's coercion system showed the potential for even greater profit. He calculated that if the costs of reproducing labour were not to be borne by their owners – as they were under slavery – but by the village community, a forced labour system was potentially more profitable than slavery.

The major shift in labour control within the Dutch East Indies was engendered by the state's concerns with political disorder. The lengthy battle with Prince Diponegoro and the eruption of other princely rebellions across the archipelago had created a concern amongst metropolitan decision-makers that liberalism, by allowing 'native' economic autonomy, represented a political threat to colonial control. The Dutch committed substantial resources to repressing the opposition, and sought a mechanism for the restoration of long-term economic as well as political control. They determined to employ the peasantry to work state plantations on the lines of the VOC Priangan-region system of compulsory coffee production. The regime was determined to preclude indigenous producers from a share of the export market earnings, and prevented peasants from cultivating export crops for private sale.

Institutions of colonial control

A key component of den Bosch' program was the rejection of market forces in favour of the re-establishment of traditional systems of production organisation. He focused on what he perceived to be the two key social institutions underpinning indigenous

production organisation: indigenous hierarchical rule and village organisation. He determined to reinstate much of the regents' authority, position and prestige, and re-engage them in the task of political rule through the re-establishment of tributary and hierarchical relations. Den Bosch' role for the regents was clear. He argued '[s]urely it should be easy to prove that we can govern the Javanese only through the medium of their own chiefs...' (Penders, 1977:10).

The Dutch believed that production could be maximised by reinstating the regent's right to impose tributary demands on the peasantry. Village life with its social institutions and customs was thought to provide a political haven from external pressures and as such to be cultivated as part of the Dutch imperative to restore traditional social relations. Den Bosch' objective was to employ this social infrastructure to maximise appropriation and minimise social conflict. Accordingly the Dutch determined to remove all aspects of western 'interference' in village life.² Den Bosch' rejection of wage-relations in favour of traditional village systems of production organisation through social custom (*adat*), and compulsory unpaid service for the regent (*corvee*) constituted, however, the core element of social regulation for production organisation under the Cultivation System.

Den Bosch' policy of providing regents and the native rulers or village headmen with a stake in the production monopoly by granting a share of the produce ('a culture-percentage') ensured that the regents enforced the intermediary labour and crop supply agreements between government and the people. These land-rent agreements involved labour contracts in which local authorities leased village land along with its inhabitants to non-Indonesians, generally European, planters. The planter could then demand compulsory labour and the production of specified amounts of particular crops. However, during this period the government was practically the sole planter and the Netherlands Trading Dutch Company (NHM) the sole agent (Lyon, 1970:6).

² Later chapters consider the veracity of den Bosch' conception of the village as a 'natural' component of indigenous social organisation.

Colonial controls enforcing surplus production

Land control

Den Bosch' political and strategic approach was to maintain the mystique of traditional rule in a traditional environment, whilst ensuring that all productive land was effectively controlled by the state. This effectively wiped out individual or common ownership of *desahs* that began to flourish in the liberal era. Communal ownership was replaced with redistributive ownership of *desahs* as government obligations eroded land's traditional value as a privilege. Where Dutch officials forced the production of world-market cultivations past the point where producers could generate adequate supplies of subsistence crops, or in situations where oppressive conditions and penalties for non-compliance determined it, the villagers migrated to ever more remote regions away from intensive Dutch control.

The Dutch state had granted den Bosch comprehensive powers to implement his schemes to force villagers to cultivate tropical export crops. He ordered the assessment of Javan cultivation areas and according to conditions, altitude, and climate introduced, maintained and extended cultures. The resident allocated his assessment among districts and villages. Bosch ordered the planting of fixed areas of villagers' own holdings with an export product and to deliver this product to the government at a low rate. The state employed police officials to enforce this production.

For coffee cultivation the government supplied the land and the villages provided workers. Sugar workers were paid in proportion to the amount of sugar manufactured from the cane they grew, and received extra payments for harvesting, transport and factory labour - usually as forced labour. For sugar and indigo the villages had to give up part of their *sawahs* (rice-cultivation land).

The state demanded that new crops be cultivated, most notably, indigo, tea, cochineal, tobacco, and silk, with the largest continuing to be coffee. Sugar was the second largest crop as it required more machinery and thus more of the limited capital (Tarling, 1966:161). Sugar and indigo were grown on irrigated fields and rotated around the available rice fields so that before each was planted, peasants had to tear

down the intricate arrangement of dykes and channels which previously serviced rice crops, and prepare large garden tracts for planting cane or indigo cuttings. Sugar fields were often organised in large complexes worked by a number of villages together. The authority of the state and European influence had now reached out into individual *desahs*, enabling the expanded domination of the regents.

Whilst sugar was well suited for cultivation on rice sawahs, coffee was grown on 'waste' or uncultivated lands, and the government assumed full control over these. The shift in land use from *sawah* to sugar and indigo led to a vast expansion of cultivations into the hinterlands. The restriction of sugar cultivation to existing sawah and the total control of sugar cultivation on state-owned uncultivated regions inhibited individual commercial opportunities for the Javanese peasants (Tarling, 1966:161). Villagers were forced to allocate 20 per cent of village lands on *sawhas* and on uncultivated lands for the production of specified commercial crops for delivery to the state. They were forced to provide 66 days of labour per year to work on these state plantations.

Compulsory labour duties were extended as an obligation for each village household, manual labourer and merchant, independent of land ownership (Suroyo, 1990:154). As the result of these expanded state cultivations, much of lowland Java thus became a 'virtual state sugar plantation', with the value of sugar exports from the Indies in 1840 making up 77.4 per cent of the total value of exports (Robison, 1986:12).

The state enforced the reclamation and distribution of land to provide a means of supporting an expanded workforce. These people contributed compulsory labour and could use the land for subsistence production, thus reducing the state's payment of wages (Suroyo, 1990: 155). Suroyo argues that whilst this created an expanded 'peasantisation' in the early years of the Cultivation System, by the latter half of the century as available land for distribution declined, a landless class of peasantry was forced into the labour market (Suroyo, 1990: 156).

State legal apparatus

To enforce state orders on cultivation production the Dutch meted out corporal punishment to those village chiefs who did not comply with cultivation orders, and in turn, the chiefs punished the villagers. General punishment for non-compliance included banishment, rotan and chain lashings, forced labour, and being chained by the feet - on Javanese chiefs for 'laziness' and 'sluggishness' in the task of forcing people to expand surplus production of prescribed crops (Alatas, 1977:66). Van Soest described examples of punishment as 'prison, 25 lashes with the cane, hanging of the victim by the thumbs from a tree, fastening on a wooden cross for one night, eating horse faeces' (van Klaveren, 1953:121). Between 1862 and 1863, the courts ordered 3 474,375 beatings be carried out (van Klaveren, 1953:121). Flight was frequent, but often women and children remained who then were subject to punishment until the men returned.

In the era of the Cultivation System western plantations employed forced labour and reduced the wages to less than subsistence. Female tea-leave pickers were paid one-and-one half cent per day, whilst a Dutch plantation administrator's salary amounted to 500 guilders a month (Utrecht, 1976:176). Dissenting villagers were imprisoned, and under the principle of 'mutual obligation' were obliged to contribute towards the costs of imprisonment by building roads, bridges and irrigation works.

The controlling ethos

A consistent theme of Dutch rule was the dominant ruling ethos that colonial extraction was justifiable because it brought western values of productive dynamism to native peoples not self-motivated to create the conditions for their own economic development. It was alleged they lacked self-motivation, and were insufficiently intellectually developed to be productive workers (Hussein, 1977:61). In 1830 Den Bosch remarked 'never forget that the Javan has progressed no further in intellectual terms than our children of twelve or thirteen years old, and possesses even much less knowledge than they do' (Elson, 1986:139). Den Bosch considered that this was an admirable characteristic for the colonial project as the Javanese 'habit of submission and obedience', made 'many things possible here (in Indonesia) which elsewhere would be fraught with great difficulties' (Elson, 1986:140). However, as the

Javanese were considered to be childlike and lazy ‘with neither the initiative nor the inclination to voluntarily cultivate export crops like coffee and sugar’ thus ‘they must be led and governed as children’ (Elson, 1986:140). Given Indonesians’ ‘childlike respect’ for traditional authority, it was appropriate for them to be ‘led and governed’ by their own leaders (Elson, 1986:140).

These attitudes constituted the basis of an ethical environment justifying the imposition of strict regulatory and disciplinary controls over Indonesian labour. Thus, force was necessary as it brought ‘the habits of steady industry and the art of scientific cultivation’ (Wallace, 1874:74).

The Cultivation System was justified in terms of redefined notions of the nature of work. It was said to have brought the morally uplifting and character-building virtue of labour to a backward and indolent race. The belief in the racial superiority of Europeans was a key rationale supporting the reinstatement of regent authority and the hierarchical divisions of this social structure. Colonial officials constituted a further, upper, stratum of rule imposed on the traditional hierarchy of caste distinction.

Den Bosch argued that tribute had been a usual component of the peasantry’s traditional responsibility. The presumption was that the peasantry delivered a portion of their production to a higher authority and worked part of each year at tasks designated by their superiors ‘as an expression of social solidarity and supportive of the hierarchical social order’ (Van Niel, 1990: 73).

The European colonialists made a strong distinction between the work-inclinations of the Chinese and of the Javanese. The distinction justified the coercion of the Javanese and positioning of the Chinese in the colonial segmented and hierarchical system as financial intermediaries, where ‘[t]hey were as indispensable to the Dutch as Dutch rule was to them (Zain’uddin, 1968:116)’. Zain’uddin points to the powerful influence of the Chinese in trade and commerce, and notes their industriousness as they sought to build a niche in a remote social environment. This supported the Europeans’ view of the comparative laziness of the indigenous peasant ‘secure in his traditional role within the village community’ (Zain’uddin, 1968:116). She contends that this

supported the myth of the industrious ‘Chinese and the lazy Javanese or Malay, on which was built the whole edifice of forced delivery’ (Zain’uddin, 1968:116). This echoes Raffles belief that Indonesians lack of enthusiasm for producing export crops for the Dutch was a function of the income received rather than ‘natural indolence’. Day believed that the natives only worked because they were forced to, ‘not because they wanted to, in fear of punishment and not for hope of reward ... The peasants had been watching the merchant boats take their produce to Holland and return empty-handed: why shouldn’t they let them go away in the same condition?’ (Day, 1966:353).

Income for Holland

The Cultivation System’s large-scale exploitation of the peasantry created enormous profits for the Dutch metropolis. More than half of the agrarian-sector population was directly involved in government plantation production in 1840, but the total land cultivated was only 6 per cent of Java (Suroyo, 1993:150). Most of the surplus was exported from the 1830s thus the export and fiscal surpluses and the drain from Indonesia in terms of remitted profits and other outward capital flows ‘had few parallels elsewhere in the colonial world’ (Booth, 1990:294).

Between 1831 and 1877, 832.4 million guilders in budget surpluses were remitted from the Indies to Holland (Penders, 1977:7). Total exports increased from 12.9 million florins in 1830 to 74.2 million florins in 1840, with 80 per cent consisting of coffee (Allen and Donnithorne, 1962:23). The export of sugar and coffee earned approximately 97 per cent of the Cultivation System’s estimated profits (Caldwell, 1968:47).

Table 2.1: ‘Batig slot’ (profit) from the Cultivation System in Java

Years	Total profit to Netherlands (Million guilders)	% of Dutch national income
1833 – 40	75.9	35.3
1840 – 45	75.7	19.3
1845 – 50	70.6	27.0
1850 – 55	80.6	29.4
1855 – 60	139.8	50.7
1860 – 65	126.8	56.8
1865 – 70	91.3	27.5
1870 – 75	65.0	17.2

Source: Utrecht, 1987: 175

Metropolitan pressures for change

The price of the Cultivation System of wealth-extraction was Indonesian economic stagnation. Between 1830 and 1900 growth within Indonesia was less than 2 per cent per annum (Booth, 1990:294). Den Bosch’ condition that only a fifth of the rice fields of a village should be used for cultivating cash crops was generally disregarded, and the demand for compulsory labour was extended from 66 to 240 days per year for particular cultures (Alatas, 1977: 63). The regents were pressured to maximise profits regardless of the deleterious impacts on the peasantry, and this overrode the checks and balances of the pre-colonial *adat* law limiting surplus appropriation to bearable, and reproducible, levels. For the first two decades of its operation the system ensured that the peasantry provided as much as four or five times the amount of labour customarily demanded before 1830 (Alatas, 1977:28).

Fixed-tribute forced-cultivation of world market crops was carried out at the expense of subsistence cropping. The surplus drained from the country led to a decline in local income and subsistence production causing widespread starvation amongst an increasingly resentful population. Large numbers of peasants were driven to emigrate to areas where the culture system was not in force (Penders, 1977:8). Thus the

control that the Dutch could exert was limited by the marginal point of extraction where 'they preferred flight' (Zainu'ddin, 1968: 109). Thus the overall effect of the first regime of coercion was to reduce surplus production of world-market commodities, both by forcing producers to migrate from Dutch controlled areas, and destroying producers' motivation to cultivate world market crops in those areas, even in the face of dire penalty.

News of the chronic famine and poverty engendered by the Cultivation System reached Holland and was publicised in the press and parliament. The immiserisation of the population was seen by many critics and especially by the increasingly vocal liberals in Holland as the inevitable consequence of the labour coercion and monopoly trade of the Cultivation System. The idea that the 'native' was a victim of the system of forced labour gathered momentum with the wide distribution of a 1860 book exposing the Cultivation System's harsh regime to an apparently previously largely unaware metropolitan public. Former Dutch East Indies state-official Douwes Dekker published *Max Havelaar* as an attack on the Netherland's citizens complacency over their colonial government's system of labour coercion claiming that 'it is a fact that very few Europeans think it worth their trouble to stoop and observe the emotions of those coffee and sugar-producing machines we call "natives"' (Dekker, 1967:73).

However, Dutch liberals were in a dilemma. The removal of the Cultivation System was a threat to Holland's income, and liberals argued for a gradual change on the basis of maintaining profits from the colony. In 1851 a prominent liberal, Van Hoevell, foreshadowed a fundamental condition for the dismantling of state-interventionist controls over wealth appropriation and labour coercion. He argued that the Cultivation System was indispensable, 'not only for the Netherlands but also to bring Java to a state of development and prosperity by ushering in a social environment in which private entrepreneurs and investors would be able to assume the role of government and its officials' (Fasseur, 1992:123).

Thus the key issue underpinning liberal ambitions for the Dutch East Indies was not the moral propriety of the Netherlands living on wealth generated from the immiserisation of the Indies population. The issue revolved around 'which system would bring, directly or indirectly, the most benefits: the system in which the

government acted as producer and entrepreneur or a state of affairs in which it was not agriculture “on high authority” but “free labour” that made Java productive for the benefit of the mother country’ (Fasseur, 1992:161).

The advocates for expanded opportunities for private-enterprise in the colony believed that ‘free labour’ employment would motivate Indonesians to be more productive and thus create more profits for investors and revenue for the state from charges and taxes. They argued the state’s monopoly and restrictions on private activity reflected colonial officials’ ‘lack of intelligence, and narrowness’, and that the state was ‘jealously’ hoarding the opportunities that should have been made available for private accumulation (Fasseur, 1992:105). In 1851 a prominent liberal member of the Dutch parliament affirmed the principle of private corporate prerogative. He advised the government ‘to relinquish as quickly as possible the improper role of ‘planter and merchant’ and to limit itself to the role of ‘sovereign’. ‘Freed from the burden of the government cultivations, the Javanese people would seek their own advantage in “free labour”, as a result of which production and various taxation yields would increase considerably’ (Fasseur, 1992:105). Declining profits were a decisive factor triggering the rise of an expanded private corporate intervention, and declining role of the forced-cultivations system (Zainu’ddin, 1968: 161).

Conclusion

A major conceptual theme of this research is that colonial rule was primarily dedicated towards extracting a surplus from Indonesia, and the colonial state was the prime agency for turning the productive base to this end. The way in which producers were organised and regulated was determined by central political and economic ambitions in an interaction with existing political and economic conditions in the periphery. With Holland’s economic decline, especially in the face of England’s supremacy in terms of trade competitiveness and industrial productivity, the colony was seen as the primary means of restoring metropolitan fortunes. This was solely through a continuing role as ‘milch cow’ for commodity extraction as the Netherlands was in no position to implement the sorts of imperial economic ties that provided England’s manufacturers with colonial consumer markets. Thus the metropolitan

agenda for Indonesia remained as a resource-supplier rather than a market for European goods.

In the periphery the Javan war was a salutary experience to the colonial state that they held a precarious grip on Indonesia. The eventual costly military repression of dissidents convinced the state to impose a vastly extended and enforced colonial administrative system for the extraction of Indonesia's resources.

These factors influenced the Netherlands' government to pursue its profit ambitions by rejecting *laissez-faire* market relations and reinstating the system of labour coercion as applied under the VOC mercantilist system. The substantive difference with the VOC's cash-crop-coercion system was that the state had largely subdued political opposition and imposed territorial sovereignty. The VOC shareholder-driven imperatives of corporate extraction were now replaced by the state institutionalisation of production control. Coercion was to be underpinned with a vastly expanded and strengthened administrative and enforcement apparatus. The pro-consuls' early imperative for the state to seize territorial control was finally accomplished.

This analysis rejects the benevolent paternalist perspective that the coercive system provided Indonesians with the opportunity to participate in world markets. From this perspective the economic policies of the colonial state established the conditions for the development of an indigenous economic autonomy. Booth's analysis is perhaps the best example of this perspective. For Booth, the Cultivation System drew 'many millions of Indonesians into increasing dependence on the world economy for their livelihood' thus enabling a 'closer engagement in the world economy' and (implicitly) national economic development (Booth, 1990:274).

There was no doubt that Indonesians were increasingly affected by variations in world market demand resulting from an increasing economic dependency on forced cultivations. This, however, was an enforced dependency whereby their opportunities for survival in the face of a decline in market demand were vastly reduced given a decline in subsistence production. Further, Indonesians' engagement with the world economy was solely via the Dutch, as they had no ownership of their produce, nor gained market-returns. The conceptual understanding of an exclusionary process at

work serves to illuminate the distinction between a colonial engagement, as Dutch realisation of Indonesians surplus production, and an indigenous engagement, as producers of surplus for the centre.

A further major theme of this research is that each phase of colonial organisation established particular conditions for, and defined the character of, subsequent political and economic regimes. In this understanding the Cultivation System's importance for Indonesia's economic development did not – as perceived by Booth – reside in the fact of the regime's productivity. Whilst increased productivity was certainly a major characteristic of the System, in this research its importance was in the way in which it established the conditions for the subsequent system of private capital accumulation. The state is seen as playing a fundamental role in exerting control over the productive apparatus and enforcing the production of a surplus. Both the apparatus and the surplus are seen as crucial determinants of the subsequent capital accumulation. The prime means of establishing the basis of control was the reinstatement of indigenous rule as a key means of enforcing labour control. Den Bosch' major accomplishment in the history of the development of processes of capital accumulation in Indonesia was thus his transformation of the village social organisation into a production system, with the central-state as owner, the regent as agent for the state, and the village community as the workforce or labour power.

This system of production organisation based on forced deliveries at fixed prices, and the re-establishment of the indigenous elite as production controllers, consolidated the colonial exclusionary system. Indonesians carried out the production and the Dutch owned the product and realised it through their market systems. The colonial state had thereby established the conditions for the enforcement of private capital and metropolitan-state appropriation ambitions for Indonesia.

Chapter 3

The Corporate Plantation system 1870-1912

“Colonial industry dispensed with forced labour in the later 19th Century and replaced it with a new, more subtle and more purely wage-labour economic form of coercion, grounded in the deepening poverty and dependence of the Javanese peasantry” (Elson, 1986:142).

The Cultivation System entrenched colonial wealth extraction by reimposing forced-labour as the core element of the surplus production apparatus. This post Javan-war rejection of the ‘liberal reformist’ private appropriation agenda brought into sharp focus the state’s imperative to not only enforce the production of wealth for the metropolis, but to underpin that enforcement by instituting an inflexible system of social as well as economic control. The continuing theme of the crucial role played by the state in facilitating wealth production and appropriation is illuminated in this chapter’s exposition of the return of private (plantation) production enabled by the Cultivation System’s regaining of political and economic control over Indonesia’s production system. It describes the process by which the state facilitated private accumulation by establishing the necessary infrastructure and securing a supply of production factors necessary for the private cultivation of export crops. Again, the analysis focuses on labour as the linchpin for private capital accumulation.

The Cultivation System’s consequent re-establishment of the productive conditions enabling Indonesia to be once again a highly profitable resource for Holland reawakened European interest in investing in all sectors related to primary commodity production and distribution. The resulting capitalisation of the Indonesian agricultural sector is examined in terms of its role in defining Indonesia’s late 19th Century transition to capitalist production relations. This analysis thus considers the Corporate Plantation era as part of a developing process based on the colonial foundations of territorial expansion and labour coercion.

Prefaced by a nearly two century private corporate intervention with the VOC as surrogate state, these foundations were set in place by the state as a primary condition for private accumulation. In the first instance primary industry accumulation required a secure and expanded supply of arable land for cultivations. Again the state is seen to play a vital role in facilitating the transformation of village subsistence lands to private ownership, and dismantling the traditional cultural ties on land use.

This process is considered in the context of metropolitan political and class determinants of Indonesian economic development, and the way these interrelated with the forces operating in the periphery. The resulting growth of commercial institutions and part-processing industry supporting corporate plantation expansion foreshadows a developing competitive tension between segments of capital. This is investigated in the context of a takeover of small planter concerns by limited companies, and the competition between established planter interests and manufacturing companies for low cost, strongly controlled, labour.

Whilst the processes of labour regulation are seen in the following exposition as a crucial element of private accumulation, the enforcement of a ready supply of labour and land is also seen as a function of the state commodification of land. This argument will be developed within the context of the introduction of the Agrarian Law and associated restrictions on indigenous economic autonomy.

In a further counter to the established literature and building on the 'continuity across epochs' theme, the chapter will examine the role of the state in facilitating private accumulation. The major proposition to be considered is the extent to which this provided the basis for a continuing security of wealth production and appropriation. The threats to this security are investigated in the contexts of a growing political opposition to foreign ownership and economic control, and the shift in colonial priorities away from direct engagement in wealth appropriation to the facilitation of private accumulation. This foreshadows an analysis of the state's role both in addressing the counter pressures of private corporate ambition and popular discontent. At all stages, however, and in contradistinction to the established perspectives, the discourse encapsulates an appreciation of the core role of the state in the direct 'hands on' facilitation of private capital accumulation.

The transitional role of the Cultivation System

Whilst much of the literature suggests the shift to market-driven liberalism from a paternalistic system of collective coercion was a remarkable about-face in colonial administration, an alternative critique suggests that the expanded private capital accumulation of this era was a logical development in processes of capital accumulation. In the former understanding, the new wave of liberal thought engendered a changed political discourse triggering the state's demolition of what was perceived to have been an anachronistic system of labour repression. Robison perceives the Cultivation System as having denied Indonesia the mid-19th Century acceleration of world-market production causing it to stagnate in a 'frozen, pre-capitalist mode', where 'existing Javanese agrarian relations of production' were consolidated (Knight, 1982:148). In this scenario the liberal changes to the Cultivation System reflected the state's sudden appreciation 'that the "character" or "nature" of Javanese villagers (i.e. as 'lazy', 'intransigent' etc. A.M.) was not necessarily an immutable given, but a result of the way in which their lives were organised' (Elson, 1986:155).

It is argued that the concept of a change from a 'frozen mode' via an 'awakening' does not illuminate the fundamental political economy processes resulting from the Cultivation System, nor contribute towards an understanding of the forces driving the change to the Cultivation System of colonial appropriation. A conceptual focus on the sphere of political relations gives no inkling as to why and how private capital could build a massive private corporate system from a 'frozen' mode. Instead, a focus on the political and economic organisation of the Cultivation System shows the importance of the regime as a mechanism of dynamic development that created the necessary foundations for an expanded western private capitalist intervention in the Indonesian political economy. The major considerations are the character of the particular economic interests seen to determine the policy changes, the advantages accruing to those interests as a result of the conditions of production organisation set in place by the Cultivation System, and thus the importance of that system for an expanded private capital intervention in Indonesia.

The political pressure to allow an expanded private corporate intervention in Indonesia came from existing western interests in the colony and European-based investors. Parliamentary debates indicated that the Netherlands government's priority was to retain the colony as a major source of income whilst attempting to ameliorate the harsh living and working conditions that jeopardised labour reproduction under the Cultivation System. The second objective was to be accomplished by giving land-ownership security to Indonesians and replacing coercion with wage-market regulation. Indigenous and state needs were to be 'balanced' against the imperative of giving 'equal' consideration to western agricultural companies' corporate ambitions (Booth, 1997:29).

Zainu'ddin suggests there were other corporate interests driving corporate expansion in the colony. She points to the fact that the Netherlands' loss of the more highly industrialised areas of southern Holland to Belgium caused the Dutch state to employ wealth generated by the Cultivation System to support industrial development in the north of Holland (Zainu'ddin, 1968:139). The financial accumulation from these industries generated the investment capital driving greater private economic penetration in the periphery. This process was limited to the late 19th Century opening up of new Outer Island areas to extract the raw materials needed for European industrialisation, especially rubber, oil, and tin (Zainu'ddin, 1974:139). In this view, the political decline of mercantilist dominance in the face of the growing power of private corporate interests in Holland led to the state encouragement of private investment in the colony.

Whilst there is no doubt that this capital investment was a vital factor in the expansion of the system of private corporate accumulation in Indonesia, the political pressure for the state to provide greater opportunities for private investment began in the mid century whilst surpluses from Dutch manufacturing arose at the end of the century. A more critical analysis of events suggests that, whilst many forces determined the rise of the corporate sector and the gradual demise of the Cultivation System, the prime instigators of change were the European plantation and processing-mill owners in Indonesia. Government sugar contractors led the political campaign to expand their operations and these were followed by the 'agency houses, which had never ceased to exist in Java and thrived under the Cultivation System' (Van Niel, 1990:86). The

agency houses believed that they could gain greater profits from their enterprise than with the 'patronage-ridden government system' (Van Niel, 1990:86).

It should be emphasised that the existing European plantation and processing proprietors' pressure to liberalise the system had the primary objective of, and was limited to, the expansion of corporate opportunity. Thus liberalisation was not intended to apply to the system of labour regulation. We recall that the labour-coercion aspect of the Cultivation System was a response to the private companies' inability to enforce discipline over the workforce. When Van Hoeyvell proposed the dismantling of the system of labour coercion in the mid-19th Century, this was only on the condition that the colony had reached a stage of development where private entrepreneurs and investors could 'assume the role of government and its officials' (Fasseur, 1992:123). In other words the state had to establish the apparatus of labour and social control as a precursor for private accumulation.

The continuing role of the state in maintaining the conditions for appropriation clearly indicated that there was no sudden about-face from labour-coercion to market liberalism. More particularly it shows that senior figures of the metropolitan establishment had in mind that labour-coercion was a finite employment-regulating device that would cease once the state had established full control over society and the production system. In fact, from the earliest stages of the den Bosch regime, government considered that private processing companies were sufficiently financially independent to operate without the need of forced labour. Thus as early as 1834 the government had indicated to private processing factory employers they should attempt to obtain and regulate their own supply of labour (Elson, 1986:143). The objective was to 'wean' the private employers away from the 'nurturing' state-subsidy of cheap or no-cost labour. Employers' succeeded in pressuring the government to stall this reform, and coerced labour remained the mainstay of private plantation surplus extraction until the mid-1850s.

This evidence of continuity in the development of a private corporate regime of appropriation supports a key conceptual theme of this research – that the developing processes of production-system control are primarily determined by the conditions required for capital accumulation. Once these conditions were established, the

Cultivation System of production organisation and labour regulation could then be dismantled in favour of an expanded private corporate intervention. The necessary conditions for this intervention included a state-imposed apparatus of social and labour control, the extended commodification of land and the effective application of the labour market as a system of labour regulation.

Expanded private corporate investment

The process of extended private corporate intervention was to focus on corporate plantations, with expanded output fuelling a growth of private value-adding manufacturing companies primarily in sugar production. The state instituted a variety of incentives, protectionist measures, and concessions to encourage European investment in this industry. These included interest-free loans, cheap materials and forced labour. As a result, by the late 1840s nearly a hundred sugar factories had commenced operation in east and central Java (Knight, 1982:132).

The colonial state subsidised private sector development by supplying forced labour for cultivation, harvesting, transportation of crops to the processor; for the construction of the infrastructure to facilitate transport, such as ports and roads; for the construction and supply of capital goods for factories, such as building, woodcutting for the mill steam-engines, for factory work; and the transportation and loading of processed commodities to the ports and onto the ships (Ingleson, 1986:19). Labour mobility was advanced through an expanded transport system. The trunk roads built in the 1830s were extended through a railway network feeding into Surabaya, Semarang, Cirebon, Batavia and Yogyakarta. These created labour catchment areas, with many of the unskilled workers coming from the hinterland to find work in the towns (Ingleson, 1986:19).

Introduction of market-forces

By the late 1860s it was clear to the metropolitan state that the growth and competitive capacity of privately-run milling and manufacturing companies was sufficiently strong to warrant the removal of the coerced labour 'friction' on the movement of labour both in the market and to employers. The colonial government ordered private companies to employ 'voluntary' (non state-coerced) wage labour, or

pay higher wages for the employment of coerced labour. By 1872 no government sugar factory employed labour 'conscripted and delivered by the government' (Elson, 1986:159).

Other direct forms of subsidy were removed in 1854, with the Government's colonial Regulation (*Indisch Regeringsreglement*) reducing the government's role as export agency (Booth, 1998:30). Whilst the government maintained its monopoly control over the most profitable crops, such as coffee, by the late 1850s rising world market rural commodity prices drew private investment into other cultivations. In the early 1860s the government began selling state-run estates to private companies. In 1862 it sold its pepper plantations; in 1863 its clove and nutmeg farms; in 1865 its indigo, tea, cinnamon and cochineal farms; and, in 1866 its tobacco plantations (Spruyt and Robertson, 1972:87). The capital costs of the 'privatisation' buyouts meant that the major players were banking or trading companies, or conglomerate planters pooling their resources to extend plantation production.

Liberating land as a productive commodity

The social and political regimen disciplining and enforcing a supply of labour for private plantations, whilst a fundamental condition of appropriation, was insufficient in itself to support the vast plantation expansion envisaged by the state and primary industry capital. The second vital condition of appropriation was an unrestrained supply of arable land. In 1870 the private-cultivator lobby achieved this with the Netherlands' Parliament passing of the *Agrarian Law*. This legislation imposed state title on all Indonesian land not controlled by village communities, allowed the leasing of village land for export crops in rotation with sustenance crops, and the provision of heritable leases. The legislation facilitated capital accumulation, directly through changes in land-supply for Corporate Plantations, and indirectly through the impact of changed land-ownership patterns on the labour supply for agricultural commodity production. The objective of the Act was to transform ownership relations that were perceived by the colonial state as an impediment to the transfer of ownership of land in the market place. The legislation is thus considered in terms of its impact on traditional land-ownership relationships and social ties.

The Act determined that all unoccupied land not privately owned nor subject to native rights was declared 'free' land (Allen and Donnithorne, 1962:68). The implication was that as Indonesia was sovereign territory of the Netherlands government, land not controlled by the village was owned by the Dutch state. The colonial government gave Dutch Netherlands subjects and companies registered in the Indies the authority to lease 'free' land for a term of not more than 75 years. These heritable leases were attractive for European planters as they allowed a sufficient period to allow the planting of slow-maturing perennials and the erection of processing factories and other buildings. Moreover, as the land was available in large tracts, it was suitable for extensive forms of agriculture (Furnivall, 1944:312)

Another, more socially destabilising, component of the legislation opened-up traditional irrigated rice growing lands (*sawahs*) for heritable lease by plantation companies for up to 21 years (Robison, 1986:6,7). This was intended to balance indigenous land-security against foreign extraction by allowing peasants to cultivate their subsistence crops whilst still allowing the private cultivation of export crops – largely sugar – on a rotational basis (Wertheim, 1956:80). Thus the Law was designed to protect peasants from dispossession by foreign planters by prohibiting the sale of the peasantry's land whilst giving expanded leasing opportunities for plantation owners. This paved the way for a great expansion in private capital plantation sector investment. By 1930 the total rented private estate area was 3.8 million hectares (Robison, 1986:6,7).

Whilst this land was leased, not directly owned by foreign capital, the private access to land and the income/rental/commodity-price transaction transformed traditional village relations with the land. Village leaders were responsible to their local community in the negotiations with corporate plantations over leasing arrangements. The village land had been cooperatively, communally, or individually owned. These income-as-rent, land-use negotiations transformed both the concept of land as a public resource for village use, the valuation of land as a market-commodity, and the cooperative use of that land. Village land was now increasingly alienated from its traditional social and cultural setting of communal ownership and transformed into a productive commodity owned and controlled by individuals. Thus whilst earlier colonial authorities had not resolved the difficulty of land commodification because it

was not clear just *who* owned the land, the Agrarian Law overcame this difficulty by allocating the responsibility for ownership to the local community – through the village head – and imposing a mechanism of commodification through long-term lease.

The Act as a means of consolidating labour commodification

The Act also played an indirect role in establishing the conditions for an expanded labour supply for plantation and processing mills production through the altered land-ownership relations. The village leaders' appointment as agents for the supply and rental of land gave them further political power within the village. This engendered a patronage system of political, social and economic relationships that reflected the gradations of wealth and rank within the village. Village leaders assumed the right to impose a 'tribute' exaction of a proportion of villagers' surplus produce and labour in return for protection and social advantage (Elson, 1986: 155). The change to village power relations was not smooth as evidenced by the emergence of popular opposition to village leaders' decisions. The leaders' state-instituted ability to control rental-income arrangements through individual land-ownership negotiations created marginalised groups of peasants without access to land. Further, the low rentals paid to the peasantry by the plantation companies were less than subsistence income, forcing the peasantry to work as 'wage slaves' for these companies (May, 1978:22).

These patronage-based social relations forced marginalised villagers to become wage labourers on planters' estates or in processing mills. This employment also formed part of the patronage relation with manufacturers using indigenous leaders to mobilise peasants bound to them by allegiance or dependence. Whilst not condoned by the colonial state, this village-leader/ employer labour-supply arrangement led employers to co-opt networks of district heads and village chiefs to 'mobilise, deliver and discipline' a regular supply of workers to the factories (Elson, 1986:173).

At least in the early stages of the Corporate Plantation system the pressure for labour commodification did not lead to an immediate surge of labour for the mills or corporate plantations. The payment of wages, and even the existence of large numbers of landless peasants due to land alienation were insufficient to enforce labour

discipline (Day, 1966:344). Disinterest in paid employment has been variously described as a result of post-Cultivation System intransigence towards working for the Dutch and a rising political consciousness rejecting colonial exploitation. This was a reflection of subsistence-cropping priorities, a lack of consumer-good demand and of low-wages.

Clearly these are all important understandings of the motives behind opposition to employment with foreign employers. It is suggested that the most important of these reasons was the peasantry's ambition to achieve self-sufficiency through village production rather than seeking employment in a severely underpaid labour market. It will be argued that until the tentacles of land commodification strangled this ambition the peasantry remained implacably opposed to working for the Dutch.

The gradual dismantling of the coercion system and the declining political authority of indigenous leaders awakened an appreciation of the peasantry's political strength. This is evidenced by the numbers of complaints to the Residency concerning the policies of indigenous rulers. In 1863 the Resident of Probolinggo contended that 'already the little man often makes evident the feeling of independence that is stirring in him. Just as the little man is already at present slowly withdrawing himself from the power and influence of his village chief, so shall he quickly become unwilling to assist him in the working of his fields, and furthermore to carry out those small services and provide those little benefits' (Elson, 1986:165).

State measures to enforce work discipline

Employers pressured the state to enforce work discipline by introducing stiff penalties for employees' non-compliance with work agreements. Thus when companies determined to gain a labour supply by paying an upfront wage in advance, the state enforced the employment-agreement by severely penalising employees who did not comply with the terms of employment. To gain the necessary labour at a pay of about six guilder a month, employers provided a payment in advance of the order of 50-100 guilder, and in 1872 the government introduced legislation punishing a breach of a labour contract with 'a fine of 16-25 florins, or forced labour on public works for seven to twelve days' (Day, 1966:358). Although the regulations produced nine

thousand convictions of breach of contract within three years (Day, 1966:358), employers still claimed they had difficulty in obtaining a consistent supply of productive labour. Legal injunctions were considered to be too slow and an inadequate means of enforcement, and strong-arm men were often employed to enforce a labour supply. The Resident of Surabaya noted in 1858 that voluntary labourers could not be procured from villages on any large scale 'without chiefs and government officials involving themselves in the matter, making arrangements and giving orders so that what is free labour in name is in fact the opposite' (Elson, 1986:151).

Money, credit, the consumer-market and labour regulation

Another, perhaps peripheral, agency of labour control resided in an expanded supply of mass consumer goods. In the late 19th Century there was a marked increase in the import of cheap and readily available consumer goods, such as cooking utensils and other household goods, and a growing supply of mass-produced manufactures, such as cotton goods from the Netherlands. These replaced indigenous home-industry goods (Wertheim, 1956:80).

The increased consumption-good demand was a function of the growth in the use and supply of money resulting from factor commodification. As labour and land were increasingly exchanged for money as rent or wages, liberals were in no doubt that the wage market could be more effective than coercion as a means of asserting control over labour. This was tempered with a concern that Indonesians had not reached the stage of social development where they required a supply of consumer goods and thus they were not tied to the money economy and labour market. Day considers the Cultivation System was responsible for this delayed development because it 'gave (Indonesians) the capacity for labour (but did not supply) the motive for applying it, for it created in them no wants that they had not had before.' From this perspective the problem of labour control resided in 'the difficulty of finding a basis of exchange with uncivilised peoples' (Day, 1966:53).

The lack of participation reflected the degree to which people could express their needs were limited by their available income rather than by social development. This income was a function of the opportunities available for rental-income and the degree

to which labour commodification had penetrated into Indonesia. Day's perspective nevertheless foreshadows the increasingly important role of a growing consumer market and the widening use of money and credit in enforcing labour control.

The most influential agency supporting the growth of a mass consumer-goods market and credit system in Indonesia were Chinese financial intermediaries. This group played a significant role in facilitating commercial transactions between the Dutch and Indonesians. The colonial state benefited from Chinese expertise in economic organisation and commercial efficiency. The Chinese were tax gatherers, moneylenders and traders, establishing relations and forming commercial organisations throughout the country. Their business activities ranged from tax collecting to pawnshops, gambling dens and the opium monopoly. They dealt in wholesale and retail imports, the collection of produce and money lending, retailing credit and distribution (Phoa Liong Gie, 1992:5). The Chinese diaspora of commercial facilitation was an indispensable component of the system of Dutch colonial rule (Day, 1966:362).

A Dutch reforming liberal bureaucrat condemned the Chinese as 'the blood suckers of the Javanese' (Fernando, 1992:23). He claimed that they 'provoke the peasant to speculate and buy things... they sell or barter their textiles for rice at a price two or three times higher than the value of the goods. The natives borrow money to be repaid after the rice harvest ... at high rates that double Chinese capital in half a year per peasant' (Fernando, 1992:23). Whilst the Chinese may have 'provoked' consumption and there is no doubt they tied Indonesians into 'credit bondage' with high interest rates, it is argued that the effective demand was not sourced in the consumer goods supply, but in the greater private corporate intervention in the economy. The changes here have to be considered in the context of the commodification of land and labour. With village land now widely converted into a market-commodity dedicated to export cultivations as well as subsistence crop production, village leaders allocated an increasing proportion of village land to rental income. The relative decline in subsistence production led to an expanded villager dependency on consumer goods and thus on a wage-income to pay for them. Similarly, labour was forced from the traditional 'fold' of village community subsistence provided through cooperative or

shared returns in the village surplus. These marginalised peasants increasingly relied on the supply of cheap imported consumer goods.

The market's growing effectiveness as a labour disciplining mechanism

The employers' difficulties in regulating labour during the early stages of the Corporate Plantation system came to an end with the early-1880s collapse in world markets for Indonesian commodities. The major sources of the early 1880s declining demand for Indonesia's commodities was a severe international economic depression and the collapse of the world sugar market. International sugar prices were further hit due to competition from European beet sugar producers' product selling at well below the cost of the Indonesian product (Elson, 1986:169). Business proprietors sought to cut costs, especially that of labour, and introduced new labour-saving machinery. They increased the proportion of cheaper female and child labour and reduced wages by up to a third (Elson, 1986:169). Plantation and processing-mill managers introduced European cultivation tools and equipment and technical advances such as milling mechanisation.

With a growing proportion of Indonesia's peasantry relying on wages as their chief means of existence, the rising level of unemployment determined that the labour market became a strongly effective means of disciplining labour. This served to put increasing pressure on the available jobs so that – to employers' satisfaction – workers were being 'turned away from the factory gates' (Knight, 1982:141). Further evidence of employers advantaging from the labour market as an institutional medium to regulate labour was the decline in employers' complaints to the government about the extent of 'undisciplined', 'untrustworthy', 'unreliable', and 'lazy' labour (Elson, 1986:170).

A further pressure on the labour market resulted from the increasing private ownership or lease of subsistence land available to support a rapidly expanding population. Whilst in earlier colonial eras, the peasantry could often escape economic hardship by moving to other, less developed, regions (Elson, 1986:171), between 1870 and 1940 Java's population increased from 17 to 48 million, with a

commensurate reduction in holdings so that the ‘average farmer cultivated a plot of only a couple of acres’ (Peacock, 1973:56). This foreshadows the introduction of state policy assisting the ‘transmigration’ of people from densely to sparsely populated regions of the archipelago.

Expanded corporate intervention and labour-market control

The land shortage and population growth consolidated a major shift to labour commodification as the primary determinant of labour discipline and enforced labour-market participation. Further, the Land Act removed ‘free land’ from public use, and allocated it for leasehold use, thus leaving little financial opportunity for Indonesians to lease this land to cultivate subsistence crops let alone capitalise plantation cultivations. The expanded capital intervention drove the land shortage, unemployment, and labour market dependency.

With the increasing capital intensity required to glean profits from cultivations, finance was difficult enough to obtain for small private European proprietors, but almost impossible for Indonesians. In sugar production, this stepped-up requirement involved large new outlays for land, processing equipment, and transportation infrastructure. The necessary financial and technical resources for transportation, labour, and processing were taken over by banks and the large commercial trading houses. Financial control shifted from ‘merchant houses to joint stock or limited-liability companies, and still later to corporate capital’ (Wolf, 1982:335). By the end of the 19th Century the oligopolisation of the agricultural sector determined that industry control was in the hands of about eight large trading, banking and plantation conglomerates (Robison, 1986:7).

This marked the final stage in the transition to a capitalist rural-production economy organised around the capital-intensive sugar mill. In general terms the transition represented the accomplishment of a state-engendered transformation of the processes of labour organisation where labour was directly employed, regulated, and largely dependent on, private capital and the wage-market. The nature of this employment, however, was predicated on a growing competition between sectors of Dutch colonial capital where planters demanded a consistent supply of cheap and compliant labour in

competition with the growing urban industrial capitalist employers. This foreshadowed an emerging struggle between private, largely European cultivation owners and industrial capital. Estate companies became opposed to manufacturing investment as a threat to the maintenance of low rural wages.

The entrenchment of capitalist production

The expanded private corporate intervention generated substantial increases in export-commodity production that were accompanied by a vastly increased demand for imported capital and consumption goods. From 1870 to 1890 Indonesian exports doubled and imports quadrupled (Zainu'ddin, 1968:133). Whilst work-intensity substantially increased as the result of technological advances, the growth in supply of arable land for cultivations required increases in the supply of labour. The state-engendered private plantation and part-processing mill expansion was accomplished through a commensurate decline in the availability of subsistence land. The decline in subsistence production, and low wages put the Indonesian peasantry increasingly in debt to Chinese moneylenders. The declining standards of living threatened the viability of reproduction of the rural labour force. The recognition by colonial officials that labour exploitation – and thus the viability of the system of accumulation – could not be sustained without substantive state intervention. This heralded the introduction of the 'Ethical Era'.

Conclusion

The Corporate Plantation era was a distinct phase of capital accumulation that built on the foundations of social and labour control established by the Cultivation System. This chapter has provided evidence of the politico-economic forces that underpinned the transformation of the system of production control and labour organisation. I have drawn on this material to show that the chief characteristic of this era was not the expanded intervention in itself, but the role of the state in driving the intervention, and as a consequence the returns to private capital were as much a function of the state intervention as of private corporate initiative. Whilst the state played a key role in facilitating private accumulation, it is argued that the prime consideration for accumulation was the extent to which labour was 'ordered' by the state, in

conjunction with the state facilitation of labour market forces, to enforce the supply of a strongly regulated workforce. The market was only an effective system in the enforcement of work-discipline once core productive factors of labour-power and land-use were commodified through their 'liberation' from the system of coercion and other traditional social, political, and cultural constraints. This established the fundamental conditions for the development of a market-based system of production control and labour regulation. This logic determined that economic downturn, land shortage and population growth consolidated rather than defined the power of the market to regulate and discipline labour. The formation of colonial state-engendered conditions for factor commodification foreshadowed the transformation of an itinerant and independent peasantry into estate-production and, later, factory workers.

The state's project for private accumulation was primarily implemented through state legislation, such as the 1870 Agrarian Act. Whilst the Land Act sought to protect the peasantry from the takeover of their land by Corporate Plantation owners, it was primarily designed to expand the supply of arable land. The legislation determined the state's final assumption of sovereignty over most arable Indonesian land and its transformation into a component of its productive enterprise. It ensured the final transformation from village and communal dealings with the state, to contractual arrangements between individual peasants and workers, and individual firms or plantation owners.

The Agrarian Law was the turning point in the history of Western agriculture in the Indies. In terms of the political economy of power-relations, the legislation created the conditions for capital accumulation by undermining indigenous control over subsistence production. In these terms the legislation was arguably of equal significance in Indonesia's political and economic history as the transfer of ownership of the country from the VOC to the Dutch Government. The importance of the legislation is seen, firstly, in the way it achieved the private corporate ambition to transform Indonesia's production organisation from a state-controlled system using the indigenous hierarchy for surplus extraction, to a system of direct private corporate appropriation. Secondly, this resulted in a shift from a planter-dominated, to an oligopolistic capitalist system of economic control. Finally, the transition represented a powerful reassertion of private corporate political and economic control as

symbolised by VOC appropriation. This conception of continuity across epochs affirms the key role of the metropolitan state in facilitating surplus extraction from Indonesia and realising this surplus through international markets.

Private European planters, the financial commercial institutions backing those planters, and Chinese financial intermediaries prospered under the colonial systems of labour discipline and enforcement established by the Cultivation System. The state continued to play a powerful protectionist, 'nurturing', role providing the necessary conditions for private accumulation. With the colonial government enforcing control over labour and the supply of cheap and compliant workers to a burgeoning private sector, the labour market was not a 'free' means of facilitating optional participation in employment by Indonesians, but a mechanism by which employers enforced labour coercion. The collective controls and village-support systems of the Cultivation System were replaced by individual contractual employment and other controls such as credit bondage.

The increasing oligopolisation of economic control and the consequent expansion of capital led to increasing intensity of extraction from an increasingly commodified workforce. Thus whilst the Corporate Plantation system was highly profitable for private investors it contained the seeds of its own downfall in a contradiction between the supply of a cheap, controlled labour force and the reproduction of that force.

Chapter 4

The last colonial, Ethical regime

“The colonial entrepreneurs slowly came to realise that labour, even that of the Asians, was a production factor with its own value, and that its destruction was irrational from the economic point of view” (Breman, 1989:274).

“The Netherlands East Indies were... in essence an extension of metropolitan Netherlands in Europe and of its economy, its energies, enterprise, indeed of all its intrinsics. It was we who made this archipelago what it is. It was we who fashioned its great and modern agricultural structure, we ordered its communications, we gave it a clean bill of health, our technicians worked wonders in every field. We made the Indies.” Netherlands WW2 Prime Minister (Gerbrandy, 1950:28).

European economic penetration throughout the Indonesian archipelago undermined the indigenous reproductive systems that had sustained Indonesian economic organisation. The basis of this erosion was the transformation of productive resources into commodified components of the colonial appropriation system. The following analysis of the final phase of Dutch rule focuses on how the metropolitan state responded to this erosion of the colony’s reproductive base.

In November 1900 the Netherlands’ Prime Minister foreshadowed the introduction of a bold new humanitarian agenda referred to as the ‘Ethical System’. He proposed that ‘a greater share of the riches deriving from the soil of the Indies no longer fall to the foreign entrepreneur working with foreign capital, but in which also, and above all, the person native to the country can demand his share in those riches’ (van Deventer, 1966:258). The Colonial Minister asserted that neither ‘an increase in our possessions, an increase in our power, an increase in our honour, an increase in our capital is the aim of colonial possession, but the advancement of the Native population’ (van Deventer, 1966:258).

The critical analysis of the metropolitan state's reformist policies in this chapter suggests that the commitment to indigenous welfare represented the 'benevolent face' of a new colonial policy-making regime instituted to restore the basis of colonial appropriation. The investigation investigates the underlying intent of these policies, linking them with a major conceptual theme of this research whereby the state's paramount concern is to assure the appropriate supply and regulation of labour consistent with world market commodity production as the touchstone of colonial development. The state's response to the challenge to the colony's reproductive base is considered in relation to a growing political antagonism to colonial authority. The core focus concerns the way in which the state attempted to ameliorate these contrasting impacts of colonial intervention.

This foreshadows the role of a state-credo (the 'Ethical' era) in underpinning the apparatus of wealth appropriation for this final phase of colonial rule. The Chapter locates the role of the state in instituting ethical policies within the international context of demand for Indonesia's commodities, especially the imperative to engender a substantive 'gearing up' of the colonial export commodity productive base following the early 20th Century growth in international demand for Indonesia's mineral and other resources. This heralds the introduction of a more inclusionary political process and system of colonial administration as a major plank of colonial organisation.

This Chapter's representation of the fundamental elements defining the Ethical Era constitutes a decisive break with the standard literature. Whilst this literature generally portrays Ethical policies as a 'reversal' of the state's commitment to an unrestrained private appropriation agenda, this research suggests a contrary appreciation in terms of the overall theme of the role of the state in directly underpinning the foundations of private accumulation. The breadth of this appreciation incorporates an understanding of the political role of the colonial state in encapsulating elements of the indigenous elite within the apparatus of rule, and its economic role in shoring up the infrastructural basis of economic organisation.

The new political and economic institutional arrangements initiated by the state are considered in relation to their impact on Indonesia's class structure and the socio-economic order and, more particularly, the passage of class struggle. In this latter regard, the research outlines the state's response to popular antagonism towards political exclusion. A core element of this unfolding appreciation concerns the way in which the state rationalised continued colonial occupation and wealth appropriation. The contradictions and dissonances between established readings analysing the forces at work are starkly obvious in the following elaboration of the state's implementation of political 'reform'. This is shown in the contrast between colonial assumptions of acquiescence to their reformist program on the one hand, and evidence of a continuing denial of economic opportunity on the other.

This introduces a further key difference with those established texts that contend the colonial state was, in a very real sense, acting as an independent agency on behalf of its colonial constituency. The following evidence and analysis suggests that this constitutes a fundamental misunderstanding of the processes at work in colonial rule. More specifically, the core argument of this Chapter turns on its head the established conceptual understanding that the basis of dissent resided in considerations of racial dissent rather than the exploitation of the Indonesian people as a class. The analysis postulates a substantive link between race and class as a core element in the nationalist movement. This reaffirms the continuing theme of this work of the accumulation role of colonial authorities and links Dutch colonial extraction to the processes of extraction as instituted by the next, Japanese, occupation regime.

Estate capital aggregation and labour regulation

The Corporate Plantation system advanced accumulation by consolidating the ownership of key sectors of agricultural production and incorporating estates into limited liability companies that held close links with the plantation banks. The 1880s depression had been a catalyst in this process, with bankrupted smaller and medium-sized estates taken over by large commercial enterprises, with the result that financial control of the estates shifted from ‘merchant houses to joint-stock or limited-liability companies, and still later to corporate capital’ (Wolf, 1982:335).

Smaller European planters had difficulty surviving the depression, but Indonesian planters were forced to leave their plantations through an inability to obtain credit or derive alternative income. Some measure of the diminished indigenous ownership of plantation acreage can be noted by reference to Table 4.1. Day describes the plantation-sector as characterised by ‘vast estates of 75,000 or even 175,000 people ... owned in large part by stock companies, by absentee landlords, or by Chinese’ (Day, 1966:368).

Table 4.1: Plantation Land Ownership (1903)

	Number	Bouws (1.75 acres)	Inhabitants
Stock Companies	62	622,971	592,631
Europeans	101	557,636	513,092
Chinese	197	368,810	469,937
Other Orientals and natives	74	18,907	43,870
Totals	434	1,568,324	1,619,530

Source: Day, 1966:368

The depression-driven aggregation of estate-enterprise meant that by the end of the 19th Century the agricultural-exports sector was largely controlled by eight large trading, banking and plantation conglomerates (Robison, 1986:7). These firms were

in turn controlled by metropolitan-based syndicates and cartels operating in association with import and export firms (Wertheim, 1956:99).

The process of capital consolidation is evidenced by the structural and corporate changes carried out by the colonial joint-stock company, the *Der Nederlandsche Handel-Maatschappij* (NHM). Until the mid-1870s the NHM was largely concerned with organising trade for primary export-commodities. An 1853 Netherlands state consignment contract shows that the NHM's main role was to trade in those commodities that created a colonial surplus (van Klaveren, 1953:165). In the late 1880s, however, as the NHM's financial future was threatened by the reduced demand for Indonesian commodities, the Company shifted its focus to banking and finance. The Company survived by drawing on its substantial capital reserves and enforcing sugar-manufacturers' dependency by providing them with the necessary credit to continue trading.

Company directors retaining a mercantilist-era preoccupation with restricting Company operations to trade in estate-sector commodities were replaced by directors committed to broadening commercial operations. The Company subsequently extended its role from trade and brokerage to banking. The NHM and several major Dutch banks amalgamated and sought public funds to finance a new corporation, the NHM Bank. The merger was finalised by 1882 enabling the corporation to survive the sugar industry depression that began in 1884. The NHM Bank's productive, financial, and commercial foundations made it a dominant regional and commercial power for major Asian ports. European-based international companies utilised this commercial strength to capitalise their extraction of industrial raw materials such as tin, copra, cinchona, petroleum, and rubber (Robison, 1986:8). This set in train the vast extraction of the 1930s, by which time seven oil refineries operated in the Dutch East Indies, three in Sumatra, one in East Borneo, and three in Java (Allen and Donnithorne, 1962: 163).

The Major European companies' ability to extract Indonesia's resources was backed by advanced technological and commercial innovations supported their worldwide commercial networks. This enabled them to exert what Allen and Donnithorne refer to as 'sovereignty' over Indonesia's mineral resources by paying rent to the Dutch

colonial government ‘but not the real owners, the Indonesian people ‘ (Allen and Donnithorne, 1962:163). The Dutch form of colonial control meant that the drain of surplus from Indonesia was far greater than from other colonial Asian countries. In the 1930s the ‘unrequited’ export surplus from India was 1.5 per cent of National Income whilst the surplus from Indonesia represented 13.4 per cent of the National Income (Booth, 1990:294).

The late 19th Century western economic penetration and surplus extraction from Indonesia was backed by the state’s ‘pacification’ (the *Pax Neerlandica*) of anti-colonial rebellion and of tribal and dynastic war (Zainu’din, 1968:166). The most costly drain on colonial tax-revenues was the 1873 Aceh (North Sumatra) war to repress Acehnese’ military and political attempts to achieve Acehnese political and economic sovereignty (Penders, 1984:26). It was ironic that land taxes imposed on Indonesians were a source of the funds to repress Indonesians’ attempts to regain control over their resources.

The threat to labour reproduction

The 1880s international market slump in demand for Indonesian commodities and the heavy taxes imposed on Indonesians caused a major decline in Indonesian standards of living (Schmutzer, 1977:32). Much of the rural population – by some accounts, a third (Knight, 1994:52) – were alienated from the security and support of their *kampongs* as they were forced to work in factories some distance from their villages. This undermined the capacity of Indonesian village communities to reproduce wage labour and posed a clear threat to the system of colonial appropriation.

The Ethical era

By the latter part of the 19th Century, growing metropolitan concerns about the threat to the colony’s economic base triggered political campaigns for the state to alleviate the hardships and ‘curb’ what they saw as the ‘corporate excesses’ and ‘ravages of unbridled capitalism in the colony’ (Penders, 1984:27). ‘[C]onservative industrialists and trading interests joined the anti *laissez-faire* choir demanding effective measures to increase buying power’ (Penders, 1984:27). Moral suasion also came to bear, as encapsulated by Queen Willehemina’s 1901 declaration that the Netherlands has ‘an

ethical obligation and moral responsibility to the peoples of the East Indies' (Van Niel, 1960:32). There was a real concern that the laissez-faire system of extraction had created massive wealth for private entrepreneurs but undermined the basis of colonial production and appropriation.

In the face of the considerable political opposition, and responding to the evidence of an imminent economic as well as political crisis in Indonesia, the metropolitan state realised that it was imperative to reorder the basis of production organisation in order to restore colonial self-sufficiency and avoid political and economic collapse. The dominant influence of elements in the Netherlands' parliament who believed in the necessity for the state to strongly intervene to protect the interests of its colonial peoples prevailed. Accordingly, the state moved to alleviate the effects of unbridled capitalism and restore the basis of labour reproduction.

Most prominent among the progressive forces in the metropolitan parliament were the '*Ethici*' who proposed that the Netherlands' government repay the 'debt of honour' owed to Indonesians for the centuries of Dutch wealth-extraction from the colony (Bastin, 1967:119). They identified the failure of unrestrained private corporate enterprise to either create colonial self-sufficiency or protect Indonesian's standards of living as the main contradictions engendered by colonial rule. They won widespread metropolitan political support for the contention that, as previous Indies' extractions flowed to the Dutch Treasury in Holland's 'time of need', the Netherlanders should repay some of this surplus to help Indonesians in **their** time of need. Repayment was never made, but the state's welfare of its colonial citizens' marked the introduction of what was to become known as the era of 'Ethical rule'.

The reordering of labour and capital

Following Deventer's pronouncements for the colony, the colonial government concentrated on expanding agricultural and mining production, and promoting industrial and commercial development. It was thought that the consequent economic activity would generate sufficient income-flows and taxation revenues to improve welfare infrastructure such as education, irrigation and sanitation systems (Schmutzer, 1977:33).

Expanding the public sector

To develop the colony it was imperative to expand the educational facilities needed to train indigenous technical and administrative functionaries and generate a more skilled and self-sufficient workforce. The Netherlands' Prime Minister backed the program of expanded education for Indonesians as: 'the level of his knowledge and abilities must be raised considerably ... and for this a vigorous expansion of primary education will prove to be the most essential expedient' (van Deventer, 1966:260).

There was a further political objective implicit in the state's decision to expand Indonesians' educational opportunities. An influx of indigenous personnel into the state administration would inhibit political discontent by underscoring the state's newfound reformist ethos that allowed political sovereignty for all colonial citizens. The dominant Ethical view considered that some degree of colonial devolution from metropolitan political domination and the incorporation of Indonesians into government administration would eventually enable colonial self-rule. It was also believed that the developmentalist project would contribute to this by engendering a more humane, participatory and non-discriminatory system of social organisation and economic development. Promoting Dutch education would be integral to this, and was regarded as a necessary precursor to the growth of modern European civilisation in Indonesia.

These multiple objectives informed the establishment of a comprehensive schooling system covering primary to tertiary education and focussing on administrative and commercial efficiency. The success of the project was evidenced in the extension of indigenous employment in the state sector. By the 1920s Indonesians staffed colonial-state institutions such as the *Volkscredietwezen* (peoples' credit service), Government Pawnshops, Agricultural information and advice, Post, Telegraph and Telephone services, State Railways; Government Schools, and the Forestry Service (Zainu'ddin, 1968:143, 144).

State policies supporting labour reproduction

The success of the state's developmentalist project depended on regenerating the subsistence basis of labour-reproduction. To this end the state legislated to enforce the peasantry's right to control their land as a prime means of securing their economic integrity. We recall that the 1870 Land Act affirmed the state's commitment to supporting indigenous ownership of rural subsistence-lands. This objective was frustrated as financial pressures on landholders forced them to allocate greater proportions of their lands for export production. Government officials sought to redress this by legislating for estates to lease from the principality, rather than from the traditional holders of princely and dignitary' lands (appanage), and to remove *corvee* (unpaid) labour in favour of wage-labour. It was considered that this leasing and wage-payment arrangement would remove the political conflict of appanage holders' tie over the peasantry. Communal lands were divided into plots of half a bau, with a particular (male) villager gaining temporary use (usufruct) of that land and a housing plot ('*kuli kencing*') (Shiraishi, 1990:20). In plantation areas, this half bau was divided into two fields that were rotated between rice and plantation cropping.

Health care

The Corporate Plantation era was associated with the spread of epidemics and disease such as cholera, flu, malaria and the plague (Abeyasekere, 1986:2). Health care thus became a vital part of the Government's reformist agenda. Most illnesses resulted from, or were exacerbated by, malnutrition, polluted water and soil, poor sanitation and lack of general hygiene. Following the state's initial priority for the provision of health services solely for the military and Europeans, in 1910 western treatment of disease and general health was extended to cover Indonesians (Abeyasekere, 1986: 2).

The extended basis of capital accumulation

The state's shoring-up of the productive and reproductive base consolidated the foundations for expanded industrial development established by private corporate penetration and conglomeration. The Indonesian manufacturing sector and as a corollary, an industrial working class, grew out of estate-plantation production. Estates required infrastructure, repair, and component-manufacture workshops to maintain their capital goods. The largest of these concerns were organised on the basis

of mechanised, western Fordist and capital-intensive production-line systems; but most production was carried by small-scale and largely non-mechanised concerns (Robison, 1986:23). A key component of this development was the heavily regimented organisation of a commodified estate-sector labour-force.

A mass-consumption goods industry for the internal market developed in conjunction with urban development. These firms were often Indonesian-managed but mostly Chinese-owned. The larger firms covered cigarette-production, furniture-manufacturing, printing and wholesaling and other consumer-goods industries (Pinches and Lakha, 1987:18). The indigenous-owned enterprises generally consisted of small, cottage industry weaving, spinning, batik work, furniture making and *kretek* cigarette manufacture concerns. Batik-makers obtained raw materials from merchants and received commission for the supply of finished or partly finished products. The import of cotton goods for batik printing increased from 9.837 million guilders in 1850 to 20.943 in 1860, and for Java and Madura alone to 29.105 in 1875 (Shiraishi, 1990:24). The merchants who dominated the importing and supplying of raw materials controlled the industry. These merchants (*bakul*) received between 50-70 per cent of the total income, maintaining their control over peasant/worker producers through credit networks and paternal social and political relationships (Robison, 1986:23).

The financial and commercial intermediary role of Chinese merchants enabled them to accumulate the necessary capital to dominate small and medium industrial production in Indonesia. Their organisational skills and diaspora social-infrastructure enabled them to out-compete Indonesian firms in most aspects of manufacturing production (Robison, 1986:27). Chinese entrepreneurs also exhibited much keener and broader business acumen as they established a major presence in the agrarian trade, the trade and manufacture of textiles, foodstuffs, beverages, and furniture and in the transport sector.³ This severely constrained the possibility of indigenous entrepreneurs building a capital base.

³ The relevance of this Chinese commercial dominance over Indonesians will be seen in the context of a rising Indonesian political mass consciousness directed against foreign political and economic domination. The superior

The regulation of industrial labour

Urban manufacturing development required a ready supply of strongly regulated workers. The indigenous hierarchical system of social relations again became the core mechanism for supplying and disciplining labour. In this early 'modern' phase of manufacturing development European companies appointed Indonesians as company-foremen with the responsibility to organise, supply and discipline labour. These foremen were generally former artisans with long-standing high social-status or traditional authority in the local village. The foremen were 'powerful men with considerable patronage at their disposal' as they held the power to provide employment (Robison, 1986:22). The state's devolution of administrative responsibility to indigenous regional authorities supported this process of hierarchical labour organisation.

The foremen achieved the equivalent urban prestige to *lurahs* in terms of power and patronage (Robison, 1986:22). Their contacts with village-leaders enabled the organisation of villagers for factory work. They received commissions from workers for arranging jobs, housing, and promotions. Management underscored this important social and management role and position by granting hereditary rights to succession, thus preserving the hierarchical control-system and the status of the indigenous elite.

These processes assured the continuation of a clear hierarchical link between European managers and Indonesian workers with little communication between the two. Local managers rarely made any effort to learn the indigenous language, and most Dutch managers were paternalistic and condescending towards Indonesians. Dutch attitudes were reinforced by their belief in the superiority of European culture and by their perception that Javanese society was essentially feudal, with its people bound by traditional ties of bondage and dependence.

The dramatic increase in the number of young Dutch immigrants employed to manage the 'modern' manufacturing sector served both to affirm the existence of unequal opportunity for Indonesians and to support anti-colonial activism amongst Indonesian workers. The established colonial managers and authorities were concerned that the

economic position of the Chinese merchants and industrialists formed the basis for the late 19th century nationalist

‘younger Europeans were less well prepared for work in the colony, more brash and less inclined to be bothered about understanding their native workforce’ (Ingleson, 1986:23).

The political responses to expanded state and corporate expansion

The Government had sought to lay the foundations for an economic and political order that was more inclusive of Indonesians. It resulted in an expansion of the role of the state, an expansion that increased public service employment opportunities for Indonesians. However, these institutional and economic transformations had the effect of consolidating anti-colonial resentment. This precipitated a widespread mobilisation against foreign rule.

In analysing this period of political transformation, the critical importance of struggles over the organisation of production and distribution of the proceeds of production cannot be overlooked, and I seek to review the political unrest in terms of a range of challenges to the economic and institutional order of the system of colonial production and distribution and not simply in terms of an indigenous challenge to metropolitan rule. The focus thereby shifts from an interpretation of that period as shaped by anti-colonialism, or racial conflict, to an interpretation emphasising class struggle.

History of political and industrial struggle

History shows that the last decades of the 19th Century were one of the more turbulent periods in Indonesia’s colonial past. There were numerous and widely supported political and industrial campaigns based in a complex mix of urban and rural forces. The practical expression of this politico-economic-industrial struggle was the birth of institutions of industrial representation. In 1908 the first Indonesian and South East Asian trade union, the Union of Rail and Tramway Personnel (VSTP) was born. In the same year, the first major militant industrial campaigns had been sparked by oppressive conditions in sugar plantation production (Ingleson, 1986:104). The history of this period of industrial struggle has been well documented. However, it is appropriate to reconsider the conventional wisdom and review the nation-wide

campaigns against foreign ownership.

political and industrial actions in the context of the impact of changed urban/rural work-relations and production systems, as well as in the light of external pressures such as Indonesia's increasing engagement with international markets.

The most extensive and authoritative research of the political discord during this period has been carried out by John Ingleson, who chronicled the 'considerable militancy and political activity' evidenced in Indonesia over the course of the first three decades of the 20th Century (Ingleson, 1986:1). Ingleson's research provides the basis on which a critical analysis of the fundamental determinants of the industrial and political dissent can be developed.

Ingleson uses his extensive empirical evidence to conclude that early 20th Century industrial and political activism was driven by race, not class, antagonism (Ingleson, 1986:6). However, the conclusion, I would suggest, does not accord sufficient critical weight to the structural transformations initiated under the Ethical regime. In view of the emphasis here on these structural transformations, it is sensible to reconsider the character of late-colonial political and industrial unrest, especially in terms of colonial development and the political responses that this engendered.

Ingleson introduces his theoretical exposition of the sources of early 20th Century Indonesian mass unrest by cautioning against the 'misuse' of class analysis in the Indonesian context. Thus whilst 'there are strong and important similarities in the processes of industrialization and commercialisation in Indonesia and Europe', we should be careful not to impose on the Indonesian context 'theoretical insights' gained by labour historians from their examination of labour and industrialisation in Europe and the US. This is because 'the social and cultural bases (between the developed countries and Indonesia) are very different' (Ingleson, 1986:5).

Further, Ingleson criticises the Marxist, and what he refers to as 'vaguely socialist', Indonesian leaders of the period for using western conceptual approaches to build working-class and peasantry solidarity. He contends that their analysis of colonial oppression and of 'urban workers in class terms' in the promotion of this cause was inappropriate because 'there was little observable consciousness of class among the tens of thousands of ordinary union members (Ingleson, 1986:6). For these

Indonesians, the struggle was more basic and directed towards immediate improvement in their lot in life (Ingleson, 1986:6). Ingleson believes that Indonesian leaders had difficulty in inculcating class-consciousness because their society was characterised by ‘vertical cleavages of ethnicity, kinship, patronage and religion’ (Ingleson, 1986:6).

These cleavages are seen as continuing at this stage of colonial history because capitalism had not yet penetrated to the extent that class relations could overshadow the ‘cleavages’. Thus ‘economic differentiation in colonial Java was less advanced than in contemporaneous Western societies and the relationship between capital and labour less decisive in determining a person’s social status’ (Ingleson, 1986:6). Ingleson’s proof of the overriding power of the ‘cleavages’ to define political and industrial activism relies on the claim that unionism was only successful where union leaders could employ kinship and other cultural relations to gain the support of patrons in the workplaces or of *kampung* leaders (Ingleson, 1986:6). Thus, for Ingleson the continuing dominance of traditional hierarchical differentiation and status denied the possibility of class-solidarity amongst workers and peasants.

Ingleson’s view implicitly assumes that without class-consciousness there are not class relations. However, whilst the absence of class consciousness in general impedes the development of class struggle, this need not deny the existence of class relations as defined in terms of people’s relationships to the means of production.

The history of industrial and political mobilisation

The success of industrial and political campaigns sponsored by workers, the indigenous petty bourgeoisie and an emergent middle class created a growing mass-awareness that real improvements could be achieved by industrial and political action. The formation of political parties and trade unions, and the support for these institutions evidenced in the growing membership, tended to be framed by a dual industrial/political objective. Most labour unions arose out of the two largest nationalist parties, the *Sarekat Islam* (Islamic Association – SI) and *Perserikatan Komunis Indonesia* (Communist Party – PKI) (Ingleson, 1986:4). Nationalist parties drew their core membership from skilled workers, teachers and government

employees. Unions became training grounds for the nationalist party leadership as they provided the opportunity to develop organisational, recruiting and public speaking skills. Many workers radicalised by workplace injustice were drawn into nationalist activities. Thus 'worker mobilisation and unionisation were important parts of the making and development of nationalism (Ingleson, 1986:4). Ingleson provides evidence of the strong structural links and interlocking leaderships between the labour unions and nationalist parties, but cautions against any presumption that union activities were directed by nationalist groups, arguing that each had an independent role in the promotion of their membership's social and economic interests. In his understanding local union leaders and ordinary members' industrial ambitions related to the specific social and economic grievances within each workplace.

Major political and industrial action

The first major instance of widespread political action in the 20th Century was the mass-mobilisation against estate and mill-owner' exploitation. The campaign was triggered by the rice-harvest failure in 1918 and led by the SI. Whilst the history of this organisation will be developed in the context of Republican political organisation, it is pertinent to outline its *modus operandi*. The SI was a moderate, urban, organisation set up in 1912 to mobilise small and medium indigenous business against Chinese commercial domination. It was essentially a reformist association that would become the major non-communist mass-based political power in Indonesia. '[The *Sarekat Islam*] was geared to launch boycotts against the Chinese in defence of the interests of the large number of Javanese merchants' which followed a 'suddenly increased impingement of aggressively competitive Chinese entrepreneurs upon the interests of the vestigial Javanese merchant class that attended the gradual lifting of travel restriction on the Chinese in the interior of Java between 1904 and 1911' (Kahin, 1952: 67).

Sources of rural anti-colonial antagonism

The SI saw that the unrest prompted by the rice-famine had the potential to build on the urban anti-colonial unrest to become a nation-wide movement. It thus extended its urban small-business base to cover the reformist ambitions of the peasantry. Focusing on the onerous village compulsory labour obligations and land taxes the SI began a

mobilisation campaign that spread across Java's Northern coastal plain (Ingleson, 1986:14). The SI realised that the colonial tax system was a particular source of public antagonism as '[n]othing about the colonial order seemed to infuriate the peasantry more than its taxes' (Scott, 1976:91). The land tax system generated a considerable increase in indebtedness. The 19th Century plethora of state taxes included the market tax and the 'head tax' that replaced compulsory labour service. The land-revenue tax was the most hated because it was set as a fixed charge which was based on the estimated average yield of graded rice fields and thus bore 'no relation to yield, ability to pay or subsistence needs' (Lucas, 1991:5). SI officials proved that the colonial authorities had over-estimated the average yield of graded rice fields imposing taxes vastly exceeding the peasantry's ability to pay. As villagers were unable to pay these taxes 'in kind', they were forced to rely on moneylenders to tide them over to the next harvest (Kartodirdjo, 1988:33).

Ethical planners' well-intentioned policy of removing the oppressive obligation to work for the appanage-holder did not, however, serve to ameliorate rural discontent as the peasantry's prime need was to expand their income. Further, the removal of *corvee* served to reduce living standards as workers in corporate plantations were paid less than what villagers would have received from solely cultivating rice (Shiraishi, 1990:22). The reformist policies were also frustrated by the government's early 20th Century accommodation of pressure from landlords to allow the right to evict tenants at will if they were in arrears with the rent. The consequent evictions put increasing financial pressure on tenants, increasing their opposition to colonial rule (Kartodirdjo, 1988:33)

SI leaders followed up their support for small rural producers by providing support for the peasantry in their industrial claims against processing mill employers. They pressured mill proprietors to raise wages for casual labour and pay higher rents to villagers. However, the mill-owners were in a stronger position and whilst the Resident supported the peasants, management rejected their demands (Ingleson, 1986:10). The continuing ability of private mill-owners to override Ethical-state welfare imperatives and dictate employment and resource-supply conditions was evidenced in their control of the water supply. The processing mills' demands for water to irrigate sugar cultivation affected all cultivators as sugar required three times

the quantity of water necessary for wet rice cultivation. Plantation-owners assumed priority over the use of water supply for sugar cultivations, and restricted peasants' access to water for rice irrigation to nights and during the cane-growing season. European managers argued that this was appropriate as mill workers could only tend their fields at night. The policy led to the theft of water, and a growing hostility between villages in their competition for the dwindling supply of water (Ingleson, 1986:10).

The bargaining strength of the parties shifted following World War One. Employers' industrial dominance was eroded by a sudden post-war demand for Indonesian produce that led to a shortage of skilled labour. The shortage coincided with a growth in industrial and political activism and a shift in the balance of power towards workers (Ingleson, 1986:11). Industrial agitation spread to the Sumatran rubber plantations and other regions throughout the archipelago. By 1920 there were 100,000 members covered by 100 unions, and the first national trade union conference was held in the major Javanese trading and manufacturing centre of Semarang. Whilst the nationalist objective to gain independence from colonial rule gained general support at the conference, an inability to gain consensus between the PKI and SI over industrial policy foreshadowed what would become a major philosophical schism in Indonesian politics.

Employers took the opportunity to exploit labour's internal divisions, setting up industry associations and working cooperatively with the state to re-establish 'law and order' to repress all industrial disputation. When the inflation accompanying the economic upturn led to increased costs of living, employers refused to adjust wages to compensate. In March 1920 sugar industry workers took major strike action demanding wage increases and improvements in working conditions. Rejecting the demands, and employing the tactic of claiming the strike was intended to threaten colonial rule, the state employed the military to repress the union action and forced workers back to work.

Industrial disputes escalated and, following the union conference, harbour-workers halted the loading of shipping in the port of Surabaya. The state again employed the military to overthrow the strike but this time applied the extensive forces of the state

enforcement apparatus to repress any further union action across Indonesia. With the unions unable to 'protect (workers) from the wrath of government and employers', union membership declined to low levels for the remainder of the colonial period (Ingleson, 1986:11).

Leading up to the Great Depression the government instituted covert police operations to uncover industrial and independence activism. From 1935 the Colonial Government imposed restrictions on PKI association, and imposed legal and military constraints on all trade union activity (Zainu'ddin, 1968:193). The resulting campaign of military repression led to the state executing one thousand independence activists and transporting the remaining activists to the Upper Dibul concentration camp in New Guinea.

The state further enforced its industrial policies by covertly fostering anti-nationalist and pro-employer worker-associations especially amongst groups such as the *pangreh praja* ('rulers of the realm' within the Dutch-trained state-administrative strata. In the late 1930s the state set up a broad-based organisation the *Mardi Oetomo* (Excellent Community) to build anti-nationalist power and influence in South Pematang. The organisation consisted of low-ranking state administrative officials such as clerks and assistant clerks. They participated in campaigns supporting the Ethical state's welfarist ethos, such as medicine distribution, the eradication of rats, campaigns for the prevention of soil erosion, provision of lavatories, and of brown rice to the malnourished. The Dutch also extended the *priyayis*' tax-gathering functionary role to political surveillance of SI activists through the *Piroekoenen* (Harmony) organisation (Lucas, 1991:12). As the titles of these organisations suggest, their role was to support the state's developmentalist objectives and the ethos of indigenous political opportunity in order to undermine class and race conceptions of colonial rule and foreign economic control.

Sources of activism

Whilst the colonial state's anti-nationalist and anti-union campaigns effectively destroyed all defensive indigenous representative institutions and structures, the political and economic sources of the early 20th Century political unrest remained.

This meant that the widespread belief in the possibilities of challenging colonial rule remained as a subterranean force awaiting the conditions for its revival. It is appropriate to reconsider the sources of unrest and the character of this 'force', in the context of the state-led efforts to expand corporate accumulation, to draw out the influence of issues of class and race as the background to the 1940s 'revived' political and industrial mobilisation.

Early 20th Century union and nationalist campaign successes inspired a widespread belief in the possibilities for rapid political and industrial change. Thus the *Sarekat Islam* (Union of Islam) blossomed 'with a suddenness and force which quite astonished not only the Dutch but also Indonesians as well' (Kahin, 1952:65). The SI grew to a membership of two and a half million within eleven years of its birth (Furnivall, 1969:119).

Ingleson argues that this activism was in response to Indonesia's accelerated urbanisation that precipitated substantial social changes engendering union solidarity and political activism (Ingleson, 1986:6). Educational advances for Indonesians were a major factor in fuelling opposition to colonial state-rule. Skilled and relatively secure workers became the most politically active in the 1910s and 1920s and formed the backbone of labour union branches. This was reflected in the union leadership, which largely consisted of skilled workers, foremen, and western educated government employees such as clerks, teachers and pawnshop workers. Unions' collective organisation and subsequent industrial action advanced the awareness of the potential for political and strike action, building working class' organisation and communication skills (Ingleson, 1986:9).

Employer maltreatment, once accepted as 'normal' because no one could see a way of successfully opposing it, then came under challenge (Ingleson, 1986:9). Ingleson considers that it was not the degree of exploitation that underscored the greatly increased militancy of the early 20th Century, but the social and economic changes that gave voice to the ongoing exploitation (Ingleson, 1987:141). These changes defined the character of union representation driving nationalist and labour campaigns (Ingleson, 1986:8). Thus whilst the nationalism developing in rural communities

lacked a coordinated organisation and direction, the educated urban campaigners led the charge against colonial rule.

Educational opportunity also indirectly furthered anti-colonialist activism with educated Indonesians being refused the same job-opportunities available to Europeans. The greater transparency in socio-economic disparities stimulated the acceptance and dissemination of western revolutionary concepts of anti-imperialism, anti-colonialism, and socialism. Coupled with a growing appreciation of Asian anti-colonialist struggles in China and India and the success of Japan over Russia in 1905, Indonesians developed a confidence in the possibilities for national self-determination (Caldwell, 1970:382).

Sources of unrest: class or race?

Ingleson uses his extensive empirical evidence to conclude that early 20th Century industrial and political activism was driven by race, not class, antagonism (Ingleson, 1986:6). However, the conclusion, I would suggest, does not accord sufficient critical weight to the structural transformations that had been initiated under the Ethical regime. In view of the emphasis here on these structural transformations, it is sensible to reconsider the character of late-colonial political and industrial unrest, especially in terms of colonial development and the political responses that this engendered.

The form of colonial state regulation of Indonesian production was determined by the metropolitan and European capital's accumulation ambitions for Indonesia. The centre-defined identification of Indonesia and its people as a productive resource drove the institution of an exclusionary process whereby Indonesians – as workers – were collectively and largely involved with creating a surplus for foreign interests, with those interests –as employers – appropriating that surplus. In this scenario all Indonesians – the elite, the peasantry, urban and rural workers alike – were excluded from the ownership and distribution of the colonial surplus. The colonial state's prime function was to support the supply and regulation of labour necessary for capital accumulation. This conceptual perspective defines Indonesian industrial and political responses to colonial rule primarily in terms of the class relations between Indonesians and the European, largely Dutch, owners and controllers of the productive apparatus.

Ingleson's belief that social and cultural determinants defined industrial and political action enables him to conclude that the major source of early 20th Century unrest in Indonesia was race, rather than class, antagonism. Thus, apart from the 'vertical divisions ... the predominant consciousness of indigenous peoples in all colonies was that of race' (Ingleson, 1986:6). This race-antagonism was reinforced by the fact that the modern sector of the economy was largely owned and managed by Europeans and that there was a minimal level of indigenous capital ownership.

However, Ingleson's denial of an influential class-role in the struggles falters when he provides evidence as to how some Indonesians were drawn into a class-awareness by their participation in industrial action (Ingleson, 1986:7). This implication that class is a function of struggle rather than production relations is premised on E.P. Thompson's notion that 'class and class consciousness are the last stages of an historical process, a process which begins with struggle' (Ingleson, 1986:7). This opens the possibility that whilst there was 'little observable consciousness of class' and Indonesians exhibited 'race (-based)' antagonism to the Chinese and the Dutch, the racist rhetoric may have disguised a class perspective. Furthermore, Ingleson's view that the Indonesian struggle was 'more basic and directed towards immediate improvement in their lot in life' neither proves nor disproves the existence of class-consciousness or class-relations. Whilst it is unclear what Ingleson regards as 'basic' struggle, there is no doubt that the objective to improve 'their lot' was shared by most workers.

It was impossible for most Indonesians to have distinguished between foreign political rule and the process of surplus-extraction by a capitalist class. In this situation there is no distinction between class and race. Thus, the struggle for self-determination emerges from a complexity of class-race-caste factors into a more identifiable 'class struggle'. This was especially the case given the extent of foreign ownership and control and the connection between political rule and social organisation for surplus appropriation. The urban and rural workers' united campaigns to overthrow the exclusionary system of foreign rule necessarily had a racial dimension because the owners of the productive apparatus were largely Dutch, Europeans, whilst employees were predominantly Indonesian. Furnivall argues that

‘such feelings are an amalgam of envy and warranted resentment toward institutionalised blocks to upward mobility...(with these animosities) greatly intensified as exaggerated income distinctions are brought into sharp relief by ethnic or racial differences’ (Furnivall, 1969:118).

The antagonism towards foreign exploitation was heightened by European managements’ refusal to allow Indonesians equal political, economic, or social status. The oppressive management style of the newer European managers, especially the Dutch, led to workers’ overt rejection of the condescending paternalism of Dutch employers. The state supported employers by enforcing labour agreements and inhibiting free industrial association.

With the widespread commodification of labour and the decline in village subsistence opportunities and land-ownership, most Indonesians had no option but to depend on the labour market for their material existence. As Indonesia’s economy was increasingly dependent on international markets, labour-commodification determined that Indonesians were under constant threat from a collapse of international markets for their commodities. This dependency was perceived as an effect of colonial rule rather than mere market volatility, and thus consolidated the antagonism towards foreign economic control and colonial appropriation. Nevertheless, market fluctuations had markedly affected the Indonesian population under previous epochs. It is important, therefore, to investigate just what components of the Ethical state’s expanded intervention served to consolidate the dissention and mobilise political and industrial action.

Exclusion and nationalism

In the urban as well as the rural context, colonial authorities utilised indigenous hierarchical and patronage relations to facilitate export commodity production. Colonial exclusion of indigenous participation in the ownership and share of wealth extracted from Indonesia was underpinned by the Dutch exploitation of the traditional hierarchy to act as ‘agents’ in the regulation of production and labour. From this perspective, the organisation of Indonesia as a productive entity was incorporated into the international political economy through the agency of state-systems of internal

regulation, and external relations mediated by the international markets and accumulation objectives.

Ingleson's argument that Indonesian social and cultural conditions of ethnicity, kinship, patronage and religion defined the social relations of the period and precluded the formation of class/economic differentiation discounts the vital role of those relations in supporting capitalist appropriation. The use of these relations to support production control was an affirmation of the existence of hierarchy and economic differentiation as the basis of colonial appropriation and anti-colonial conflict.

Contrary to Ingleson's understanding, the economic relations underpinning colonial appropriation points to the development of capitalist systems of production and distribution developing in the rural as well as the urban context. This argument for the existence of rural capitalist accumulation provides the final measure of doubt as to the race-basis of Indonesian unrest and supports the assumption of an exclusionary basis of capitalist development in the colony.

We have seen that the Corporate Plantation regime's economic penetration led to the transformation from state indigenous hierarchical production control to direct Dutch management. Capital accumulation was underpinned by labour commodification and estate-sector systems of work-intensification. Shiraishi points to the capitalist nature of Indonesian development by positing that there were two 'ages of capital' commencing with the Corporate Plantation era: the liberal colonial policy and private capitalist expansion phase, and, associated with this, the rise of ancillary industry and urban manufacturing production (Shiraishi, 1990:8-27). The most powerful element in the transformation to capitalist endeavour was seen as the corporate aggregation of individual estates within capitalist conglomerates that were controlled by metropolitan boards (Shiraishi, 1990:9). In the rural sector, generally Chinese, merchants linked land-owning peasants and tool-owning cottagers to the market through an 'intricate credit and distribution system' making Indonesian peasants closer in terms of relative economic power 'to the factory worker than to the entrepreneur' (Furnivall, 1969:115).

The estate system of production organisation was characterised by a strict separation of the estate from the local community and village production. The intensive supervision and labour control enabled the institution of factory forms of organisation to increase labour intensity enabling higher productivity than village-cultivation. Thus, estate-production enabled capitalist accumulation through the incorporation of all aspects of manufacturing production relations to expand surplus. These mid 19th Century capitalist work-relations in the plantation estates threw up conditions that spawned conflict that was decidedly class conflictual in character.

Fasseur affirms the late 19th Century existence of a capitalist system of agricultural production. He contends that the influx of Dutch capital private entrepreneurs was associated with the sweeping away of the *Cultuurstelsel* compulsory cultivation system enabling Indonesian cultivated land to be leased from the peasant by the European planter. He argues that this was ‘capitalist agriculture (consisting of) private land-leasing, clearing, planting and the construction of mills with hired wage labour’ (Fasseur, 1992:165).

In summary, the weight of evidence and argument suggests that industrial organisation and action was driven by a complex of interrelated factors. The role of education seems to be of particular importance. The Ethical regime’s ‘modernist’ agenda to provide the Indonesian middle-class and elite with the skills and academic background necessary to support the welfare state also created a broader political awareness and was a trigger for activism. Thus education played a major role in contributing to an awareness of political and economic alternatives and an ability to lead change. Ingleson’s analysis suggested this was a key determinant of change, but a more critical analysis suggests that the leadership abilities and awareness of alternative possibilities provided the technical facility and confidence to lead, but the political sources for change lay in the production process. In these terms the educated elite were the political agents of the masses, and not the source of change. This suggests that there was an iterative relationship at work, with the elite fuelling the mass mobilisation and vice versa.

The underlying source of stress, generating political and industrial unrest, was the process of societal and labour regulation for capital accumulation. Rural development

established the conditions for capitalist accumulation, and thus production relations largely determined the antagonism towards foreign extraction. In these terms, the material conditions rather than race-antagonism were the prime determinants of strike and nationalist action.

Much of the emphasis in this chapter has been on the transformations triggered by metropolitan fears of the threat to the reproductive base posed by unrestrained private corporate extraction. Whilst these transformations are generally perceived as initiated by the Ethical Regime the reformist agenda constituted merely the first, and one aspect, of systemic forces operating in this last phase of colonial rule.

There appear to be various understandings as to when the impetus of Ethical reform declined. Some argue that the colonial state ceased to emphasise 'Ethical' reformism in state policy just prior to the First World War, whilst others consider the welfarist agenda continued up until the Second World War (Zainu'ddin, 1968:157). Certainly there was a decline in the government's commitment to these policies, evident in nationalists' growing cynicism about the Dutch commitment to indigenous welfare (Zainu'ddin, 1968:157). More to the point of this thesis, however, the importance of the Ethical system is seen in its precipitation of a broader state intervention and the decentralisation of power as a basis for an expanded colonial appropriation.

Conclusion

It appears that the Corporate Plantation regime may have presumed that their *laissez-faire* corporate activity would assure an adequate level of labour reproduction by generating sufficient income to sustain living standards. It was more likely, however, that their focus on accumulation allowed little concern for the devastating impact of unrestricted, and state facilitated, labour regulation and wealth appropriation. It has been argued that the resulting threat to the standards of living of the masses, and thus to labour reproduction triggered the widespread pressure, both in the metropolitan polity and by colonial interests, for the state to institute mechanisms and agencies to protect the colony's reproductive base. The resulting engendering of some forms of welfare 'protection' for the masses heralded the dawn of the 'modern' era of 'welfarist reformism'. There is no doubt that this state interventionism was designed

specifically to consolidate Indonesia's productive base and thus support an expanded capitalist appropriation from Indonesia.

The rationalisation of this pragmatic policy translated the reality of assuring labour reproduction into the modernist nomenclature of 'welfare reformism', hence this period was officially titled the Ethical era. This welfarist imagery served to justify colonial occupation and ameliorate colonial oppression in the face of worldwide movements to overthrow colonial rule.

The fundamental role, nature and impact of the 'Ethical Era' did not in any way threaten the private corporate system of extraction. To the contrary the 'welfarist' state apparatus was designed to underpin and protect the basis of colonial accumulation. This is consistent with the overall conceptual understanding of this thesis that the role of the state was to strengthen the institutional underpinnings of capitalist accumulation through the regulation of labour and the ordering of capital.

The state intended to re-secure political and economic control by acknowledging its past political exclusion and granting Indonesians responsibility for sharing the burdens of colonial administration. By the late 19th Century, the state had enforced colonial rule to the extent that it could decentralise political control, representing rule as an impartial process of political representation on behalf of all colonial citizens, and not solely metropolitan capital interests. This imagery of impartiality and inclusion in decision-making lay at the core of the regime of social-control and the ordering of capital accumulation. The Ethical state thus represented the final transition of colonial administration from the territory and its people as a resource to that of sovereign self-sustaining territory as a component of the metropolitan state, but under decentralised rule.

This shift in perspective locating the nation-state as distinct from, and independent of, the process of class-rule for capital accumulation creates an effective mystique of the impartiality of the state that survives in contemporary versions of political power-relations of the era (Gordon, 1993:444-464). As Gordon notes, this 'imagining' of what the state was like is clear in Anderson's version of the character of the late Dutch East Indies' colonial state. Anderson contended that the state apparatus

'became the business of a rapidly expanding officialdom, which unfolded more according to its inner impulses than in response to any organised extrastate demands' (Anderson, 1983:479). Similarly, Benda argued that in late colonial times, colonial government represented 'a-political, administrative politics par excellence...as an instrument for the implementation not of competing social demands' (Benda, 1966: 591,591).

My analysis confirms Gordon's view that these interpretations of the state as essentially carrying out an administrative function independently of the process of capital accumulation represented the Dutch East Indies government as 'a kind of "extra-terrestrial state"' (Gordon, 1993: 445). The important point of the Anderson-Benda characterisation within the context of this research is, however, the role of indigenous participation within the administration in creating a dominant imagery of state impartiality. This 'hands free' state impartiality is in stark contrast to the role actually played in facilitating the extraction of Indonesia's resources for metropolitan interests. It thereby served the vital purpose of creating a mystique to subsume indigenous administrators within this ethos.

The Ethical regime presided over a vast re-ordering of the colonial appropriation regime that contributed towards improved standards of living. The regime was, however, dogged by a major contradiction that undermined colonial authority. This was the state's imperative to restore and secure the colony's productive base that translated into government regulatory and interventionist policy. To re-secure the productive apparatus as a viable basis of appropriation the colonial government expanded the state apparatus by employing large numbers of Indonesians as technicians, administrators, clerks and general staff. This expanded state intervention established a new social class within Indonesia that contributed towards the development of conditions that resulted in a political mobilisation against continuing foreign rule and appropriation and thereby challenging the exclusionary system as well as colonial appropriation.

Thus, whilst the state ethos of decentralised and inclusive political responsibility was intended to undermine the belief in exclusionary foreign domination and appropriation, the false promise of equal opportunity for Indonesians with Europeans

was made more transparent. The level of the 'unrequited export surplus' affirmed the role of the Ethical regime in consolidating the exclusionary process of wealth extraction. There can be little doubt that Indonesians were well aware that the wealth they created continued to be extracted from the country for minimal recompense and recapitalisation. Exclusion impelled the growing political and industrial action supporting independence and wage justice. The state's response in resorting to brutal repression to retain political power in its frustration to reconcile appropriation objectives and political pacification, served to cement Indonesian opposition to colonialism and the colonial-capitalist system of production and distribution.

Chapter 5

The Japanese occupation of Indonesia

We will have the people endure the pressure, and we can't avoid affecting the people's livelihood because of the need to gain resources for national defence and self-support of local armies of occupation." Japanese Government 'Draft for Administration of Occupied Areas in the South', 29th November 1941 (Lebra, 1975:168).

"Since enemy nations took the possessions they wanted, there is no reason for our hesitation in taking them away. Military administration must be carried out for a long time. We should not indulge them (former European colonial countries) by promising independence too early". Japanese Imperial General Headquarters' Planning Agency Directors Suzuki Teiichi and Kaya Okinori, 14th March 1942 (Lebra, 1975:168).

The Japanese imperial expansion that engulfed Indonesia in 1942 constituted a total reconstruction of the system of wealth-extraction that had underpinned Dutch colonial occupation for three and a half centuries. This Chapter focuses on the confrontation between the Dutch and the Japanese systemic means of accommodating their imperial goals, and the implications of this confrontation for the future of Indonesia's production system. The way in which the Japanese marshalled Indonesian resources for war-production is considered in the context of the ongoing analysis of systems and processes of labour organisation and control as the core element of wealth generation. A primary focus is on the way labour was marshalled for this end, especially through the intensive mobilisation of the *romusha* labour-force. The fundamental redirection of social, political and economic priorities is seen in the mechanisms and ordering of mass mobilisation.

The dramatic wartime changes in distributional linkages and organisational relations wrought by the Japanese occupation are located in the broader historical context of the penetration of Japanese commercial and industrial interests in Indonesia from the

early 20th Century, the rise of the Japanese economic power and the expansive character of Japanese industrial capitalism. The interrelation between these external politico-economic pressures and the growing political and social dissension within the country forms the basis for an analysis of the wartime severing of major institutional and distributional ties locking systems of production into the Dutch world economic system. This severing is seen as giving vent to the political forces that were to erupt in the struggle for independence.

The chapter examines the way in which the Japanese occupation sowed the seeds for more broadly-based transformations. The investigation of these transformations presents a significantly different understanding from the established view that the Japanese occupation led to the complete devastation of Dutch structures and institutions of economic order and wealth appropriation. The continuing theme of the wealth generation and extraction imperatives implicit in successive ruling regimes' political, social and economic systems is applied to illuminate the prime characteristics of the Japanese occupation of Indonesia. The core consideration is the way in which the occupation impacted on existing institutional and political relations to determine not only whether there were elements of continuity between Dutch and Japanese systems of economic organisation, but to establish the impact of these systems on Indonesia's economic foundations.

The analytical focus is on the conception of the pre-war systems of economic organisation apprehended within the earlier analogy of Indonesia as a 'factory', owned and managed by foreign agencies, but with wealth generation carried out by Indonesians. Exclusion from participation in the realisation of wealth in exchange was the 'linchpin' of accumulation. With the transition from Dutch to Japanese and subsequently to political independence, the research has shown the existence of a continuing political pressure to demolish these exclusionary arrangements. This chapter emphasises the character of this demolition, and establishes the basis for succeeding systems of appropriation.

A crucial context for this demolition was the pre-war trade and investment forays by Japanese business with their direct dealings with Indonesian producers and independence activists. This analysis also turns on the colonial role of the Chinese as

financial and commercial intermediaries for the Dutch. The rapid demolition of the Chinese institutional linkages and power-relations by the Japanese authorities in Indonesia raises questions for the established texts as to what replaced these mechanisms in the post-colonial environment. These questions are considered in the light of previous evidence of the extent and depth of indigenous economic relations that had operated outside the Dutch exclusionary 'zone'. This Chapter contrasts the colonial impression of Indonesians as incapable of self-rule and autonomous economic management with an appreciation of the establishment of the foundations of Republican post-colonial political and economic organisation under the Japanese occupation.

Japanese pre-war economic and political intervention

The Japanese military intervention into Indonesia was preceded by two corporate-interventionist phases having critical impact on indigenous political economic opportunity. In the late 19th Century a group of small-scale merchants began trading in the main Dutch East Indies' colonial entrepôt and in the nineteen-twenties large Japanese resource-firms moved into the country to extract mineral resources. The latter wave of Japanese business activity was an aggressive corporate campaign employing state subsidies, tenders, licences and contracts to access and extract Indonesian resources. The impact of Japanese intervention was of considerable significance in terms of its impact on commercial and industrial development. However, the expansion of commercial interests also had quite important political impacts. The resulting symbiosis of commercial and political developments between Japanese business and the Indonesia independence movement warrants closer scrutiny.

Initially the Japanese merchant penetration appeared as another competitor with the Chinese in the supply of consumer goods to Indonesians. Given the strength of Japanese industrial development and the expansionary character of the Japanese regime, however, this penetration in fact constituted a threat to the Chinese control of the internal commercial and consumer goods markets. Further, the Chinese role as commercial intermediaries between the Dutch and Indonesians meant that this threat contained critical implications for the exclusionary system of appropriation. These

implications became explicit as the dominant military-industrial interests in the Japanese metropolis expressed their wider agenda for Japanese business in the European colonies of East Asia.

Japanese metropolitan interests perceived that the growing Indonesian-Japanese business links provided the opportunity for directly undermining the Chinese stranglehold over internal commerce. There was an identifiable corollary to this in that the Japanese soon realised that their commercial expansion could also become the basis for challenging the Dutch exclusion of non-Europeans from engagement in production and commerce, and this soon formed part of a more ambitious objective.

The explicitly economic aspect of this campaign became evident when Japanese merchants moved to undercut the Chinese stores' monopoly supply of Japanese textiles by establishing their own retail outlets in Indonesia. The more competitive prices offered by Japanese merchants, associated with the fairer and more equitable dealings between Japanese business proprietors and Indonesians, presented a stark contrast with the exploitative character of Chinese business, especially in the context of credit dealings and money-lending. The consequent burgeoning Indonesian demand for Japanese goods in Japanese stores led Japanese investors to expand into other sectors. Investment in retail outlets was followed by the establishment of a Japanese banking sector to finance the growing sugar trade with Japan and Japanese investment in Sumatran and Outer Islands' sugar plantations. By 1921 Java sugar producers exported 265,460 tons of sugar to Japan (Murayama, 1993: 107). In the 1920s the relatively small-scale merchant penetration erupted into a full-scale intervention when large Japanese *zaibatsu* (conglomerate)-associated trading companies established textile distribution outlets throughout Java. Japan's total cotton export to Indonesia grew from about 3 per cent in the first decade of the 20th Century to 12 per cent in 1920. By 1935, thirty per cent of Indonesian imports were from Japan (Murayama, 1993: 108).

China's imposition of a world-wide boycott on Japanese goods following Japan's invasion of Manchuria in 1931 provided a further opportunity for Japanese merchants to contest the Chinese commercial dominance. The boycott on Chinese trading with Japanese inspired Japanese business to extend their retail-outlets and initiate joint

textile production ventures with Indonesians (Post, 1997:92). Textile firms supplied looms to Indonesian textile companies to consolidate indigenous production and undercut Chinese trade (Sato, 1994:91).

That this commercial and then industrial expansion formed part of a larger political economic agenda was soon apparent. In 1909 the Dutch East Indies government endorsed the establishment of a Japanese consulate in Batavia (Post and Touwen-Bouwsma, 1997:89). With a view to removing further obstacles to its commercial ambitions, the Japanese Government approached the Dutch colonial administration and insisted that colonial law must provide equal treatment to Japanese expatriates as that given to Europeans. The Dutch East Indies' government reluctantly introduced the *Japannerwet* (Japanese law) that granted European social status to Japanese citizens (Fasseur, 1994:36). This freed Japanese business from the commercial restraints that applied to other non-western or Chinese investors. This Dutch appreciation of the potential benefits to be gained from strong Dutch East Indies-Japanese trading relations belied the 'Trojan horse' implications of the Japanese business intervention.

The major political connection between Indonesians and the Japanese that should have caused concern for the colonial government related to the commercial and political interests of the *Sarekat Dagang Islam* (Islamic Trader's Union) movement. We have seen that the *Sarekat Islam* roots were in the small-business opposition to Chinese commercial dominance. The *Sarekat Islam* grew to become a strong independence movement that represented the interests of Indonesian nationalists in all walks of life. The Japanese merchants took advantage of the *Sarekat Islam*'s Islamic business community connections to promote their wider political and economic objectives.

In 1932 the Japanese ruling nationalist military and industrial clique pressed industry to gear up for rapid expansion into South Asia. Japanese companies won concessions from the Dutch to mine bauxite and the Japanese moved to develop bauxite mining and aluminium refining industries in Bintang, Johor, and the Palau Islands. Dams were constructed in Sumatra to generate hydroelectric power for aluminium smelters. By the late thirties, sixty-three Japanese companies were supplying Indonesian

commodities for the home industry (Allen and Donnithorne, 1962:142). This second phase of Japanese penetration set the agenda for wartime and post-war mineral resource-extraction from Indonesia.

Expansionary movements in the Japanese metropolis

Within Japan the military-industrial capitalist regime's resource-acquisition ambitions foreshadowed a Southern territorial expansion that would culminate in the occupation of Indonesia. Encapsulated in the articulated ambition of the 'Greater East Asia Co-Prosperity Sphere', the institutional foundations of Japanese military-industrial development engendered a particular global projection of Japanese state and capital. This expansionary process defined a particular focus and form of production control and resource appropriation that became a pivotal element defining Japan's expansion into Indonesia.

Nationalists demanded that parliamentary government be abolished and authoritarian systems instituted to enforce corporate dynamism in a challenge to western imperial dominance. The government introduced a comprehensive system of industry-support and industrial regulation that resulted in an expansion of total heavy-industry output from 38 per cent in 1930, to 58 per cent in 1937. By 1929-30 the interventionist-state control and coordination of industry ensured that output exceeded the US (Aziz, 1955:48).

The Japanese imperialist-extractive ambitions posed a major threat to countries, such as Indonesia, who owned those resources sought by Japanese industrialists. The first major expression of Japanese resource-extraction territorial-expansionist ambition was the Japanese military invasion of the North-East of China on September 18th, 1931. This '*Manchurian Incident*' was intended to bolster industrialisation by ensuring a greater supply of mineral resources for the Japanese heavy manufacturing industry. The Japanese imperialist agenda was politically justified with the rubric of the 'Greater East Asia Co-Prosperity Sphere' (Lebra, 1975:53). The concept of an Asian equal identity with Japan as 'guide and mentor' where 'the whole sphere must be reorganised into a single body as an organic unit' became the focus for indigenous colonial peoples' aspirations for independence (Lebra, 1975:38,9). Asians under the

‘yolk’ of European colonial control could gain their independence defended by the ‘aegis’ of Japan’s economic and security ‘umbrella’. This would give a ‘complete, centralised unity of purpose’ for ‘international trade, production, distribution of industries, money and banking and diplomatic affairs’ (Lebra, 1975:54).

The ‘Sphere’ sounds alarm bells in Indonesia

Some socialist and communist Indonesian independence activists believed the Greater East Asia Co-Prosperity Sphere’ was merely a justification for imperialist expansion. The left nationalist group Gerindo (*Gerakan Rakjat Indonesia* – Indonesian People’s Movement) argued in 1941 that ‘the Greater East Asia idea (was) exclusively designed to deprive other peoples of their freedom by Japanese domination as happened in Manchukuo, China and Indo-China’ (Aziz, 1955:146). These groups supported western colonial states on the presumption that European liberalism represented the democratic ideal over fascism and militarism (Anderson, 1972:37). Some independence movements offered the colonial state co-operation to defend Indonesia against Japanese expansionism. This offer was rebuffed by the Dutch.

The Japanese military defeat of the Dutch

On December 1st 1941 the Japanese Imperial conference declared war against Holland, Britain, and America. The Prime Minister declared that the war was necessary ‘to preserve the achievement of the Manchurian Incident’ (Lebra, 1975:165) The Japanese annihilated US battleships in Pearl Harbour. This was the first phase of an overall strategic plan to conquer the colonial territories of East Asia and which culminated in the overthrow of the Dutch East Indies to seize the colony’s oil, tin, bauxite, rubber, and rice. In January 1942 the Japanese captured the Dutch oil installations in Sumatra. On March 1st, the 16th division defeated a combined Dutch, US, Australian, and British navy force in the Java Sea. This led to the Netherlands unconditional surrender on the 8th March. The ease with which the Dutch were defeated indicated a marked lack of Indonesian commitment to the Dutch cause affirming the national commitment to independence and foreshadowing the post-war Republican revolution. It also indicated the Dutch colonial state’s military preoccupation with containing anti-colonial struggle than ensuring external security.

Occupation: 8th March, 1942 – 10th August, 1945

The seizure of the Dutch East Indies presented the Japanese occupying administration with the mammoth challenge of managing the production and distribution systems to accommodate wartime industrial objectives. The organisational and economic transformations that resulted, as the Japanese military administration moved to re-order the colonial systems of production and distribution, warrants of closer consideration for the economic, as well as the political, implications. In its efforts to restructure Indonesia's productive base, a primary concern of the occupying administration was the re-institution of coercive forms of labour-regulation, especially through the *romusha* system of intensive labour-control. The changes to European institutional and distributional ties and political relations introduced by the occupational regime effected changes in political relations that engendered the mobilisation of an indigenous challenge to foreign control.

Production reorganisation: the labour regulation priority

Japan's militarist regime signalled its wartime production and extractive program for Indonesia in a 5th November, 1941 'Draft for the Administration of Occupied Areas in the South.' The Japanese Imperial Conference endorsed the Draft's two-stage agenda for the Southern colonies 'to foster metropolitan industry' expand local markets for Japanese consumer goods, then to expand Japanese-controlled manufacturing industry in the region (Nishijima and Kishi, 1965:262). A program of productive autonomy – especially of food crops – was to be driven by the 'aggressive utilisation of the native inhabitants' where 'wages should be maintained at as low a rate as possible' to generate self-sufficiency at minimal cost (Lebra, 1975:168). Other objectives were to construct military goods such as transport – especially shipping, to prevent resource flow to enemy nations, and to induce Indies enterprises to cooperate with the war effort (Nishijima and Kishi, 1965:260).

The Military administration abolished all forms of democratic representation including trade unions in order to control the political environment and enforce labour-discipline. The administration imposed a military system of hierarchical regimentation as the basis of labour-control. The fulcrum of this labour-regime was the *romusha* (dutiful labour) form of compulsory labour-mobilisation. *Romusha*

carried out building and rural- production work including the construction and repair of airfields, fortifications, factories and oil wells, harbours, bridges, and railway lines. Village and subdistrict officials were directed to organise the supply of adult male workers not directly employed in economic production to work on war-projects. *Romusha* recruitment agencies were set up throughout Java. Most *romusha* were drafted from those unemployed created by the closure of Dutch estates, but many active village workers were taken thus reducing the subsistence production, especially rice, workforce (Sato, 1994:95). *Romusha* organisation replicated the Japanese system of rice distribution where the *pangreh praja* were obliged to fulfil central administrative-office planners nominated quotas of the resource. Most Indonesian men of working age were employed as *romusha* at some stage during the war (Sato, 1994:95). This coercive, centrally and hierarchically organised mechanism of labour control underpinned the war-effort in all sectors of production and distribution. Transmigration to other islands - in particular Sumatra – introduced by the Dutch during the Ethical era to reduce Javanese over-population and unemployment, was now more extensively applied supplying Javanese labour for Sumatran and the Outer Islands war-projects and industry. Many *romusha* were forced to work in other Pacific war-arena countries such as Burma or Siam. Overseas workers suffered extremely bad working conditions, and low pay. Japanese food supply regulations stipulated that *romusha* must receive 400 grams of rice per day for hard work, and 250 grams per day for light work, whereas the provision for the Japanese soldiers was 640 grams per day (Sato, 1994:114).

Peasants were forced to carry out military objectives by whatever ‘fair’ or ‘foul’ means deemed necessary in each situation. In instances of a labour-shortfall, they were ‘mustered’ with fraudulent contracts, forced to register for work or face the withdrawal of rations, and there was random kidnapping of peasants. In some instances the degeneration of labour conditions was beyond description. Human attrition was connected with the deterioration of the military operations, the failure in labour control, and the complete ignorance of human life on the part of the Japanese forces’ (Nishijima and Kishi, 1965:317).

The scant documentation of the numbers of *romusha* and death-rates have led to much speculation about the importance of their role in the Japanese war-effort, and post-war

politico-economic implications. Whilst Sato calculates there were more than 2.6 million *romusha* mobilised by the army, navy, and military administration, the Indonesian government's post war reparations claimed compensation against the Japanese state for the loss of four million people. The military administration employed over 85 per cent of the *romusha*, mostly on programs to increase agricultural production (Sato, 1994:157). Of the 200,000 recruited for overseas work only about 70,000 survived (Sato, 1994:155).

Industry

The *zaibatsu* seized control of foreign as well as regional trade, and occupied those economic sectors indispensable to the Japanese war effort, like oil, coal, copra, tin, bauxite and rubber. The remaining sectors like processed foods and manufacturing were left to *pribumi*, Chinese Arab and Indian merchants and businesses (Post, 1997:103).

Within the extractive-sector the central regulation of labour constituted the major institutional change from the pre-war ordering of productive resources and factors. Apart from the regulation and disciplining of labour, wartime mineral-extraction and some industrial manufacturing production was largely accomplished without fundamental transformations being made to colonial systems of production and distribution. Clearly the Japanese pre-war intervention established the foundations for the wartime mineral resource extraction, but the appropriated systems of colonial extraction nevertheless constituted the backbone for Japanese wartime extraction.

In November 1942 Japan set up a 'Greater East Asia Ministry' to foster investment and co-ordinate activities of the Japanese corporations licensed to cover the occupied territories of the Co-Prosperity Sphere (Aziz, 1955:185). The mineral sector represented the primary focus for resource extraction, with pre-war geological investigations showing the archipelago as a major source of essential raw materials for military goods, energy and special steel manufacturing such as oil, iron, manganese, bauxite, and chromite, nickel and copper. European and US oil and tin companies were appropriated with western managers interned and replaced by Japanese military personnel. All mineral production was controlled by *zaibatsu* under

contract to the military and rigorously supervised by the Military forces. The Military administration abolished the pre-war Dutch and western cartel price-maintenance output constraints, and, assisted by Japanese petroleum companies, moved to expand petroleum production (Aziz, 1955:183).

The Military Government's facilitation of private corporate activity as part of the overall plan for the use of Indonesia's resources created substantive investment activity in Indonesia. The bulk of wartime investment in Indonesia was in manufacturing, accounting for 27.7 per cent of the total foreign investment. This was followed by mining with 16.2 per cent, agriculture, 12.2 per cent, trading 10.2 per cent, and shipping 9.3 per cent (Yasuyuki, 1997:136). Japan invested more heavily in Indonesia than any other South East Asian country, and more than a hundred Japanese firms operated in Java during the war (Sato, 1997:64).

Banking and finance arrangements

The Japanese colonial economy required a sound currency-system and financial infrastructure to support investment, commerce and exchange. Having occupied and secured the territory, the Military Government reorganised the monetary and commercial systems required for resource exploitation (Yasuyuki, 1997:136). The administration required a centrally controlled financial system backed by general community acceptance of the Japanese currency. The transition to Japanese 'occupation money' was forced on the community by the closure of non-Japanese banks, with the circulation of money initially controlled by the three established Japanese banks (Yokohama, Taiwan and Mitsui) The European banks were later liquidated and their activities taken over by the latter two banks. Foreign exchange and capital was allocated through the state -controlled banks, the generation of foreign exchange reserves through the heavy dependence on overseas trade, and the priority to expand sea transportation through industrialisation.

In the early stages of the occupation, the Japanese currency was threatened by the inflationary pressure on consumer good prices resulting from the cessation of imported goods from the west. The government imposed currency stability by controlling price movements. The Indonesian Peoples Credit Bank was reopened in

October 1943 in seventy locations under a Japanese name. Overseeing all these banks was the Southern Development Bank (*Nanpo Kaihatu Kinko*). This bank began in 1943 to provide credit to those industries necessary for the war effort. It became the umbrella financial institution through which the Japanese state controlled the Indonesian economy and organised the sale to Japanese business of all western property 'nationalised' by the occupation force.

Subsistence production

The Military administration was able to impose its war-objectives on the mineral-extraction and manufacturing sector without fundamentally altering pre-war production and distribution linkages and systems. It was quite another matter for the administration to transform the cumbersome colonial system of agricultural production and distribution to accommodate central military objectives. The administration confronted a dual, exclusionary economic system that was based on decentralised Chinese financial and indigenous systems of reproduction and village-support that operated independently from, but was the mainstay of, the colonial regimes' wealth appropriation. As has been discussed, the Dutch superimposition of their regimes of colonial appropriation on the traditional Indonesian system of social relations was intended to leave the latter as self-functioning and self-sustaining as possible. Whilst commercialisation and the commodification of labour and land undermined the supportive character of the indigenous system, the exclusionary apparatus remained largely intact. Thus the administration, control of labour for the appropriation of export commodities, and the ownership of those appropriated commodities was in the hands of the colonial regime, and Regency organisation was at least nominally in the hands of indigenous people (Sato, 1994:25).

The Military administration determined that European institutions and structures had to make way for a centrally planned hierarchical system to regulate production and labour and enforce subsistence production and surplus distribution. It abolished the provincial governments and representative councils making Regencies directly responsible to the Military administration. This set in train the total dismantling of the dual colonial system of representation. To the Japanese rulers, any form of local

representation was rejected as reactionary western democratic parliamentary liberalism (Aziz, 1955:157).

The organisation of the production and distribution of all commodities was placed under the central administrative command of the Military administration. The abolition of the dual system reflected the objective of single central control, and a rejection of western racial dominance. The objective of the new administrative system was to replace most lower-status officials with Indonesians and replace senior officials with Japanese (Sato, 1994:22). However, as there were only 200 Japanese civilian administrators to oversee the 15,000 Dutch, Dutch officials were retained and junior largely indigenous appointments promoted to senior administrative positions (Aziz, 1955:159). By the end of the war there were 23,242 Japanese officials in Java alone (Aziz, 1955:159). The irony that the 'superior' western administrative expertise could be so easily replaced by that of the Japanese officials did not go unnoticed amongst Indonesian nationalists.

The transition to new productive/distributive relations

By June 1942 Allied countries had found alternative suppliers for the Indonesian export commodities such as rubber, coffee, tea and quinine that had been previously available through the Dutch international commercial systems and supplied on Dutch vessels. Established markets for Indonesian exports were immediately severed and the prices of commodities collapsed. The export-estates sector was thrown into disarray, and with further disruption following the loss of estate-labour wages, the Japanese administration was forced to assert direct control over cultivation enterprises. It established the Cultivation Enterprise Control Corporation and the agency set commodity prices, determined the crops to be planted and in what quantities, and prohibited the sale or mortgage of estates. It also provided loans for Indonesians to cultivate crops demanded within the Co-prosperity Sphere and began to promote the indigenous ownership of estates (Nishijima and Kishi, 1965:266,7). The creation of alternative production organisation and distribution arrangements presented the first substantive opportunity for indigenous small-planters to operate outside the constraints imposed by European commercial and distribution systems.

The difficulties in restructuring the complex colonial system of distributional links became apparent when the Military administration moved to institute a monopoly rice distribution system. Their intention was to avoid war profiteering and price inflation, and to ensure adequate food supplies for the military and the labour force (Sato, 1994:113). This was also clearly designed to demolish the decentralised system that in effect handed Chinese businesses a monopoly over the production and distribution of rice. The Japanese system was devised on the presumption that Indonesian rice production and distribution was ordered in essentially the same way as in Japan. Japanese rice farms and mills were largely owned by village communities as small business operations. Villagers processed rice with small motorised rice mills, as distinct from the Indonesian situation of largely Chinese owned mills. Further, Japanese farmers extracted sufficient for local needs and sold the surplus directly to wholesalers. Japanese farmers could give priority to rice production, creating a surplus without – as in Indonesia – being dependent on the colonial-imposed imperative to produce income-generating export crops. The Military administration believed that the central organisation of surplus rice production and distribution would ensure that Java generated adequate food supplies for the community and war needs. By instituting a centrally controlled monopoly distribution system the Japanese had clearly failed to appreciate the complexity and antagonism of relations between Indonesian villagers, luruhs and Chinese millers, brokers and money-lenders (Sato, 1994:113). The institutional changes imposed by the Japanese to achieve their wartime output objectives redefined the basis of subsistence production organisation, and, reflective of the complex socio-economic relations that underscored the system of production and distribution, unleashed political changes that would have a profound impact on Indonesia's political future.

The central authority set purchase targets, purchase quotas, the minimum purchase price of paddy, and maximum retail price of husked rice. Senior Dutch state officials were replaced by Japanese to enforce the policy through the 'second tier' of indigenous rule under the dual administrative system – in particular the *pangreh praja*. Sales centres were established across Java, with mills required to buy paddy at fixed official prices, and to sell the processed rice to the central state distribution agency, which sold it to wholesalers. With the village as the collection centre for

harvested rice, the *pangreh praja* were granted increased authority and financial power to carry out requisition and distribution (Sato, 1994:116).

The scarcity of rice generated a high black market price and its widespread use as a means of exchange. The *pangreh praja* often tapped the growing black market by filling quotas with other villagers rice and black-marketing their own, often in collusion with Chinese rice dealers (Benda, 1958:46). Although the *pangreh praja* system of middle-management was seen by villagers as corrupt, the Japanese nevertheless extended the arrangement, substituting *pangreh praja* for Chinese rice millers as agents in the rice delivery system. The village then became the collection centre for harvested rice. The *pangreh praja* were given the important role of distribution, with increased authority and financial power. They were also obliged to act as rice requisitioners (Sato, 1994:116). Nevertheless, the Japanese attempt at 'Indonesianisation' of requisition and distribution served to locate the *pangreh praja* in a position of apparent complicity with the occupation regime, thus further undermining their traditional status in the eyes of the peasantry.

There is no doubt that many *pangreh praja* exploited their intermediary role and proved the public image of them as profiteers and willing accomplices of the Japanese. Nevertheless, the problems of rice distribution and declining incomes resulted more from Japanese administrative incompetence. The administration had failed to anticipate either the difficulties in transporting rice between the huge number of islands, especially with the Allies' wholesale destruction of the merchant shipping, or that huge supply discrepancies between regions that would lead to substantial price differences between black markets and the official market, and smuggling of rice to the areas of high demand and ability to pay (Nishijima and Kishi, 1965:281). As the difficulties with rice distribution grew, the Military administration forced the *pangreh praja* to increase their collections. Forced deliveries ranged from 10 per cent to 30 per cent of the harvest irrespective of grades of rice fields. Large holders were mostly left with large amounts of rice for self-consumption (or the black market) whilst small holders had a minimal amount left for subsistence (Nishijima and Kishi, 1965:283). The inability of the Japanese to ensure an adequate and equitable distribution of rice emerged as a fundamental obstacle to the national productivity objectives, and serve to consolidate the growing antagonism towards the Japanese.

Sanyo

Clearly unable to overcome the production and distribution constraints on the supply of food that were a legacy of colonial rule, the Japanese employed *Sanyo* - Indonesian political advisers – to advise them of ways to overcome these (Sato, 1994:22). Sato contends that Indonesian nationalist representatives supported the Japanese centralised rice production and distribution arrangements in a ‘near universal consensus’ that the problems of distributing food to the peasants were solely a matter of technical organisation, resolvable by tightening central control (Sato, 1994: 141). As *Sanyo* were generally drawn from the Dutch-educated intellectual elite, it is likely that they were out of touch with the general population and the processes, attitudes and approaches operating at village level. Hatta opposed the general *Sanyo* opinion and argued that rice production ‘had intricate relations with the entire economic and spiritual life in the village, and therefore at least some degree of freedom should be left to the villagers’ (Sato, 1994: 140). The ‘technical’ explanation also did not take account of the fact the population believed - as we have seen - that the Japanese were taking rice ‘out of their Residencies, and even outside Java itself’ (Sato, 1994: 140).

Whatever the logic underlying the contested understandings of the reasons for the problems of rice distribution, it is clear that the changes instituted by the Military administration had momentous implications for subsequent systems of subsistence production and distribution. The Chinese dominance and institutional linkages defining the pre-war rice production and distribution system were now largely undermined or destroyed. The traditional indigenous elite was now in disrepute, consolidating the political antagonism that grew from its role as agents of the Dutch. The nationalist movement was clearly supportive of a centralised restructuring of agricultural production and surplus distribution. The most significant impact of the occupation is thus seen as the ‘freeing up’ of institutional and political relations in order to accommodate the Japanese regime’s centrist war-goals.

Rupturing of the exclusionary process

This severing of some of the fundamental institutional and distributional ties that had locked systems of production into the Dutch world economic system played a vital

role in revitalising and mobilising the anti-colonial political forces that were to erupt in the struggle for independence. The way in which these political connections developed constitutes this analysis of the final phase of the Japanese military occupation.

The general objective of Japanese imperialism was to create the political acceptance of Japanese expansionism and thus secure the productive base and the reproduction of labour force. The most crucial politically destabilising dynamic inherent in the Japanese system of appropriation was the cementing of an anti-imperialist sentiment and the creation of an indigenous political mobilisation. Designed to stabilise the occupation regime and create a physical and ideological environment to best serve the needs of Japan, mobilisation acted to reinforce popular antagonism and motivate and unify the population for independence. Based on the presumption that people still kept the illusion of Japanese benevolence and mutual support, the Japanese put major effort into creating a mass political mobilisation towards economic self-sufficiency and defence against the Allies. The Dutch had destroyed any potential for mass political mobilisation, with exclusion depending on an apolitical workforce, but a key strategic component of Japanese rule was mass political mobilisation. Thus whilst the Japanese did not intend to enable direct independence, the substantive force they unleashed was a strong and united national anti-colonial ethos.

The social and economic chaos arising from the rice delivery and *romusha* programs, and the acute shortage of consumer goods, and the brutal treatment of the population by the occupation force, each placed pressures on the mobilisation of resources. The inability to generate adequate supplies was followed by increasingly oppressive production demands on the Indonesian population.

One of the most noteworthy paradoxes of the Japanese Military administration's endeavours to assert its authority over the economic landscape was that it sought to do this in conjunction with and through managing indigenous political forces. The administration did this directly. It repressed pro-western and pro-socialist supporters, prohibited all political activity, and imposed capital punishment for any actions seen as anti-Japanese, on the basis that such groups could frustrate its economic objectives. On the other hand, it strongly supported Muslim groups including politicians,

religious teachers, landowners and businessmen and nationalist supporters. Muslim groups were seen as a useful means of unifying the population as part of the general strategy of war mobilisation against the Allies, and in the implementation of national productivity objectives. One of the consequences was that the key Islamic organisations of *Kiai* and *Ulama* emerged as the elite classes.

The administration also launched more broadly based programs designed to win Indonesians' hearts and minds to the Japanese cause. It undertook an ideological campaign based on a 'peoples' mobilisation. This was launched in April 1942 with the AAA Movement: Japan the Leader of Asia, Japan the Light of Asia, and Japan the Protector of Asia. The official objective of the organisation was the elimination of western influences, and the dedication of their labour to the Japanese empire (Fischer, 1959:71). As the war proceeded and Japanese oppression of Indonesians increased, any popular support for the AAA collapsed. The failure of the AAA drove the Japanese to attempt a further general mobilisation for the war effort by increasing the popular expectation for post-war political independence. This mobilisation support campaign was carried out from March 1943 by the *Poetera* (the centre for People's Power) (Nishijima and Kishi, 1965:346).

In 1943 as the war in the Pacific was being lost for Japan, the regime increasingly turned to the use of local people to bolster defence. Japanese political mobilisation was largely directed to the youth, as opposed to the older generation who were said by the Japanese to have been 'contaminated' by the Dutch colonial system (Said, 1992:6). The Japanese began to recruit, train, arm and organise *pemuda* (Indonesian youth activists) into battalions. These young activists became a unified, well-trained and motivated group of defenders of independence, who would brook no reservations about the need for a fierce struggle both against the Japanese remaining in the country to 'pass it back' to the Dutch; and the Allied forces determined to re-assert western colonial control. There were several military youth organisations such as *Peta* sent to training centres to build expertise as guerrilla fighters and later to fight the Allies as a 'People's Army' (Moenandar, 1969:13).

Tightening the screws: a lost war

In early 1944, the colonial regime worked with indigenous business to propagandise plans for a new economic order. The Military Government regime decreed that the economic order should be based on an 'Oriental Morality', where 'loyalty, and public service comprised the essential elements' (Post, 1997:106). This was strongly supported by local entrepreneurs as a means of building economic strength in opposition to the return of Dutch and Chinese economic control (Post, 1997:106).

As the Allies came closer to defeating the Japanese, the Japanese supported the development of an active militarist independence movement to protect Indonesia from the 'western imperialists'. In early March 1945 the Japanese regime formed a committee of Indonesians and Japanese under the Chairmanship of Sukarno to investigate preparations for independence (Kanahele, 1967:184). The Japanese imposed the condition that an independent Indonesia would remain a member of the Japanese alliance (Kanahele, 1967:197). On the 28th May Sukarno urged Indonesian nationalist leaders to form a 'constitutional congress' to negotiate a formal constitution for an Indonesian Republic (May, 1978:60). However, Muslim leaders insisted on an Islamic state. The compromise Independence credo of the 'Jakarta Charter' (Appendix 2) was hammered out providing Islamic law as 'only binding on those professing the faith' (May, 1978:60).

Defeat of Dutch and dawning of independence

Following the Allies' defeat of Japan on 15 August 1945, Japanese commanders were instructed by the Allied forces not to grant independence to Indonesia. Nevertheless, on 17th August Indonesian leaders broadcast their Proclamation of Independence (Appendix 1). This was followed by the Preparatory Committee's appointment of Sukarno as President and Hatta as Vice-President of the Republic of Indonesia. British troops began landing in Java in September. Indonesian guerrillas launched attacks on British positions but the British, despite their superior weapons and forces, including crack Punjabi troops, took three weeks to subdue them. Subsequently the British facilitated the return of the Dutch (May, 1978:62).

Conclusion

The Japanese military occupation had substantive impacts on Indonesia's political and economic organisation. This has given rise to the perception that this era represented a watershed in Indonesian politico-economic relations, where the monolithic militarist apparatus of Japanese imperialism demolished long-running systems of European appropriation. This research suggests, however, that the basic elements of production-organisation were not destroyed but regenerated in a form that superseded the Dutch constraining system of exclusionary-extraction to form the foundations for post-war centralised systems of economic organisation.

This conclusion is derived from an understanding that the pre-war Japanese business intervention defined and consolidated tendencies for indigenous economic dynamism inherent in the Indonesian indigenous politico-economic system but restrained by the exclusionary character of Dutch rule. In this understanding the Japanese pre-war business forays occurred at a strategically and financially propitious time both for the Japanese state and business, and, importantly, for the indigenous nationalist movement and Indonesian business. The Japanese business intervention, the direct Japanese support for indigenous industry, the expanded opportunities for Japanese intervention under the imprimatur of the colonial state, and the Chinese boycott threw into stark relief the possibilities for a Japanese-supported undercutting of the Dutch state and class system of colonial appropriation. For indigenous business, it illuminated the possibility that indigenous businesses could overthrow Chinese markets and scale the corporate heights of capital control in Indonesia. For nationalists generally, it supported the conception of an overthrow of Dutch political and economic exclusion to underpin nationalist sovereignty.

In this latter regard, the Japanese business challenge to Chinese commercial dominance constituted a challenge to the exclusionary system of colonial appropriation. Colonial exclusion depended upon the Chinese commercial intermediary role in the running of the internal, subsidiary economy. The Chinese supply of credit, other commercial facilities, and mass-consumption goods for Indonesians was essential for the ordering of the colonial economy, especially in an era of increasing labour commodification and the erosion of village systems of

subsistence-support. Japanese merchants symbiotic relationship with Indonesian producers, consumers, and independence movements undermined this Chinese financial dominance.

The pre-war ‘waves’ of Japanese engagement precipitated a symbiotic relation between the Japanese and the Indonesians where Japanese’ politico-economic ambitions melded with Indonesians’ political economic ambitions to dismantle the Chinese/Dutch monopoly. Japanese corporate consolidation of internal markets through joint capital enterprise with indigenous entrepreneurs and direct sale of Japanese products to Indonesians allowed Japan to enter the window of opportunity presented by the colonial regime’s exclusionary preoccupation with commodity appropriation.

On the Indonesian nationalists’ side, the Japanese pre-war intervention inspired and supported anti-colonial mobilisation and indigenous capital development. These interventions is seen as crucially important in the overall investigation of continuities across succeeding ruling systems, especially with regard to the way states order and reorder the regulatory system to facilitate capital accumulation. In this instance the intervention is seen as shining a beacon-light of indigenous business accumulation possibilities that could accrue from the white-anting of the exclusionary system. In the political context, the Japanese investment and political liaisons with Indonesians and Indonesian political associations consolidated independence activism. Japan’s growing international status as a world power created a greater local appreciation of the possibilities for an Asian-led regional political and economic dominance to replace European colonial control.

This brief history of the Japanese occupation reiterates a key element of the analysis, namely, the destabilisation or rupture of successive regimes of appropriation and the implications of this change for the development of the subsequent regimes. In hindsight, it is perhaps evident that whilst the Japanese commercial intervention was a provocative threat to colonial rule – especially given the rise in industrial and independence activism – the Dutch colonial regime did little to inhibit Japanese access or develop counter-strategies of competitive industrialisation. The Dutch remained intransigent, resistant to effecting changes to the regime of appropriation on

which their former success had been built, and this was notwithstanding the onset of the Depression nor of signs of impending political challenge. Indeed, it was this inflexibility that consolidated nationalist antagonism to Dutch rule and laid the basis for the reception of the Japanese business expansion into Indonesia, thereby providing a greater entré for a developing Japanese imperialism to effect a rupture in Dutch economic and political rule.

The Dutch acquiescence to the Japanese political and economic intervention is only explicable when considered in the light of a major conceptual theme of this research that the fundamental conditions defining the success of ruling regime tend to inhibit the regime's ability to transform the system to accommodate internal or external threats. Thus the Dutch presumed that a colonial surplus could only be generated from the extraction of commodities employing an exclusionary system of production-control and trade. The Dutch colonial preoccupation with maintaining resource appropriation and the exclusionary apparatus as the mainstay of colonial wealth-generation led to an inability to compete with the Japanese or even perceive a threat posed by the Japanese pre-war intervention.

The Japanese militarist occupation of Indonesia gave direction and impetus to these pre-war strands of political and economic change. The Military Government's destruction of the exclusionary chains restraining production and distribution systems under Chinese and Dutch control presented new economic possibilities for post-war production organisation. No longer would these chains determine Indonesians as producers, and foreign interests as owners and controllers of the production process. The occupation, by overthrowing the exclusionary system of centralised production organisation, opened the productive apparatus to the potential of national control. This, however, foreshadowed the use of these institutional changes to construct a manufacturing base of a strongly disciplined, cheap and plentiful labour supply.

Whilst the price of this demolition was the *romusha* system of centrally controlled and coercive labour disciplining, the fact of Japanese oppression as an overwhelming feature of the Military administration's control affirmed the nationalists' determination to break colonial ties of whatever origin. The Military administration's overall campaign of bringing Indonesians' into the political process, albeit as a means

of supporting the Japanese as a foreign and brutally repressive, power, was the means by which the pent-up nationalist aspirations could be liberated. This mobilisation of the masses, later supported by the Military administration's decision to arm Indonesians to oppose the Allies, became the politico-military agency that underpinned the post-war revolutionary movement for national independence. The Japanese occupation had, in effect, transformed an impotent independence movement that the Dutch had been able to repress with only 40,000 troops. By the end of the Japanese occupation, Allied forces had major difficulties in militarily wresting post-war territorial control from the Indonesians with 145,000 troops (Gotta Ken'ichi, 1997:15). The legacy of Japanese imperialism was that it had acted as a catalyst in mobilising mass action against any form of foreign intervention and politico-economic control.

Chapter 6

Revolution and Independence: the seizing and entrenchment of nationalist power

“The Netherlands East Indies were ... in essence an extension of metropolitan Netherlands in Europe and of its economy, its energies, enterprise, indeed of all its intrinsics. It was we who made this archipelago what it is. It was we who fashioned its great and modern agricultural structure, we ordered its communications, we gave it a clean bill of health, our technicians worked wonders in every field. We made the Indies.” From the Netherlands WWII Prime Minister’s Autobiography (Gerbrandy, 1950:28).

Following the defeat of the Japanese, Indonesians united to seize national sovereignty for their country. Republican leaders set in place the institutions and procedures necessary for the assumption of government and the securing of international political recognition for the Republic. This chapter describes how these plans were frustrated by international strategic and economic objectives for Indonesia. It describes the Republicans’ ‘trial of fire’ as they fought to gain territorial control in the face of Allied nations’ political and military determination to reimpose Dutch colonial authority.

The eventual achievement of independence, and the setting in place of national political and economic agendas, is considered in this context of international strategic and corporate objectives. The US’ political, strategic, and economic objectives for the region are located as part of the international systemic struggle against the ‘old guard’ of colonial European state and corporate interests. The substantive theme is the association between international capital’s re-engagement and intervention into the Indonesian political economy and the impact of this intervention on the character of nationalist economic organisation. A primary focus is on the way in which the Japanese demolition of colonial organisational relations and distributional linkages presented new opportunities for international interests as well as Republican policy-

makers. This establishes the basis for a determination of the character of the developing forms of production and distribution.

The Indonesian state faced competing class interests in the struggle for control over the distribution of the national surplus. The endeavour to strike a compromise between the demands of international capital and a populist demand for economic sovereignty forms the core focus of this chapter. This analytical focus seeks to develop an alternative appreciation of the political tensions of post-war Indonesia to those provided by established interpretations that explain the conflicts as purely a contest for political power.

The analysis focuses on comprehending the force of class relations in driving political conflict and rupture through an examination of the ruling elite's enforcement of a strongly regulated labour supply for foreign corporate interests. It will then explore the ways in which the Republican state's re-establishment of colonial systems and agencies of wealth appropriation contributed to the compromising Indonesian economic sovereignty. The chapter then explores the consequences of the re-establishment of colonial relations, especially in terms of how this was reflected through the reinstatement of colonial forms of class control, specifically over labour. The emphasis seeks to draw out the importance of the influence of the multiple actors in defining reactions to this, especially in terms of the ways in which the opposition to the endeavours to rebuild the colonial system were manifested through political and industrial challenges. In doing so, the analysis will provide a basis for reinterpreting the perceived schism between national and international corporate and strategic interests, as more fundamentally a contest over the control of the production apparatus and labour-force. I will examine the significance of this class-based process through an examination of the conflict between provincial separatist movements and the, largely Java-based, mass movement for national unity.

Much of the literature has characterised this era as merely a 'political interregnum' of intense political conflict. This perspective posits the ruling elite's lack of resolution as the source of succeeding regime's inability to enforce political calm and orderly economic growth. This thesis, however, seeks to develop an alternative interpretation that shows on the one hand that the regime faced irreconcilable expectations and

demands from conflicting class interests. This is portrayed as the ‘working out’ of the competing class interests of labour and capital that led to the national unification agenda as epitomised by Sukarno’s NASOKIM credo. On the other hand, whilst the ruling elite faced largely insurmountable problems of post-war reconstruction, I want to explore how successive regimes laid the vital foundations for subsequent economic growth and capital accumulation.

Revolutionary war

On 15th August 1945 Japan surrendered to the Allies. On 17th August 1945 Sukarno and Hatta attempted to forestall Dutch recolonisation by broadcasting a formal declaration of National Independence (the Proclamation, Appendix 1). Sukarno and Hatta also released the key elements of the nationalist credo encapsulated in a Constitution for the sovereign state of Indonesia. The 1945 Constitution remains a core component of Indonesian nationalist ideals for Republican rule. On 18th August, the Nationalist representative body, the *Panitia*, appointed Sukarno President, and Hatta Vice-President, of the Indonesian Republic. The Proclamation, Constitution, and appointment of these leaders signified that Sukarno and Hatta were now the formal representatives of a vast, nationally unified and mobilised force of nationalists and their supporters. On the 5th October, Sukarno consolidated the military components of this force within a national army called the *Tentara Keselamatan Rakyat* or the Army of Peoples’ Security (Said, 1991:25). The incorporation of this national military force within all aspects of political organisation and international relations set in train the dual role of the military as a political as well as a security force. The melding of the youth military-forces (the *pemuda*) into a ‘well-trained and highly motivated entity’ by Japanese-occupying forces had spearheaded this role, with the more dynamic and vigorous element of the nationalist movement mobilised as a military force against Allied attempts to recolonise their country (Said, 1991:6).

Sukarno and Hatta’s endorsement of the 1945 Constitution represented their intention to accomplish the masses’ aspirations for economic, as well as political, sovereignty. This aspiration was a core credo of the nationalist movement from its earliest phase when the founder of Sareket Islam, Hiji Salim, promoted the concept of economic sovereignty (Hadiz and Chalmers, 1997:9). The Constitution incorporated this

aspiration by calling for the destruction of the *ekonomi kolonial* and the establishment of an *ekonomi nasional* (Hadiz and Chalmers, 1997:8). The system of Dutch exclusionary extraction had to be swept away as an anachronistic obstacle to indigenous economic dynamism and social justice. The Constitution promoted the breaking of the shackles of western imperialist control over key economic sectors in order to allow the economy to be redirected by the state towards satisfying Indonesia's material and reproductive needs. The colonial reliance on primary exports was to be replaced by economic 'diversification'. The demolition of restrictions on indigenous investment would free the entrepreneurial initiative previously constrained by the exclusionary system, and allow Indonesian business to generate the profits necessary for capital development and economic advancement.

Whilst economic sovereignty was introduced as a rallying-cry for indigenous business as they struggled to expand in the face of colonial exclusionary systems, it was seized upon by Marxist and socialist nationalists to justify state economic control. They rejected the path of parliamentary reformism towards political sovereignty whereby the Republican state would merely supervise the transition from a foreign corporate-dominated economy to one that allowed unrestricted indigenous private corporate activity. They equated this with a return to the systems of colonial economic control with indigenous business merely 'adding on' a layer of Indonesian economic participation whilst reasserting the forms of labour-control. The Marxist and socialist agenda proposed a broad state interventionist program incorporating the state-ownership and control of key economic sectors. This is evident in Article 33 of the constitution where:

1. 'The economy will be organised collectively on the basis of the Family Principle;
2. The state will control (*menguasai*) branches of production which govern the lives of the masses; and
3. The earth, water and the natural resources they contain will be controlled by the state, and used, as much as possible, for the welfare of the people' (Hadiz and Chalmers, 1997:9).

Whilst there was a degree of unanimity across the Indonesian class spectrum in support of economic sovereignty, this appears as an artificial alliance of essentially

opposed class interests. The chasm between the indigenous capital interests and those supporting strong state economic intervention, ownership, and control would break open once political sovereignty had been achieved. In the meantime, however, it was imperative for all nationalists to maintain national unity in the face of the Allies war against the Republic. Again, however, the 'class-threat' character of the Republican agenda represented the key element of Allied opposition to Indonesian independence. This foreshadows the Allies' military and political resistance to those elements of the nationalist leadership, and to the Republican credo that threatened private corporate ownership in Indonesia.

The post-war reassertion of western political and economic power

This analysis of Indonesian production organisation has focused on the Asian arena where the locus of control appeared to be moving in Indonesians' favour, largely as the result of the Japanese regime's rupture of Dutch systems of appropriation. The defeat of the Japanese shifts the analytical focus back to the European arena of political and economic power-relations as western forces moved to re-assert their control over Indonesia's political and economic future. The first indication of this shift was the Allied order to the defeated Japanese forces to secure the colonial status quo in Indonesia (Said, 1991:10). Taking no account of nationalist ambitions, the US-led Allied powers used their military, political, and economic might to place the future of Indonesia in a 'holding pattern' whilst final decisions were made about the nation's place in the global political economy. This treatment provoked Indonesian outrage and an archipelago-wide violent confrontation with the Japanese forces.

The nature of the international power-plays over Indonesia's post-war future is illuminated by an appreciation that the Allies' policy decisions regarding Indonesia's future, especially those concerning political sovereignty, primarily turned on the issue of access to Indonesia's resources. The western-Allies' post-war strategic and economic agenda was vitally dependent on the unrestrained supply of the sorts of resources that Indonesia could provide, and on a secure state-control of the production and extractive apparatus. In the strategic context of the post-war territorial division between the major Allied and USSR powers, the US's prime concern was to combat communism by restoring capitalist production and reviving regional markets. The US

determined that Holland was to be restored as a major bulwark of the western-European trading, business and security regime. This could only be accomplished by restoring Holland's fortunes, in particular through the restoration of the Dutch East Indies to Dutch 'ownership'. To accomplish the resource-extractive imperatives it was vital that all nationalist opposition be demolished. The final US decision to support Dutch recolonisation of Indonesia was contingent not only on their ability to suppress nationalist opposition, but also on the Netherlands' acceptance of the US condition to open unrestricted US and Japanese access to Indonesian resources.

Recolonisation

Following the Allies' agreement on Dutch recolonisation, western states and corporations moved quickly to stifle Indonesians' ambitions for economic and political sovereignty. Those European resource-extractive and distributive firms that had been a mainstay of colonial wealth-generation re-established their Indonesian bases, and Allied forces commenced their military offensive against the Indonesian nationalist forces.

Foreign economic control was affected through the power of large merchant houses drawing on their international trading connections to assert considerable financial and technical dominance over Indonesian markets. The major companies were the Dutch 'Big Five' of Borsumij, Jacobson van den Berg, George Wehry, the Internationale Crediet en Handelsvereniging 'Rotterdam' (the Rotterdam Trading Society or *Internatio*, as it is commonly called), and Lindeteves and the English merchant house of MacLaine Watson (Furnivall, 1969:167). The interests of these companies extended throughout Indonesia, principally dealing in commercial activities, but also incorporating manufacturing industry and agricultural estates (Allen and Donnithorne, 1962:61). The Company of Jacobson van den Berg is a strong example of the international connections of the 'Big Five'. Incorporated in 1860, the Company was affiliated with many companies throughout the world, and had offices in most Indonesian trading centres. Prior to World War II the Company was a major importer of manufactured goods, and exported most types of Indonesian produce. In the post war period it extended its operations to manufacturing, owning or acting as sales

agent to a wide variety of manufacturing establishments (Allen and Donnithorne, 1962:61).

The pivotal consideration for Western Allied powers resided in their need to satisfy a vastly expanded demand for a secure supply of resources for post-war industrialisation. During the War the US State Department's Political Adviser on Far Eastern Affairs warned the US government that 'only on the lands west of the Pacific, and especially in South East Asia is our dependence so vital and complete that our very existence as a great industrial power, and perhaps even as an independent state, is threatened if the sources (of raw material) should be cut off' (Caldwell and Utrecht, 1979:71). To ensure this supply, the Allies had to effect control over Indonesia's productive apparatus and resource-base and block Indonesian nationalists' moves to establish indigenous economic sovereignty or to nationalise foreign firms. The US believed that a Dutch regime, strongly dependent on the US for finance and military equipment, would be prepared to countenance US access to its resources and not reinstate pre-war Dutch-style cartels and constraints on US and Japanese trade.

Secondly, there were European strategic considerations involved with the restoration of Indonesia under Dutch rule. The US determined to establish a capitalist-state bulwark against the perceived threat of Soviet expansionism. This formed the basis for Marshall plan aid, and the North Atlantic Treaty Organisation alliance of anti-communist states (Said, 1991:93). The Netherlands – and Dutch cooperation – was a vital strategic component of these Cold War 'containment' strategies (Said, 1991:93). The success of this policy depended on the restoration of a major source of Holland's wealth and resources, the Dutch East Indies. Thus the US State Department had no intention of intervening in support of the Indonesians resistance to the harsh militarist reimposition of colonial rule. A further strategic consideration reinforcing the US commitment to the re-establishment of Dutch rule emerged with the USSR's move to extend its regional support for post-colonial development in the Asia Pacific. The USSR's ambitions posed a threat to capitalist expansion and regional security.

Finally, the US determined that it was strategically and economically imperative for Japan's industrial base to be restored to enable its full participation in the proposed new international capitalist economic order. Thus the War reparations negotiations

with Japan, encapsulated in the San Francisco Peace Treaty's indemnity arrangements for Japan to pay compensation for their military invasions in the region, included a US guarantee that Japan would gain open access to South East Asian resources and markets. Japan used the indemnities to negotiate the promotion of Japanese heavy industries in Indonesia. This then became part of mutual economic cooperation policies, and official development assistance, where indemnities and development aid 'were tied up with the export of equipment and sometimes whole plants from Japan' (Caldwell and Utrecht, 1979:68).

Allied war against the Indonesian Nationalists

Within two months of the Japanese surrender the US moved to support the Dutch re-colonisation objective. On 29 September 1945, the Allied commander Mountbatten deployed airborne commandos to transfer Indonesian territory and resources from Japanese to Allied forces. The Allies were confronted by a politically mobilised mass of Indonesian smallholders, peasants, students, and indentured and industrial labour. The Allied command gave the task of 'restoration of law and order' to the British, with the immediate imperative to control the chief cities and ports of Java and Sumatra rather than the disarming of Japanese forces. Further, the British Command took the highly provocative step of employing Japanese forces to repress Indonesian Nationalist forces by ordering Japanese commanders to recapture Indonesian-held cities (Kahin, 1969:144).

Indonesian nationalist militancy was a major threat to Dutch plans for peaceful reoccupation. The Dutch clearly presumed that the independence movement would be weak, divided and non-confrontationist. The Proclamation, however, triggered nationwide mass actions against foreign domination. Indonesians saw the Constitution and Proclamation as the final phase in their long-term struggle to dismantle colonial political and economic controls and to return peasant lands that had been alienated to foreign corporate-plantations. The Republican struggle took a variety of forms, such as trade-union militancy, the seizure of Dutch and Japanese property, and huge demonstrations that led cities and towns declaring themselves for the Republic and to be controlled by Indonesians (Bey, 1961:82). The immensity of this opposition and the Dutch determination to quash it led to Holland's spending eighty four million of

the total \$ 506 million US Marshall Plan post-war reconstruction aid to finance the war against the Indonesian independence forces (Bey, 1961:82).

The revolutionary struggle

The state of military preparedness and evidence of a measure of pragmatism among the Indonesian national leadership prompted an attempt to compromise over the terms of achieving a form of Indonesian rule. The division within the Revolutionary Cabinet over the responses to the Allied attempts to recolonise the country can be baldly described as based on the pre-War group of nationalist leaders and the *pemuda* youth forces. Whilst Sukarno and Hatta took the side of the *pemuda*, the pragmatists of the nationalist 'old guard' moved to mollify international political concern over the character of the leadership and its economic direction. This pragmatism was made explicit in the public statement by the factional leader – Syahrir – that 'Indonesia is geographically situated within the sphere of influence of Anglo-Saxon capitalism and imperialism. Accordingly, Indonesia's fate ultimately depends on the fate of Anglo-Saxon capitalism and imperialism' (Said, 1991:40). With the Allies believing that Sukarno and Hatta were 'puppets' of the Japanese, apparently supporting Japanese wartime imperatives in Indonesia, these leaders were forced to stand aside from leadership decision-making. In November 1945 the majority in Cabinet made Syahrir, a former militant opponent of Japanese imperialism and a member of the nationalist underground, Prime Minister.

The Allies also rejected the Proclamation of Independence and the Constitution representing them as part of the Japanese strategy to retain territorial and political control over Indonesia. The leadership under Syahrir now declared their opposition to the nationalisation of foreign corporations and any restrictions on the terms of foreign investment within Indonesia. Syahrir promulgated a new constitution excluding any reference to nationalisation. The new constitution completed the transformation from a position asserting a strong interventionist state to western-style reformist, market-liberal, parliamentary democratic systems by scrapping the clause giving the President power over Cabinet and by making Cabinet-members responsible to the parliament rather than the President (Oey, 1981:32). The new Cabinet's priority was to represent itself to the UN as a western-style democracy, supportive of western alliances and

presenting no threat to foreign capital ownership. The leadership was determined to convince world-forums, such as the United Nations, of the Republican movement's aspirations to progress peacefully towards a political democracy. This appeal for an international acknowledgement of Indonesians rights of self-determination was designed to conform to the ideals of the Atlantic Charter (Cribb, 1991:58).

Nationalist ambition

The leadership's pragmatism belied a mass-determination to expel all foreign corporate owners and assert indigenous control. The pre-war united campaigns with nationalist political organisations were predicated on a post-war promise of fairer working conditions, higher pay, and the demolition of colonial systems of labour-regulation. Many workers were in no mood to brook a gradualist industrial program of accommodation with a returned foreign apparatus of labour regulation. Workers and peasants led militant campaigns to take over foreign enterprises, eject foreign owners, and overturn colonial systems of production control especially in the corporate plantations of Java and Sumatra. Industrial unions led national campaigns for industrial reform.

In September 1945, workers' representatives travelled to Jakarta to attend a conference dedicated to the promotion of a major role for labour in the management of the Republican state. There was substantial pressure by the conference to transform the labour movement into a political party. In November, the leaders of the General Indonesia Trade Union (*Barisan Buruh Indonesia*) set up the Indonesian Labour Party (*Party Buruh Indonesia*), largely following the direction of, and supporting, the Socialist Party (Kahin, 1969:161).

Dutch re-occupation - 'Police Action'

Whilst Indonesians moved to create the essential components to institute a Republican state, and whilst international negotiations for a peaceful solution were underway in Europe and the U.N., the Dutch moved to impose their re-occupation through military force. Consistent with their belief that the benevolence of their colonial regime was sufficient cause for the Indonesian people to accept their post-war return, Dutch authorities represented the Republican opposition as a minority of dissidents and

criminal elements. This justified the representation of the military confrontation with the Republican forces as not a 'war' but a 'civil disturbance', punishable by 'police actions'.⁴

In contradistinction to this façade that the Dutch military interventions were merely 'police actions to restore law and order', the Dutch forces used whatever war-tactics deemed necessary to expand territorial control. This included the colonial tactic of building regional allegiances with sympathetic *bupati*, and, having achieved military control, declaring these 'pacified' regions part of a federation of Indonesian states under Netherlands sovereignty. However, whilst the Dutch imposed rule by absolute force in key areas of Java and Sumatra, for many, largely Outer Island, provinces the indigenous elite were not opposed to Dutch colonial reoccupation. These *bupati* believed independence – especially under Java-centric rule – threatened their wealth, status, and tribute that had been cultivated by the Dutch colonial rulers. The Dutch pledged to return this traditional privilege and affirm their political power over the peasantry (Caldwell, 1970:77). With this provincial support by December 1946 the Dutch had seized control of several Javan regions and created the Dutch state of East Java.

The brutality of the Dutch campaign, and the contradictions between the imagery of a benign colonial power and the ruthless methods by which that former power reimposed Dutch rule, mobilised a nationalist activism largely overriding internal political divisions. Three years of unsuccessful attempts by the Dutch to reimpose colonial rule convinced their US allies to caution more diplomatic ways of proceeding. Certainly the degree of Indonesian hostility towards the Dutch would have indicated to the US administration the futility of pouring further Marshall aid into this 'black hole' of defence expenditure, without any guarantee of future assurance of secure extraction of Indonesia's resources.

On the 17th of January 1948 the US government withdrew political support for Holland, and facilitated peace talks between the Dutch and Indonesians on the US

⁴ This representation continued to influence interpretations of post-war Indonesia, as might be noted by reference to a western economic developmentalist text that refers to the occupation of foreign companies by nationalist forces as 'the activities of bandits' and 'marauding bands' (Allen and Donnithorne, 1962:134).

warship, Renville. The consequent 'Renville Agreement' -defined the terms of a future independent Republic. When the Dutch broke the Agreement, the US threatened to remove Marshall Plan aid. By November 1949 the Dutch reluctantly acceded to the US pressure and organised a peace conference at The Hague. At this Roundtable Conference Agreement (RTC) the Dutch finally acknowledged Indonesian's right to political sovereignty, albeit within an Indonesian-ruled 'federation' of the United States of Indonesia that included several pro-Dutch states.

The US pressure to call a halt to the Republican revolutionary war reflected well-defined economic and strategic objectives with respect to Indonesia's future. In return for US support for a degree of political sovereignty, the RTC Agreement imposed conditions on the Republican leadership to restrict the scope of its independence ambitions. A crucial element of the RTC Agreement was the obligation for the Indonesian leadership to renege on all aspects of the nationalist revolutionary credo relating to state economic intervention and control of foreign-owned extractive industry, financial and trading institutions. Republican leaders agreed to return foreign-owned property seized during the Revolutionary period and to guarantee all private company 'rights, concessions, and licenses granted to private organisations according to law and still in effect at the time of the transfer of sovereignty' and to restore these rights (Furnivall, 1969:154). In other words the Republican representatives were forced to guarantee the safety of all Dutch capital invested in Indonesia (Oey, 1981:40). In August 1950 the aspirations embodied in the 1945 Constitution were buried with the promulgation of a new Constitution incorporating the major tenets of the RTC Agreement.

The Dutch war of reoccupation was a struggle for the political and economic control of Indonesia's resources. The Dutch conducted a vicious war of political duplicity and military brutality towards this end. The callous indignity of the war's resolution, in the wake of years of deprivation and destruction during the Japanese occupation, left anti-colonial scars and a growing determination to assert economic as well as political sovereignty.

Parliamentary Democracy: 1949 – 1957

The Republican state's urgent task was to build a strong self-sufficient economy by regenerating the production apparatus to obtain economic self-sufficiency whilst paying off the debts to Holland imposed by the Round Table Agreement. A major debility was the RTA clause binding the Indonesian state to pay Holland the full costs for the Dutch war against the nationalist forces and to cover the debts of the former colony (Zainu'ddin, 1968:238).

The Dutch and the Japanese had left a legacy of low standards of living, inadequate food production and an almost non-existent industrial sector. Most colonial institutional and distributional ties locking Indonesian export production into the Dutch world economic system had been destroyed by war and revolution, and there was a need for massive re-capitalisation for repair, reconstruction and expansion of Indonesia's productive base. Whilst Republican policy options were clearly and severely constrained by the western Allies' strategic and economic agenda, the dominant element of the Republican leadership appears to have largely accommodated that agenda. This process of accommodation, and the interests it served, reflected the changing class interests in Indonesia with some groupings perceiving advantage from the western-determined economic parameters and institutions. This clear rejection of the nationalist ideals that lay at the core of the 1945 Constitution underscored the fundamental shift from an exclusionary system of colonial appropriation with Indonesians as the production force, and Europeans as owners of the productive apparatus, to the leadership's aspiration for the development of an indigenous bourgeoisie. With evidence of a growing chasm between popular aspirations for economic as well as political sovereignty, the development warrants further closer consideration.

The direction and impact of state economic policy

The accommodation with the US and the subsequent direction of the Republican leadership's policy directions could be attributed to the ideological and political orientation of those Indonesians who had assumed leadership. Most leaders were tutored in western educational institutions and inclined towards western parliamentary, legal, and administrative systems (Kahin, 1963:477). These

inclinations were reflected in the tenor of Republican policy, but also became encapsulated in the regime's economic policies, which had very definite class-implications. Most notably, the regime promoted private enterprise and market-led solutions as the optimal means for promoting economic development. The core focus on Republican economic regeneration programs effected changes in the organisation of production and the changed production-relations underpinning that organisation, and this will now be considered.

Indigenisation of the trading sector

The character of Republican economic development in Indonesia was underpinned by the colonial legacy of state corporate ownership. The Dutch colonial state's continuing role as entrepreneur created vast opportunities for the post-colonial state that signal an appreciation of the potential for national control over the major heights of the processes of capital accumulation. We are reminded that at various stages in colonial history, the Dutch state owned and operated not only public utilities but also agricultural estates, mines, trading and financial companies – such as the Java Bank and the N.H.M., and manufacturing concerns. The RI government inherited these estate properties, companies and infrastructure including dockyards, railways and airlines (Allen and Donnithorne, 1962: 60). In 1950 the government introduced the *Benteng* ('Fortress') program of indigenous business support. The program was introduced in response to Indonesian business' concern about the post-independence continued economic dominance of foreign economic interests. It was also moved by a demand to counter the imbalance of this dominance through the provision of state loans. The government determined to allocate funds to expand indigenous participation in the trading sector as giving the greatest opportunity for success with relatively low requirements of capital and business-expertise and experience.

The *Benteng* program provided credit from state banks and credit agencies and selectively applied import restrictions to protect indigenous traders. Protected firms had to be 100 per cent managed and 70 per cent owned by Indonesian indigenous nationals ('*bangsa Indonesia asli*') to receive state-support. Between 1950 and 1953 about 700 firms benefited from the plan (Furnivall, 1969: 168).

The allocation of state-funds towards securing the competitiveness of local firms within the strongly foreign-controlled trading sector was fraught with difficulty. The industry's dependency on consumer-good demand meant that when the substantial state expenditure for infrastructural redevelopment created inflation and increases in the prices of subsistence commodities, especially rice, the mass demand for imported goods declined. Furthermore, the limited supply of foreign exchange caused the government to ration credit to the local trading-firms. This limited the success of the *Benteng* program – with only about 10 per cent of total imports covered by the program at the end of 1951 – and this was compounded by, the lack of indigenous commercial and management expertise and international trading-links which disadvantaged local firms in the competition for market-share (Furnivall, 1969: 168).

Rural sector regeneration

The government followed the *Benteng* project by establishing the Central Trading Company to also sponsor indigenous trading enterprise but within the agricultural export sector. This Company facilitated the export of Indonesian agricultural products and factory produce and the import of the raw materials. The CTC was more successful than *Benteng* and by 1952 sixty per cent of national export income was generated by indigenous smallholder agricultural produce (Utrecht, 1987:178). The wartime demolition of exclusionary constraints meant that in the post-war environment, indigenous participation in world markets generated a massive expansion of output from small landholders. Smallholders' rubber production rose from 264,000 tons in 1940 to an average of 458,000 tons in 1950-57 (Furnivall, 1969:156). This increase represented a significant indication of the potential of unrestrained indigenous productivity, especially in contrast to the largely foreign-owned estates where exports for the same period declined from 281,000 to 242,000 tons (Furnivall, 1969:156). Peasant-owned areas under sugar cultivation grew from 71 hectares in 1950 to 24,031 hectares in 1955 (Furnivall, 1969:156).

Industrial projects

A further major state initiative was the Economic Urgency Program (*Program Urgensi Perekonomian*). This project was also designed to support indigenous business but concentrated on the manufacturing sector by cultivating small-scale

semi-rural 'people's industries' (Chalmers and Hadiz, 1997:11). The state supported the modernisation of cottage and handicraft industries from leather workshops to bronze smelters by providing technical aid, capital assistance and credit, and prohibiting non-*asli* investors and producers from access to the industry (Glassburner, 1962: 123). Again, however, the program was plagued by management problems, such as 'inexperience, administrative incompetence, and inadequate planning' (Furnivall, 1969:163). The program was abandoned in the mid-1950s (Chalmers and Hadiz, 1997:11).

The EUP also cultivated indigenous entrepreneurial penetration in the large-scale manufacturing sector. The government aimed to replicate the growth of Western industrialisation by expanding industrial manufacturing of consumer goods *vis-à-vis* rural unprocessed and part-processed commodity production. The government funded the establishment of large industrial plants intending to transfer the management of these firms to private, co-operative, or joint public-private ownership as they became economically viable. Government policy restricted foreign investor access, requiring that Indonesians own a majority of the stock. The state gave priority in the allocation of new enterprise' licenses allowing a graduated preference for indigenous nationals, non-indigenous nationals, and foreigners (Palmer, 1978: 164).

The state allocated more than five times as much finance (Rp.160 million) into the large-scale manufacturing as it did into the village cottage industry. Whilst showing a clear ability to become economically viable, these large firms did not precipitate the flurry of private entrepreneurial activity predicted by government planners. The state was forced to maintain government ownership of these new rubber remilling, printing, cotton spinning, cement, caustic soda, and coconut flour firms (Palmer, 1978: 163). Inflation also inhibited the success of these industrial projects and from 1956 the state reduced its expenditure in manufacturing production.

Problems of indigenous economic development – credit

Apart from a lack of entrepreneurs and expert managers, economic planners faced a severe lack of funds to provide credit for private investors. Credit restrictions inhibited most post-war expansion. Indonesian smallholders could not obtain the

capital necessary for replanting and proper agricultural support. It was estimated that about a quarter of smallholders plantings engaged in rubber cultivation and harvesting had become worthless due to lack of capitalisation (Allen and Donnithorne, 1962:137). Villagers and tool-owning cottagers were hardest hit by the credit restrictions. Credit bondage returned as the only means by which peasants could generate the exchange necessary to purchase household and capital-good necessities. Consequently most peasants with land titles allowing some legal protection from the takeover of their land were tied to a generally Chinese merchant or lender. The peasantry pledged unharvested crops for credit. Working capital for cottage industries was generated in the form of raw materials where credit was advanced through a putting-out system under which Chinese merchants supplied the goods and sold the product.

The Chinese were regarded as exploiters who, returning to the commercial intermediary role that had underpinned colonial appropriation, prospered whilst Indonesian producers starved. Indonesian expressions of antagonism towards Chinese lenders forced many Chinese to move into the urban areas with a view to seeking the protection of their urban communities. The 'urbanisation' of Chinese capital led to expanded investment in small manufacturing companies and the takeover of Dutch shops. By 1952, 138 out of 154 rice mills had returned to Chinese ownership, as well as the majority of printing presses, trucking companies, and weaving mills (Furnivall, 1969:182). The Chinese also bought up wholesale, import and export trading companies as well as smaller estates left by departing Dutch. By 1956 indigenous business had not made inroads into this Chinese economic dominance, and failed to challenge the Chinese indigenous rural credit institutions hold on village credit (Furnivall, 1969:182).

There was strong public pressure on the government to undermine the commercial dominance of Chinese merchants by supporting the establishment of financial cooperatives and monopolising state marketing agencies. The state introduced rubber and other rural-produce cooperatives to control the quality and pricing of the product and to impose collective price-setting to maintain the export value of Indonesia's commodity. As the state moved to stimulate local processing by, for example,

prohibiting the export of raw rubber these cooperatives took over the collection of the primary commodities (Furnivall, 1969:157).

However, the highly productive and competitive indigenous primary producers were financially disadvantaged by being obliged to sell their commodities through inadequately funded and inefficiently managed state-run trading-concerns. These trading houses could not compete against the technical expertise, experience and strong financial leverage of Western and Japanese trading companies.

Implications of the indigenisation policy

The results of the state policies suggest an interesting irony whereby state policies of protection and subsidy designed to create an indigenous manufacturing and importing sector capitalist class failed whilst unprotected and un-subsidised rural producers were highly productive and competitive. Clearly the program of supporting indigenous entrepreneurial activity did not lead to the expansion of a national-surplus and the improvement of living standards. It generated no substantive tendency for a national bourgeoisie to emerge from the indigenous business-strata and take advantage of the state largesse and protection.

The state's perseverance with this policy orientation in the face of growing popular antagonism with the leadership's refusal or inability to address Republican economic ideals represents a clear contradiction. This contradiction is only explicable in the context of external political demands, the leadership's ideological orientation, and the constraints to changing the structural basis upon which production was organised. The first two points have been canvassed above. In this latter context there appear to have been three factors at work: the impenetrability of foreign financial control within the reformist policy context, the technical-philosophical-practical problem where Indonesians were not versed in the processes of capitalist accumulation, and the leadership's ideological-based policy 'leanings'.

Whilst the Japanese interregnum had opened a window of opportunity by breaking colonial distribution systems, Western and Japanese trading systems and the Chinese diaspora had reimposed their systematic dominance, with western companies setting

monopolistic price-setting constraints on the exchange that could be available for internal recapitalisation (Palmer, 1978:14). This determined a continuing dependency on agricultural exports, consolidated by rising costs of the industrial technology necessary for expanded capital accumulation within Indonesia. It presented a continuing obstacle to the creation of an Indonesian capitalist class.

Indonesia's leading decision-makers presumed that once colonial inhibitions on indigenous access had been removed, market driven entrepreneurial initiative would allow the modernisation and development of the Indonesian economy. Given the stage of Indonesia's economic development, the state's ideologically-based leanings towards western developmentalist and liberal-market principles were inappropriate for Indonesia. The state policies took little account of the fundamentally different historical, social and economic relations that determined Western economic development. Colonial appropriation had created an environment of marked difference to the base of European and Japanese industrialisation. Foreign owners controlled the credit system that might otherwise have provided a source of funds necessary for industrialisation. The Chinese-dominated financial infrastructure obstructed the indigenous population's ability to assert control over major rural sectors on the departure of Western capital. It determined that the problem of inadequate training, and experience, for technical staff in the developing industries could not be addressed by supplying credit to indigenous firms. Finally, it determined that state credit to create indigenous capitalist activity would tend to go to the Chinese corporate sector, to military spending, or into corruption.

A corollary of the state's policy priorities was an inability to establish the linkages between all sectors to control production and distribution and overcome foreign-dominated major structural and market constraints. The end result was massive state spending with little to show for in terms of national income or indigenous ownership. Thus, with all the state-engendered projects to develop industry by 1952, the income generated by manufacturing amounted to only about 9 per cent of national income, with the capital almost totally foreign owned (Furnivall, 1969:162).

Summary of economic policy under the reformist state-regimes

There is no doubt that the RTA severely inhibited economic sovereignty. However, it is also clear that state intervention to enforce the tenets of the 1945 Constitution was not only anathema to western states and corporate interests but also to the leadership of the new Indonesian regime. Consequently the Republican government did not take advantage of state-powers to challenge the corporate advantages that accrued to foreign investors. The implementation of a moderately reformist Republican program attempting to enable indigenous business to grasp a larger share of the economy whilst maintaining the system of production relations that generated the surplus re-defined the class relation between Dutch and Indonesians to that of employers and workers. The growing existence of credit bondage was evidence of this process at work.

The reassertion of the Chinese financial diaspora as part of the agency of national economic organisation completed the new productive relation between the Republican regime, acting in effect as agents of international companies, indigenous business interests and the masses. This clarified a continuing political power relation whereby the urban business-agenda did little to confront the sources of the post-colonial economic inequality. More particularly, it illuminated the continuing process of foreign owners – as a class – appropriating and exporting Indonesia's surplus production. In these terms the shift to political sovereignty served to facilitate the transfer of Indonesia's productive labour to a broader bourgeoisie, one that could no longer be characterised as purely 'Dutch' or 'western'.

Regional rebellion and class struggle

The economic dislocation resulting from the constraints on constructing the fundamental conditions necessary to construct a basis of capital accumulation within Indonesia determined an increasing national reliance on the exchange generated from the foreign-controlled extractive industries. However, whilst these industries were largely located in low-population Outer Island areas, the states' priorities were for the needs of the centrally-located political and corporate constituency. The centrally based spending priorities, and the corporate-distribution bases located in the centre,

determined a major friction between regional and central economic priorities and imperatives.

The highly capital-intensive industries of bauxite, tin, and fossil oil and rubber processing were located in the sparsely populated islands of Sumatra, Sulawesi, and Kalimantan. Other valuable export earners from these regions included copra, edible palm oil, coffee, and tea. The crucial financial role of Outer-Island production is evidenced by the fact that Sumatra and Sulawesi produced more than 80 per cent of exports on which foreign currency reserves depended (Zainu'ddin, 1968:246). The Republican state's inheritance of the Java-based financial and infrastructural systems monopolising trade between the colony and world markets, determined that the resource-rich Outer Island surplus could only be realised through the central commercial infrastructure.

The Indonesian Treasury was vitally dependent on the foreign exchange generated by these exports, especially for defence weaponry, consumer and capital goods such as textiles, machinery, and motorcars. These imports largely went to the central industrialising regions of Java and Madura. Further, the achievement of centre-based development goals and the provision of infrastructure and services for the masses of the population determined that the bulk of this export income flowed to the highly populated regions such as Java-Madura which contained more than 60 per cent of the entire Indonesian population. The central utilisation of the outer islands' commodity surplus for central priorities of infrastructure and welfare spending consolidated the economic neglect of outer islands and the uneven development across the archipelago.

The disparities in distribution acted as a catalyst that fired political and social struggle against the inequitable Java-centric distribution of both political power and material resources. With the country still reeling from the revolution and regional elite allegiances allied with local military forces jockeying to maintain their power-bases, the central regime faced a series of regional rebellions based on resource-ownership and the distribution of surplus (Kahin, 1994:206).

The ability of provincial elites to wage war on the central authorities was a function of the distinctive pattern of class-relations in the outer regions *vis-à-vis* the mass class

aspirations as epitomised by the 1945 Constitution. An investigation of these relative power relations is seen to illuminate the character of these regional rebellions establishing the basis for continuing region-centre strife.

The mass political struggle against oppressive colonial-class relations that culminated in the mass mobilisation for nationalist independence had its greatest successes in East and Central Java. Many of the less populated, politically-marginalised regions remained under the sway of anti-Republican provincial indigenous elites in league with European corporate, especially plantation, interests. Political sovereignty meant the withdrawal of Dutch forces, but maintenance of western-allied indigenous elites supported by local military forces. These provincial indigenous elites remained intractably opposed to the Republican central regime and fought for regional autonomy.

Regional elite power continued to be based on the colonial system of hierarchical production relations. Labour and nationalist organisations had fought since the nineteen twenties to overthrow these outer regions forms of colonial control but could not achieve the unity and political mobilisation necessary to challenge state and corporate rule (van Langenberg, 1985:113-143). The unified Republican forces of labour and the peasantry's inability to penetrate these regions resulted from a complex mix of factors, such as the strength of regional forces based on island-based strongholds, rural isolationist and anti-Javan perspectives, the socio-political allegiance of provincial military forces and the alienated and divided origins of the estate workforce.

These processes put the regional question in the spotlight. As emphasised throughout this thesis, Java has been the key arena of major social, political and economic change. Change has been specifically tied to the political power of the peasantry and organised labour that grew from the colonial exploitation of the masses of Javanese, Madurese and Sumatrans coerced to cultivate export crops. This availability of labour for colonial appropriation was in marked contrast to the Outer Islands where a limited labour supply and the refusal of local Indonesians to work on plantations led estate-owners to import indentured and forced-labour from Java and China to work the plantations. We have seen that workers were transported to remote regions to work

the plantations under prison-camp conditions. All aspects of plantation life were regimented with the forced-labour living in barracks. Any attempt at political association was brutally repressed (Stoler, 1979 and 1985; Breman, 1989).

The local elites' antagonism towards the central regime, whilst ostensibly based on an historical fear of Javanese political domination, was more concerned with the threat to their labour-control regime posed by Republican industrial reforms and the flow-on of industrial activism at the centre. This threat underpinned the provincial elites' alliance and mutual class-interest with foreign corporate owners. The strength and perceived 'contagion' of the mobilised revolutionary forces represented a threat to the relative proportion of surplus that could be extracted from local labour, as could possibly result from the reform of industrial conditions and land ownership, and also to the ownership of the means of production, such as through nationalisation and the seizing of plantation land.

The regional elites' response to the central Republican political and economic dominance was to endeavour to seize the surplus generated from labour-exploitation by avoiding central appropriation and directly trading with overseas buyers. Smuggling and barter by local military commanders in Sulawesi and Sumatra were reported manifestations of this endeavour (Feith, 1962:487)

By the end of 1956 West and Central Sumatra and North Sulawesi military forces were at war with the Republic (Zainu'ddin, 1968:254, 155). In January and February 1957 conflict had spread to encompass other Outer Islands, where local commanders demanded Jakarta allow them the right to levy taxes, raise finances for the military and East Indonesia reconstruction, and deal directly with international markets. Jakarta's rejection of all regional demands for political and economic autonomy inspired the provincial authorities to create an independent state rule of *Perjuangan Semsta* ('Common Struggle') or *Permesta* (Zainu'ddin, 1968:255). They asserted their own regional power to raise funds and assert economic autonomy. They directly traded commodities, such as East Indonesian copra with foreign buyers, and used the exchange currency to purchase imports directly from international suppliers. In other instances a barter system of exchange was employed. The loss of this vital foreign exchange currency to the provincial 'black markets' severely depleted the national

Treasury's vital reserves. On 14 March 1957 Sukarno, on the advocacy of Army Chief of Staff General Nasution, imposed Martial Law and proclaimed a nationwide State of War and Siege (Zainu'ddin, 1968:256).

Global forces also came to bear on the struggle, with US-led support for the separatist groups. The Sumatran forces were supplied with armaments from British and US bases in Malaysia and the Philippines, and US pilots in US warplanes flew missions on their behalf (Caldwell and Utrecht, 1979:93). The major consideration for US and British interests was to protect the direct supply of Sumatran rubber, copra, oil and other important products against the threat of Republican nationalisation. It appears the motive for Western, especially US, financial and military support for regional anti-centre campaigns was to shift political and economic power back to the traditional elites. It was considered that these elites were more easily controllable for US resource extraction interests and that they would maintain traditional labour-control systems. US-British interests were clearly prepared to support the toppling of the central regime to secure local appropriation (Caldwell and Utrecht, 1979:92).

The foreign support for the regional rebellion served to strengthen the state's and the Republican movement's resolve to defeat 'neo-colonialism and western imperialism'. The national army succeeded in defeating the rebellions with the assistance of an underground guerrilla force of local peasantry, the *Barisan Tani Indonesia* (Caldwell and Utrecht, 1979:92). The *Barisan Tani Indonesia* was an organisation of peasants supported by communist and trade union organisations. Whilst the forces and interests of the regional elite were repressed, the class-character of the struggle remained the basis of a continuing political struggle.

Conclusion

The Japanese military regime abolished western colonial exclusionary systems that had fed off the Indonesian politico-economy for more than four centuries. It replaced them with a central military control of all aspects of production and distribution. This transformation convinced Indonesian nationalists that a post-war republican regime could assert central control for national economic ends. This ambition was destroyed when the Allies rebuffed nationalist independence aspirations and militarily

reoccupied the country. The eventual repulsion of the western forces and the achievement of political sovereignty was accompanied by the loss of economic sovereignty. The leadership supported a liberal form of economic and industrial organisation, and pragmatically determined to accept the terms of the Round Table Agreement. The imperative to re-open trade with Europe and the US with the support of Dutch companies, and in the face of a clear lack of indigenous expertise and financial backing, would have persuaded the leadership to accommodate foreign corporate intervention.

The Republican leadership's refusal to institute those elements of the 1945 Constitution supporting economic sovereignty was a tacit support for the maintenance of colonial systems of production organisation and capital-labour production relations. This represented an accommodation of the various local and international forces aspirations for the Indonesian economy. In the first instance, the RTA conditions and western extractive ambitions turned on access to Indonesian resources, and on the control of the local workforce to extract these resources. Thus, the state's maintenance of the necessary discipline and work-relations to support foreign enterprise was a crucial element of the western corporate agenda. Secondly, Indonesian business required a secure supply of disciplined labour in the 'indigenisation' programs of industrial and commercial development. Finally, the state itself – especially given its inheritance of formerly Dutch state owned commercial and industrial enterprise – wished to maintain these production-relations to maximise productivity and surplus. To accommodate these ends, as Caldwell argues, the 'bourgeois western-orientated officials' appeared to be in 'complete agreement that the proletariat, whether rural or urban, should be kept in its place' (Caldwell, 1970:393). The leadership's perspective encapsulates the transition from the western colonial system of 'foreign' corporate-class' production relations to a national class-relation whereby the state supported colonial forms of production relations, excluding race differentiation.

The class-basis of the parliamentary state was also evidenced in the provincial wars against central control. These wars have been shown as partially driven by a provincial fear that the Republican regime represented an urban industrial and communist threat to the control over 'their' workforces. A key theme of this chapter has, however, been to show that the central regime was complicit in the maintenance

of pre-war systems of production regulation and labour control. The provincial conflict thus represented a 'fracture' between elements of national capital, and the defeat of the rebellions constituted the affirmation of a central control over the distribution of surplus rather than an enforcement of more equitable social and productive relations in the provinces.

The parliamentary regime's accommodation of the interests of capital and refusal to challenge the fundamental structural impediments to indigenous capitalist development were clearly designed to preserve foreign investment and the income that accrued from that investment. This ensured some opportunities for the restoration of national economic activity but did little to counter the political groundswell of opposition to the continuing foreign economic control. The masses were united behind a campaign to confront the tightening of the foreign and military control of the production apparatus and to reject parliamentary reformism as the means of achieving economic sovereignty. This is evidenced by the polling figures for the last election prior to the overthrow of parliamentary democracy, where a vast majority of Indonesians supported parties who promoted economic nationalism and the implementation of structural changes to the economy (Feith, 1957: 58).

The parliamentary leadership had been clearly under the apprehension that the achievement of political sovereignty spelt the completion of the nationalist revolution. The voting figures and the subsequent popular confrontation with foreign capital interests affirmed that the masses of Indonesian people believed that the revolution was not complete whilst the fundamental forms of colonial control remained in place.

The political dissent arising from the parliamentary regime's inability to reconcile mass ambitions for economic sovereignty and improved standards of living was brought to a head with the military overthrow of provincial corporate and political opposition to central rule. The defeat of regional rebellions endorsed the centrist regime's domination over provincial capital interests and assured the military's future role as a key player in all aspects of state policy. The rise of the military as a key political, as well as security, player underpinned the popular challenge to foreign control and predicated a growing military engagement in corporate enterprise that culminated in the Indonesian takeover of key sectors of the economy.

The state's refusal to fundamentally address the question of foreign control, and to acknowledge or incorporate the mass aspirations for economic sovereignty, precipitated a mass challenge to their political control that culminated in the overthrow of the Republican system of parliamentary democracy.

Chapter 7

‘Guided Democracy’

“For the umpteenth time (I tell you) that the most important source of production (is) the workers and peasants. It is not enough to say negatively that efforts to increase production must not be hostile to the workers and peasants. These efforts must develop the productive powers of the workers and peasants in a positive way.”

President Sukarno, Independence Day address, 17th August 1963 (Day, 1978:83).

Successive parliamentary regimes’ inability to address the nationalist agenda of economic sovereignty and to enforce a strong and centralised control over the economy and the body politic led to political and economic instability. Sukarno’s ascendancy as ‘Supreme Commander’ reflected an astute manipulation of the major political forces to form a coalition under the banner of ‘national unity’. This achievement prefaced an era of strong central control underpinning political and economic change. This research locates the apparatus of rule and process of change in the context of the production, control and distribution of the national surplus.

The most powerful force in the political drama of this period, and the one representing the greatest threat to a democratic resolution of class struggle, was the military. The military secured the dominant place in the Republican political arena primarily because of its crucial role in the process of national unification and, in the course of seeking to preserve the material foundation of its power base, in shaping the drive for economic advance. In the first instance, the military’s defeat of the *Permesta* Rebellion went hand in hand with the military leadership’s success in securing the national unity of military forces in the face of civil war. This provided the military with the political means to force the state to accommodate its long-sought goal to play a dominant political role in Republican rule. In the second, the military’s seizure of key elements of corporate enterprise defined its dominant economic and industrial role.

The military represented a powerful countervailing force to that of labour and the peasantry. The parliamentary regime's inability or refusal to address the aspirations of the mass nationalist movement for economic sovereignty provided the political context in which Sukarno was able to mobilise the masses under the banner of 'constant revolution' for the nationalist cause. The defeat of the provincial elite, the final representatives of the maintenance of colonial production relations and working conditions promised the realisation of nationalist economic aspirations as epitomised by the 1945 Constitution. The support of the peasantry and industrial labour for the central regime was contingent on the state's demolition of these production relations and of western control over key economic sectors. The parliamentary regime's refusal to address these concerns precipitated a massive rise in support of the PKI and direct actions to takeover foreign-owned enterprise. The regime's inability to resolve the class struggles for economic and political power foreshadowed the demolition of the multi-party system of representation.

This introduces the core issue of the challenge to foreign economic control with the workers and peasantry moving to overthrow the parliamentary democratic regime's reformist agenda and install strong and supportive representation. The way this challenge conflicted with the aspirations for economic control by indigenous and foreign corporate interests, and the implication of these conflicts for the regime of production and labour regulation is the major concern of this chapter. The significant, if shadowy, role played by foreign state and corporate interests is considered in the context of foreign corporate and strategic ambitions for control over Indonesia's resources and labour-power.

A key focus is on Sukarno's attempt to reconcile fundamentally opposed class forces through the state ideological apparatus. This incorporates an appreciation of the variety of tactics initiated by Sukarno with the prime strategic imperative to achieve national unity, dissolve class-conflict and inhibit sectional division. This is in direct critical counterpoint to those authors who represent Sukarno as a megalomaniac wielding absolute power for selfish ends. The continuing theme of competing class interests is addressed in this Chapter with an appreciation of the character of competing class interests and an assessment of Sukarno's role in reconciling these

interests. The Chapter plumbs the depths of these differences, emphasising the role of external forces in challenging the control of Indonesia's production apparatus.

The consideration of Sukarno's project to secure the Republic as an autonomous economic as well as political entity through a program of national unity establishes the foundation for the understanding of the role of national institutions and the creation of a national ethos in stabilising subsequent regimes. Thus, and contrary to established texts, this chapter considers the importance of the Sukarno era in the context of the establishment of institutions and structures of national unity, endeavour, and productivity. This foreshadows the import of these systems for the re-establishment of processes of 'exclusion', this time for the Indonesian military and patrimonial clique.

Paths to autocratic power – the origins of Guided

Democracy

President Sukarno is often represented as an erratic and economically illiterate figure who alienated western investors and brought Indonesia to the brink of economic ruin. This erraticism is generally contrasted with his successor, President Soeharto, who is characterised as the 'quiet achiever', who brought to Indonesia 'a stable economic and political environment (where) property rights were respected', enabling the country to 're-enter the international community' (Hill, 1994:55). A more critical perspective, however, sees Sukarno's policy as defined by the mass economic nationalist aspirations in the struggle for control of Indonesia's resources. An investigation of Sukarno's regime, and of how it asserted national economic control over the production apparatus to address these aspirations should commence with a discussion of these political and economic power-struggles.

The military's role in Sukarno's ascendancy

The military's frustration at the parliamentary regime's refusal to allow it a dominant political role came to a head in the late 1950s following its success in repressing civil rebellion. However, the military leadership's campaign to achieve political power was only one aspect of the internal struggles within the Indonesian body politic. Urban

labour and the rural small land holding or landless peasant-class also mobilised to gain greater political power and improved standards of living. Succeeding parliamentary government's inability or refusal to address their needs led peasants, with support from the PKI, to step-up the campaign to assume control of foreign estates (Utrecht, 1987:178). This campaign was strengthened when the government evicted peasants from those plantation estates previously occupied by the Japanese-occupied estates and lands, and from estates abandoned by former western owners. This political movement by labour and the peasantry developed as a clear threat to the military's political and economic ambitions. These challenges to national unity and parliamentary rule are considered in the context of the development of the autocratic state.

When the first parliamentary regime moved to impose civil rule over the military, there was little doubt the military would work towards overthrowing this constraint by securing a key role in government or imposing military rule. The military's history as a "peoples' army", fighting a revolutionary war alongside the masses of nationalists, and their success in repressing dissident elements, led to the conviction amongst army circles that it was their 'right' to participate in political rule (Sundhaussen, 1982: 124). It may have also been a belief that it was their 'duty' to do so.

The immediate catalyst that brought to light the military's articulation of its political aspirations was the parliamentary government's post Revolutionary-war demobilisation of the armed forces. The parliamentary government intended to transform the revolutionary army into a professional security-force under civil-state control. However, whatever the parliamentary government's security objectives, state policies and regional responses determined that the military would play a key role on both sides of the civil war. With the return of the revolutionary forces to their home-regions and the Java-centric Republican government's imposition of central political and economic authority, divisions emerged with the major income-producing regions. Regional elites, often supported by foreign state and corporate interests, fought for the control of the locally produced surplus. In the 1950s, the US state began covert operations to counter communist influence in Indonesia and support rebels opposed to President Sukarno. The CIA secretly supplied and supported anti-communist military rebels on the outer Indonesian islands of Sumatra and Sulawesi. By 1959, when it was

clear the rebellion would fail, the US shifted its support to the Indonesian army, hoping the country's military leaders would counter Sukarno's purported communist leanings (*Los Angeles Times*, October 30th 1994).

Given the immensity of the forces poised to undermine central rule, and the strong military alliances with these forces, the survival of the Republic depended on enforcing military unity. Whilst the complexities of the divisions and alliances require an extended treatment, it is sufficient for present purposes to say that this bond was partially achieved. The civil war and the destabilising activities of foreign forces threatened national unity and the collapse of the Republic, and this served to concentrate the military leadership behind the national cause. This was a temporary unity, however, which was sufficient to enable the survival of the Republic, but not to fully satisfy the leadership's aspirations for political power nor constitute the basis for long-term unity amongst the hitherto divided military factions. The conditions defining the military's final achievement of a 'bond' of unity will be assessed in the context of a vastly expanded corporate-ownership by the military elite.

The *Permesta* war prompted a military call for the government to declare a state of War and Siege. The President's consequent imposition of martial law prefaced both an accommodation of the military's political ambitions and Sukarno's achievement of absolute presidential authority as envisaged by the 1945 Constitution. Sukarno's 1956 criticism of parliamentary democracy was based on his view that it was 'unsuited to the Indonesian national character' (Zainnu'ddin, 1968:254). This foreshadowed his acknowledgement of the imperative of assuring the military's place as a senior partner in Indonesian rule, and thus of the military's '*dwi fungsi*' (dual function) securing involvement in all major policy-making positions of the state. The Army Chief-of-Staff General Nasution's later affirmed this role in his November 1958 proposal for an expanded military status as an internal and external system of security order to protect the nation from external threat whilst guiding its internal policy direction (Said, 1991:135).

The role of labour and the peasantry in Sukarno's ascendancy

Sukarno's rejection of parliamentary democracy, the imposition of absolute political authority and a dominant political role for the military clearly arose from the imperative to address the massive conflicts and divisions that were endemic to the system of parliamentary democracy. Sukarno saw the parliamentary system as inherently conflictual and thus at odds with the Indonesian conception of harmony as the basis of order in Indonesian society (Zainnu'ddin, 1968:254). The divisive nature of the parliamentary system reflected the inability of the hitherto politically dominant to depart from the single-minded preoccupation with accommodating the interests of indigenous business. This predilection also entailed accommodating foreign business as a continuing entrenched component of the post-colonial Indonesian economy. More particularly, this tendency entailed prejudicing the interests of regionally located capital and the abrogation of responsibilities for rural and industrial reform. Labour and the peasantry perceived this abrogation as a function of continuing foreign economic control, and Sukarno's aspirations of nationalism of economic sovereignty appealed to the masses.

Sukarno's appeal to the peasantry and labour lay in his ability to construct simple and direct ideological messages based on images of a national Indonesian identity and common interest. The Indonesian political economy at the time is best characterised as largely consisting of rural independent small-land holding producers, artisans, and petty traders with decisions commonly made through traditional village systems of cooperation and consensus (Wertheim, 1986:74). Sukarno focused his campaigns on this perceived common interest that was shared by most Indonesians. In 1949 he had characterised the Indonesian national persona as that of Marhaen, a peasant of his acquaintance (Zainu'ddin, 1968:238). Marhaen lived on the edge of poverty, relying for his income on a few hand-tools and a small plot of land. Sukarno used this characterisation to define the agenda of a populist campaign to unite Indonesia in a common cause of peasantry in the struggle against foreign and local exploitation.

Sukarno addressed the issue of resolving national divisions and obtaining unity and stability by applying traditional village approaches to resolving disputes in the national political arena. He proposed that national decision-making should be based

on the village systems of *musjawarah* (mutual consultation, discussion, deliberation) and *mufakat* (consensus and agreement). This formed the basis for his concept of cooperative national rule advanced in terms of the uniting of nationalist, religious and communist elements called *NASAKOM* (Zainnu'ddin, 1968:254). He intended that the major forces in Indonesian society be brought together in a spirit of mutual advantage and cooperation.

Sukarno's approach was in sharp distinction to other leaders in the parliamentary elite. These leaders largely represented non-agrarian interests, and most notably bureaucrats within the state, traders, and industrial capital. The status of trading groups was enhanced through holding a long commercial association with trade organisation and by their ability to call on established international support. Sukarno could draw upon the support of the labour movement as a counter balance to these interests and also as a vehicle for deepening divisions between the trading groups and the bureaucracy (Schmitt, 1971:271). Foreign capital remained a dominant political force by virtue of its economic significance, but political unanimity of purpose within the business sector was weakened by competing economic interests and compounded by ethnic divisions especially the strained relations between Chinese and indigenous Indonesians.

A widespread alienation within the Indonesian body politic was reflected in sharp divisions in voting patterns for the major parties. In the first national plebiscite in 1955 the majority of votes were cast for four major parties: Nationalist Party (PNI) 22.3 per cent, Modernist Moslem Party (*Masjumi*) 20.9 per cent, the Moslem Theologians' Party (NU) 18.4 per cent and the Communist Party (PKI) 16.4 per cent (Zainnu'ddin, 1968:252). The Java-based *prijaji-abangan* class and urban political movement were aligned with the PNI's program of support for the government's western and urban-orientated development program favouring indigenous enterprise over foreign ownership. The Outer Island separatist movement supported the *Masjumi* who favoured foreign ownership and limited state economic intervention (Missen, 1972: 241). Workers and the peasantry largely supported the PKI and PNI. Following the vote, Sukarno put his direct political support behind the PNI (Missen, 1972: 240). Sukarno's alignment with labour and the peasantry, backed by his *Pancasila* ethos

alienated those Muslim political elements demanding a Muslim state and foreign and indigenous capital seeking a leader who was unaligned in the class-war.

The economic determinants of a rupture in parliamentary democracy

There were major economic problems engendered by the parliamentary state's inability to create indigenous economic growth. These were consolidated by the declining demand for agricultural exports and rising prices for capital and consumer imports. The regime's inability to establish firm control over the political divisions created popular disaffection for constitutional democracy and the ambition to achieve strong, central political-control. The disaffected swung to the Communist Party in droves. The PKI was transformed into a popularly supported political party, a communist party that incidentally could count more members than any other outside the communist states of China and the USSR. The evident disenchantment also flowed into an expansion of industrial union membership. By the mid 1950s total union membership was of the order of two million workers incorporated within thirteen trade union federations. Of this twenty percent of all employees, nearly a third were in the plantation sector (Manning 1993:62).

In the light of the popular conception that the chief difficulties facing the economy were the result of continuing foreign economic control and the oppressive obligations of the RTC, political pressure grew for the government to repudiate the RTC. Sukarno's consequent call for mass public support to reject the RTC obligations led to mass anti-Dutch action throughout the archipelago. In February 1956 the government unilaterally repudiated the RTC, and then, in August, annulled Indonesia's debt to Holland. With gold reserves dropping to a critical level, and some military officers supporting regional smuggling operations and a series of attempts to assassinate Sukarno and install a renegade government, civil war seemed a real possibility.

Nationalisation and the military's new uniting 'bond'

Holland's continuing refusal to decolonise the territory of Iryan Jaya, and the United Nations' refusal to endorse Indonesia's claims of political sovereignty over the territory, focused the nationalists' campaign for the demolition of all symbols and trappings of colonial rule. In December 1957 workers supported by their trade unions

seized control of Dutch companies, enterprises and plantations (Utrecht, 1987:178). This effectively transferred the control of most Dutch enterprises, covering the mining, plantation and foreign trade sectors, into Indonesian hands. The seizure transferred the ownership of capital that generated 70 per cent of the country's exports and foreign currency earnings (Utrecht, 1987:178).

The military responded to the threat of workers' corporate control by declaring Martial Law and imposing military control over the Dutch enterprises. This was ostensibly a national security measure to protect foreign citizens and secure national control over vital export-income generating enterprise, but the army officers' seizure of Dutch plantations and factories was partly designed to reap private profits that would meet some of the costs of paying for military needs (May, 1978:79). Whilst the parliamentary leaders' views on this military takeover are unclear, they appear to have been opposed to private enterprise assuming corporate control. This was said to have resulted from Hatta's 'bitter experiences' of inefficiency and corruption, especially with the *Benteng* program of state subsidy for private industry (Robison, 1986:73)

The takeover was legitimised when Sukarno passed the 1958 Nationalisation Law declaring the companies to be public corporations. The transition to indigenous control was completed with the deportation of Dutch technicians and management. This resulted in state corporations covering 90 per cent of plantation output and, with the takeover of the Big Five trading companies, about 60 per cent of foreign trade. This covered 246 factories and mining enterprises, plus banks, shipping and a variety of service industries. This ensured that Indonesia dominated the full extent of the modern industrial sector, with Indonesian banks covering 75 per cent of all loans (Robison, 1986:193). The army, with the assistance of Japanese capital, redeveloped an old oil field in Sumatra to create the new oil company of *Permina*, which later became the state-owned and -controlled oil company *Pertamina* (Ahmad and Crouch, 1985:57). In April 1958, the state incorporated former Dutch trading houses into new trading corporations (STCs), which constituted the state-owned 'big eight'. They were given a monopoly on the import of thirteen basic commodities, including rice and textiles. The trading monopoly meant that the STCs effectively controlled 70 per cent of imports (Robison, 1986:73).

The economic role of nationalisation

The nationalisation and restructuring of industrial and trading concerns meant that military corporate ownership thenceforth dominated key productive, commercial, financial and trade sectors. The Army ran the plantations, the airforce ran the airways and the navy ran the shipping. The state gave the military the task of accelerating capital formation, and intended to use this infrastructural system to control pricing and supply of basic necessities, as well as provide revenue for development. The military's underlying agenda was to generate income for the services on the presumption that state funding was inadequate to ensure the accomplishment of its *dua fungsi*, whilst expanding its security reach in the face of threat from foreign incursions. This led to profiteering by the military elite and to the growth of systems of political patronage that expanded senior officers' civil power (Utrecht, 1987:180).

The government considered that oil exports earnings would provide 70 per cent of the capital for welfare projects, such as education, public works, transport, health and production of basic necessities. To further this objective, the production-sharing system was expanded to incorporate tin, timber, mining, fishing, edible oils and estate crops. Investment and credit advances made by overseas companies were to be repaid from the net increases in the production that resulted from the investments (Robison, 1986:79).

The revival of economic nationalism driving the takeover of Dutch enterprises and the December 1957 and January 1958 expulsion of Dutch owners, managers, estate managers and technicians caused massive economic dislocation. Holland repatriated all Dutch citizens who wished to leave, and 40,000 did so (Tas, 1974:223). Key production and distribution sectors were left without trained and experienced personnel (Schmitt, 1970:74). Foreign investor confidence and demand for Indonesian commodities collapsed (Tas, 1974:286). The loss of export markets coincided with the Sumatra and Sulawesi Rebellions, and the rebellions compounded economic difficulties with a 34 per cent reduction of exchange receipts accruing to the central government from 1957 levels (Tas, 1974:274).

Guided Democracy

In October 1956 Sukarno advocated the abolition of political parties, the re-institution of the 1945 Constitution and a system of 'Guided Democracy' under his leadership (Zainu'ddin, 1968:257,8). The opportunity to carry out this program arose with the continued parliamentary deadlock over whether to introduce *Pancasila* as the national ideology or whether to move towards a Muslim state. The ostensible trigger for Sukarno's dissolution of the Assembly was its third time rejection of the 1945 Constitution, where the required two-thirds majority was lost by less than fifty votes. In July 1959 Sukarno dissolved the Constituent Assembly (Zainu'ddin, 1968:258). He issued a decree banning all political activities and replacing the elected DPR by a *Gotong-Rojong* ('mutual aid') DPR with Sukarno 'guiding' the process (Missen, 1972: 243).

However, the more fundamental motivation for the dissolution of the Assembly was the military's fear that the 1959 general election would see the PKI elected to office. The military brought considerable pressure to bear on Sukarno to dissolve the parliament with a view to forestalling this possibility. Its success represented the culmination of the military's ambition to achieve political power. The military's intentions had been foreshadowed in the military leader Nasution's 'Middle Way' speech of 12th November 1958. Nasution indicated the military's intention to 'regain the unity and the spirit of national struggle, to cultivate a stable government ideally and structurally after the liberal system failed to bring about stabilisation' (Said, 1992:136).

In 1960, following evidence that Masjumi and the PSI had stoked the fires of the regional rebellion, the government banned the two parties as being 'contrary to the spirit of the revolution' (Missen, 1972: 243). Sukarno proceeded to limit the power of the party system by enforcing the relinquishing of party affiliation and by instituting non-political organisations, such as the army, into the machinery of government. In Sukarno's conception of the new parliament (*'Konsepsi'*) parliamentary representation would be accomplished through the establishment of 'functional groups' rather than political parties.

Forms of social and production control

The ethos of Guided Democracy and the conceptual way of achieving regime goals was defined by a series of acronyms and key phrases such as *NASAKOM*, *Pancasila*, *Marhaenism*, and *Manipol* (Sukarno's political manifesto). The unifying and mobilising role of these idealist phrases is clear. What is not so clear is their role in redefining social and production relations as part of an agenda of re-organising society in order to accomplish national goals. Much of the following discussion in this and the subsequent chapter focuses on the way in which the state employed the publicity and 'ideological' apparatus of the state to inculcate these values as part of the agenda of social control for economic development. The analysis examines the connection between these value-systems and the institution of state systems of social, economic and industrial control. The conceptual basis of this focus is the state's political and economic imperative to order processes of capital accumulation and surplus distribution.

NASAKOM, and *Pancasila* were the key components of the program of national unity and development through consensus resolution of divisions and conflict. *NASAKOM* was designed to exclude the destabilising, 'conflictual' influence of the party-system that had plagued the parliamentary regimes. The institution of 'functional groups' redirected power from the party system to the political elite, thus creating a political structure in which the political parties would subordinate themselves to a central national authority (Caldwell and Utrecht, 1979:107). Sukarno determined that the numbers of parliamentary members would correlate with a roughly equal parliamentary distribution for each of the major forces of the military, labour-peasantry, and the Muslim groups. A Supreme Advisory Council and National Planning Council was appointed to advise the President on building an integrated and planned economy. Sukarno then set up a *Kabinet Kerdja* (work cabinet) to implement urgent imperatives for improving standards of living, such as the provision of basic needs, especially food.

Pancasila encapsulated Sukarno's conception of an amicable and consensus relationship to overcome the variety of religious, political, cultural, social and industrial divisions that had plagued the Republic since its birth. Sukarno introduced

Pancasila in the last days of the Japanese occupation, and on the dissolution of the parliamentary assembly *Pancasila* was re-introduced as the official State Ideology. Based on traditional principles of unity and consensus for family, company, state and religion, *Pancasila* was clearly intended to replace the ethos of western individualism placing the concept of loyalty to the nation above that of individual. This loyalty to the nation became the catchcry to undermine any conflictual threat to national objectives as defined by the state. Thus the implicit ethos of *Pancasila* is that the relation between capital and labour is not inherently ‘class conflictual’. This conforms to Muslim concepts of an essential harmony of interest between labour and capital, as espoused in an early Muslim union federation’s constitutional objective to promote an industrial ‘ideology pursuing a strategy of cooperation between entrepreneurs (as “brothers” in Islam) and workers, consequently disapproving of strikes’ (Hossing, 1989:57). The institution of this ethos into the national lexicon foreshadows its consequent role as an ideological underpinning for labour regulation.

Military industrial regulation

Whilst the military played out its role as ‘enforcer’ of these national credos, it also played a direct role in instituting forms of industrial regulation within military-owned and controlled enterprise and ancillary companies. This determined the development of a militarist system of industrial relations, with strict hierarchical controls. The boards of management of military-controlled enterprises were composed of state officials and military personnel, with most board members appointed by the Supreme Martial Law administration (Utrecht, 1987:180). These boards determined production priorities and directed production organisation. Military power, authority, and institutions were imposed on workplaces to increase work intensity, to enforce production decisions, and to inhibit labour organisation and industrial retaliation. Dutch systems of wage-market and workplace regulation were thus replaced by a collective system of military coercion to increase output and repress any opposition (Utrecht, 1987:180).

This military-imposed production and labour regulation set in train processes and systems to expand work intensity and processes of capital formation. However, in the context of inadequate management training and expertise and the loss of

recapitalisation through corruption and patrimonial relations, their initiation frustrated the economic dynamism that was necessary for increasing national productivity and capital accumulation. Further, the degree of oppression accompanying the intensification of work engendered major antagonism and industrial action against military-run enterprise. It was soon apparent that output targets could not be achieved due to the managers' marked lack of experience and training in all aspects of corporate administration, production organisation and sales. As a consequence, there was a reduction in the quantity and quality of output produced by most nationalised companies. It also became quickly apparent that the military agenda to generate an income was a mechanism for facilitating corruption and political patronage. These factors served to increase costs, reduce capital formation and jeopardise international trade relations.

The process of military corruption and profiteering appears to have arisen from within the structure of military management. By 1959 the military elite consisted of two groups: field officers and corporate managers. Much of the profit generated by military-run businesses went to support field officers who were the key officials in the military leadership and to maintain the military production managers' lucrative positions. The system thus enabled senior military corporate managers to run companies for their personal profit, and they were rarely accountable to the state or the military high command. Furthermore, the corporate management used the security infrastructure to organise and regulate the supply of jobs through patronage and intimidation, to protect the corporate facilities and to enforce workplace discipline.

This system of military coercion to increase output and restrict dissent was replicated in the rural sector. In this context, however, the regimen of military discipline was imposed on the existing and extremely inequitable system of land-ownership built upon the previous system of foreign landlords' land ownership and that available for villagers (Kartodirdjo, 1986:103). Of the rural population less than half owned land, and two-thirds were forced to lease acreage to subsist (Tas, 1974:299, 300). This meant that most villagers could not generate adequate production for subsistence, let alone generate the necessary surplus to purchase capital-intensive production equipment or fertilisers.

The military authorities were even more severe in the implementation of their rural program to expand output. Any right of political association to counter military repression was denied with the abolition of the party political system. This repression was justified by a senior military official in terms of the contention that: villagers 'have not yet freed themselves from tradition and superstition. They have not yet 'arrived'; they wouldn't even want the facilities and luxuries that we (the military) need. The task of the peasant is to increase agricultural production, that is his role in 'development'. Nothing should distract him from this task; if peasants spend their time with politics, as in the past, the result will be as in the past – security problems and no increase in rice production. Therefore we shall remove from the sphere of the peasant's life all forms of political organisation' (McGuire and Hering, 1986:179).

Political rupture to Guided Democracy

The Guided Democracy regime was predicated on the accommodation of competing goals between indigenous businesses, the peasantry and labour, and the military. Sukarno attempted to reconcile these goals, but his program of reform was predicated on irreconcilable contradictions. Chief of these was the difficulty in restraining the military's aggressive expansion of corporate ownership and repressive labour-discipline whilst achieving adequate surplus production. On the other hand, Sukarno had to respond to the mass aspirations for reform in the rural sector, the nationalisation of foreign corporations, and demands for improvements in standards of living.

The military's maximisation of surplus production and extraction through the terrorising and oppressing the workforces under their command became a serious source of social unrest (Utrecht, 1987:180). Throughout Indonesia vehement conflicts erupted between corrupt military managers and workers who experienced levels of exploitation that were said to have been harsher than those during the Dutch colonial period (Utrecht, 1987:180). Worker and peasant resistance became more organised and a united rural and urban-sector campaign was soon mounted against military oppression. The PKI played a key role in the unifying of rural and urban workers and peasants struggles and developed supportive ties with the *Sentral Organisasi Buruh* (SOBSI - the national association of trade unions) to counter the military's industrial

tactics. SOBSI was the largest trade union federation covering 2.5 million members and affiliated with the *Barisan Tani Indonesia* or Indonesia Peasants Front (Oey, 1971:76).

The PKI criticised state enterprise mismanagement and corruption in central and regional administrations. They publicised the profiteering of Departmental officials, their appropriation of state property and the use of official positions to advantage private entrepreneurs. The PKI introduced the term *Birokrat Kapitalis (Kabir)* to describe corrupt bureaucrats. This phrase later became identified with Army officers employed in the civil administration and State enterprise. The bureaucrats were associated with, and supportive of, the growing political and corporate power of the 'new rich' group in society, the *Orang Kaya Baru* (Robison, 1986:95). The PKI presented a threat to these groups' corporate privilege and patronage systems. In the rural context the PKI campaigned for 'all lands owned by foreign and Indonesian landlords (to be) confiscated without any compensation', and to be freely distributed to all landless and poor peasants' (Kartodirdjo, 1986:109). Membership of the small land-holding peasant organisations and landless peasant organisations such as BTI increased from four hundred thousand to seven million in a decade (Kartodirdjo, 1986:109).

State response to rural agitation

In response to the military and large landholders' resistance to the parliamentary-state attempts to distribute land ownership more equitably, the peasantry often took the law into their own hands and occupied private land and plantations. In 1962 Sukarno promulgated the Agrarian Act and the Share Cropping Act that imposed land-ownership ceilings and ensured the protection of tenants. Whilst intended to redress rural labour-bondage and inequity, the program had the more immediate objective of overcoming food shortages endemic to most rural areas. The state believed that a more equitable distribution of land would increase rice production by providing the peasants with a greater incentive and opportunity to grow rice. It was also thought that land redistribution would reduce the allocation to export crops in favour of subsistence crops, and reduce the extraction of rural surplus at the expense of

producers. A nationally coordinated program to this end would reduce landlord' exploitation of sharecroppers (Caldwell and Utrecht, 1979:109)

The first land reform law introduced by the Guided Democracy regime was the *Undang-undang perjanjian Bagi Hasil* or law on sharecropping agreements. This Law stipulated that crops from wet rice-fields were to be divided on an equal basis between the landowner and that landowner's sharecroppers. The distribution from all other crops was to be divided so that a third of the crop went to the landowner whilst two thirds went to the tenant. The main objective was to eliminate landowners' arbitrary power by imposing contracts, to provide more security for tenants by stipulating a minimum leasing period, and to ameliorate the material existence of the tenant and family by increasing the tenants' share of the harvest (Oey, 1971: 96)

The second land reform law, the *Undang-undang Polok Agraria* or Basic Agrarian Law, imposed a maximum land-ownership ceiling that was related to population density in each region. The law was intended to provide a more equitable distribution of landholding, limiting land ownership from a maximum of 5 to 15 hectares depending on the population density. All land in excess of the stipulated maximum holding by these laws was to be expropriated and allocated to the landless. Land leased to plantations was to be incorporated into the reform process (Kartodirdjo, 1986:110).

Frictions on land-reform

Whilst the Central Land Reform Committee set up by the Sukarno regime did its best to implement the Acts and impose the statutory ceilings on ownership, landlords and elements of the military frustrated the process. They imposed what were effectively 'go-slow' tactics and committed many acts of sabotage against the reform process. Thus in West Java by the end of 1963, only 52,000 of the 700,000 existing sharecropping agreements had been renewed and only 21,750 of these were in writing. By the end of 1964 less than one per cent of all landowners in Indonesia had leased out sharecropping plots according to the terms of the Act (Oey, 1971: 99). The land-reform legislation did not fundamentally challenge the inequities in rural economic

and social relations and private property ownership that had persisted since colonial times.

Most small or medium landowners sided with the landless in conflicts over land distribution. The big landowners' domination of rice markets prejudiced both small landowners and landless peasants alike. There was a marked maldistribution of returns per given acreage as only the big landowners could afford the necessary technology. They thus had the means to evict tenants and buy out poor peasants thereby concentrating land-ownership inequality (Kartodirdjo, 1886:110).

The landowners' refusal to accept the terms of the land reform Acts inspired poor and landless peasants to begin a popular campaign to get the state to enforce the provisions of the two Acts. This mass movement, the *Aksi-sefihank* or Unilateral Action, and was led by the BTI peasants' union affiliated with the PKI (Oey, 1971:100). The mobilisation was strongest on Java and in regions where the shortage of land was most debilitating for the peasant population. The movement sought to disrupt the traditional patronage relations that operated between large landowners and urban officials. It built on the ongoing urban campaign against 'city devils' of corrupt *kabirs*, military and bureaucratic officials with the village campaign directed against exploitative landowners, usurers, speculative buyers, bandits, corrupt officials, and *kabirs* (Tas, 1974:299).

The PKI supported this campaign as part of the general struggle against rural inequality and the dominant power of the landlord class. In the many instances where the landlord refused to carry out the obligations defined by the Act, the PKI encouraged peasants to seize the land without waiting for the Central Land Reform Committee to decide the matter. The army and police generally intervened on behalf of the landowners. Thus the PKI increasingly became a scapegoat for landowners, contributing towards the landowner, small-business class antagonism supporting the PKI pogroms following the military coup of October 1965.

Political rupture

The rural reformist preoccupations of the state appear to have been conducted at the expense of strong state intervention in the urban sector, especially in the industries controlled by the military. I have argued that whilst the state legitimised the military takeovers by endorsing them as state corporations, military management did as much to prejudice capital formation as accelerate it. Much of the surplus went into patronage streams, into corruption or was spent to satisfy military needs (Utrecht, 1972:63). All military appropriations served to consolidate the military dominance of the civil political system and inhibit the possibility of developing a solid economic base for industrialisation. This financial mismanagement increasingly threatened the economic viability of the Republic. Despite, or perhaps because of, this mismanagement, US and European states were prepared to covertly support the military in their campaign to destabilise the Sukarno regime.

The US played a covert role in cultivating elements of the military opposed to the growing power of the PKI and the Sukarno regime itself. With Sukarno's categorical commitment to unalignment, whilst seeking both Soviet military as well as US financial support, Indonesia clearly represented a threat to the US Cold War regime in the Asia Pacific. Evidence is coming to light that other Western states were also involved in attempting to destabilise the Sukarno regime. MI6 documents showing that an amalgam of groups from the Foreign Office, M16, the State Department and the CIA were secretly conniving to depose Sukarno, according so some reports. The US State Department was quoted as saying that if 'Indonesia fell out of Western influence, neighbours such as Malaya might follow, resulting in the loss of the principle world source of natural rubber and tin and a producer of petroleum other strategically important commodities' (*The Independent*, December 1, 1998). As events unfolded it was clear that the support for the military in opposing the PKI was based on the Western imperative to secure the country against an alliance with the communist bloc, and to preserve military-corporate control over the productive apparatus, Indonesia's resources and labour.

Whilst the military were moving to seize absolute political power, Sukarno was being pressured by labour and the peasantry to confront the military dominance, corruption,

and industrial exploitation. Toward this end the Sukarno regime began dismantling the military's corporate and civil regulatory authority. The military retaliated with a campaign against the PKI's support of Chinese Communism. This was a strategically astute move to alienate the masses from the PKI by exploiting their traditional antagonism towards the Chinese as commercial intermediaries and moneylenders. The military forced the liquidation of many Chinese firms and branded Sukarno a 'slave of the Chinese'. They fomented popular antagonism towards the Chinese by instigating anti-Chinese riots in Tegal, Cirebon, Bandung, Bogor, Ciandjur, Sukabumi and Garut (Caldwell and Utrecht, 1979:88). The PKI attempted to counter this threat by gaining Sukarno's support for the nationalisation of the remaining foreign western enterprises before dealing with Chinese capital (Oey, 1971: 78).

As the PKI gained ever-increasing political strength, the military moved to consolidate its industrial power by establishing an industrial union confederation (*Sentral Organisasi Karyawan Sosialis Indonesia* SOKSI). The military enforced union membership for all employees of enterprises controlled by, or holding patronage links with, the military. SOKSI included management and military personnel as officials and organisers. This confederation became the prototype of the state-military controlled union confederation, the *SPSI*, which was later introduced by the New Order regime.

Sukarno's last ditch attempt to preserve national unity

Indonesia had moved from a relatively strong situation economically where post-war exports consolidated by Korean War demand generated adequate exchange earnings. By the early sixties, however, the Republic was in dire financial straits. The national debt was \$US2.7 billion, with more than half of this (\$1.4 billion) a debt to the Soviet and East European governments for the supply of military hardware (Tas, 1974:289, and Palmer, 1978: 7). Exports consisted primarily of petroleum products refined by foreign companies and rubber from the outer islands, and did not provide a reliable source of exporting earnings with which to meet these debts. The state responded to this foreign debt by cutting imports by 36 per cent. Food prices had increased by ten times between 1958 and 1961 (Zainu'ddin, 1968:262).

The collapse of the *NASAKOM* alliance, declining standards of living and hyperinflation presented a challenge to the Sukarno regime that could not be resolved by appealing to *musjawarah* and *mufakat*. Sukarno addressed the crisis pragmatically by attempting to patch up the economic fissures and by attempting to recreate the conditions that had inspired national unity in earlier periods of civil disruption and dissension. In 1959 he introduced the National Planning Council (*Depernas*). Its three-point program was to provide adequate food and clothing for all, to promote national security and to implement a struggle against economic and political imperialism (Zainu'ddin, 1968:258). A range of urgent economic remedial measures were adopted, the most significant of which was the establishment of the National Planning Council. In 1961 Sukarno introduced an Eight Year Construction and Reconstruction Plan.

The pragmatic imperative to stabilise the economy and improve standards of living became embroiled in a state ideological campaign to win popular support for the regime through national unity in the face of adversity. Sukarno's attempt to create internal unity by distracting the protagonists with a perceived external threat to the Republic signalled the introduction of a complex inter-relationship between the Indonesian state and the international political economy. On the one hand, the several confrontations with foreign states, especially with Holland and British-controlled Malaya, determined a need for a massive supply of armaments that was available only from the PRC or the Soviet bloc. Further, the debt that these loans entailed for Indonesia consolidated the economic crisis. On the other hand, Sukarno faced the task of achieving unity between the most powerful groups in the country, the PKI and the military. The severity of the economic crisis, and the effectiveness of the western economic, military, and political forces of destabilisation, made the reconciliation of these differences all but impossible.

The Eight Year Plan collapsed as the costs of running a military campaign against the Dutch over the sovereignty of West Irian redirected funds to the war-effort. A 1961 Soviet loan of US\$450 million for arms purchase boosted financial reserves, but constituted a regional strategic threat to the US. There were two profound effects of the Soviet support: it caused the US to persuade the Dutch to withdraw from West

Iryan (August, 1962), whilst state spending of the Soviet loan created inflationary pressures further crippling the Indonesian economy.

The immediate external threat to Indonesia's interests was presented with the institution of the Federation of Malay states in September 1963. Foreign Minister Subandrio saw Malaysia as a neo-colonial threat to Indonesian economic autonomy and broke off economic ties with the new nation. The government represented this a positive move, contending that the ties had resulted in 'as much as one-third of Indonesia's total export (apart from oil products) [being marketed] through foreign middlemen'. The breaking of ties was said to have ended 'the unhealthy over-dependence upon foreign processing of export products, especially small-holders rubber' (Indonesian Ministry of Foreign Affairs, 1964, vol 4: 57). Nevertheless the loss of Indonesia's two biggest partners in South East Asia was a severe blow to regional trade. The Confrontation engendered mass popular actions to confiscate English and US investments. The U.S. was seen as an accomplice in the creation of Malaysia as a neo-colonial state, and in March 1965 the US-owned Goodyear and US Rubber, Caltex and Stanvac and British/Dutch Shell firms were nationalised (Utrecht, 1987:178). Utrecht and Caldwell contend that the military management of the seized US and English companies 'ruined' them, and as a result there were no really tangible economic benefits from the takeover (Utrecht and Caldwell 1979:115).

The costs imposed on the nation by the imperative to achieve national unity against foreign threats led to the introduction in March 1963 of yet another plan to reduce food shortages and inflation. Sukarno's *Deklarasi Ekonomi*, or Economic Declaration (DEKON), was intended to expand State income through tax changes and protect the living standards of the working masses by stabilising prices for most essential consumer goods (Utrecht and Caldwell, 1979:115). The plan was supported by foreign aid in credits for the import of consumer goods and for launching projects to increase food production. The US provided the greatest aid to avoid the Republic seeking further Soviet financial support (Caldwell and Utrecht, 1979:116). With the declaration of *Konfrontasi* the US withdrew its aid, thereby placing the DEKON policy in jeopardy. The government then toughened its tax policies to increase revenue, leading to price increases, abolishing price controls on essential consumer commodities and imposing limits on wage increases. Basic consumer commodities

had to be rationed. The resulting industrial action prompted the Army to decree as illegal labour strikes in all 'vital industries' (Oey, 1971:58). The Government distributed essential consumer goods to the armed forces and government officials, and then state enterprises. The resulting economic crisis precipitated a massive political crisis.

As the economy deteriorated and labour-peasantry increasingly challenged the military's right to restrict reform, no rubric of national unity and mutual interest could restrain class conflict. The military moved in to repress opposition and impose 'the rule of law'. This meant the destabilisation of the Sukarno regime with the military achieving absolute political and economic power. The murder of leading TNI Generals and an attempted coup by a military clique led to a nation-wide military-led, Muslim-supported massacre of most communists, their supporters and opponents of the military. Cribb ranks the 1965 killings as 'one of the twentieth Century's more extensive mass murders' and notes the lack of precise information about the numbers involved (Cribb, 1990:1,3). Caldwell refers to the murder of 'up to a million Indonesian citizens' within the space of four months from the coup attempt on the 1st of October 1965 (Caldwell, 1975:13). Although ostensibly a war over 'godless' Communism, this was a war over the ownership of the means of production, and the destruction of any authority or effective voice for labour.

Conclusion

The parliamentary system's inability to bridge the schisms within society and engender a national unity that could restore economic growth, led to a popular endorsement of the charismatic leader, Sukarno. The people believed Sukarno could inspire and impose national unity thus restoring the country's fortunes. It was believed that he could reconcile the competing ambitions of the major power groups and bridge divisions within the body polity to accomplish the aims of the Revolution.

In a direct critical confrontation with those theorists who argue that personal political power can explain the character and tensions within political systems, I dispute the presumption that the Sukarno regime's failures resided in Sukarno's personal foibles, incompetencies or megalomania. It is argued that such a conception misapprehends

the strength and depth of those differences, and certainly of the historical politico-economic tensions that characterise this relatively early stage in national political and economic development. Further, those critics who believed that Sukarno could not resolve these differences because of leadership flaws also overrate the ability of **any** leader to resolve the problems facing the Republic. A more critical analysis of the character of Sukarno's rule and policies must take account of the forces defining the nature of the nationalist movement and the popular ambition for economic sovereignty. It must also take account of the historical and material conditions that enabled his ascendancy and which defined his policy-directions and philosophy.

Sukarno gained absolute authority as the 'Supreme Commander' due to a combination of complex factors, but primarily due to his ability to represent national aspirations over the divisions implicit in the Indonesian body politic. The broader considerations included his consistent revolutionary nationalist appeal, successive parliamentary regimes' inability to address nationalist ambitions or bridge national differences, the real threat of western re-colonisation, and the political and corporate strength of the military apparatus. The most persuasive explanation for Sukarno's ascendancy, however, was his ability to balance the competing interests of the military and labour-peasantry. This was not just the talent of a skilled mediator balancing the ambitions of two dominant groups amongst a plurality of competing interests. It represented a deeply committed and involved determination to achieve cooperation between the major political forces within Indonesia. Sukarno's manifesto encapsulated mass aspirations for national economic sovereignty. Further, his allegiance to the landless and the small land-holding peasantry was evidenced by his commitment to Marhaen as the archetype Indonesian. Building on this basis of mass-appeal, and whilst no one grouping could exert absolute power, Sukarno was in a strong political position to enforce compromise and cooperative dealings between the competing forces.

A key conceptual understanding underpinning this research has been that change reflects an economic and political struggle over control of the productive process and shares of surplus from that process. With the collapse of parliamentary democracy and Sukarno's ascendancy this struggle is seen to have been engineered by the military on behalf of capital, confronting labour and the peasantry over the control of and shares from the production system. The inherently oppositional character of these

dominant political groups meant that Sukarno's contrived 'cooperation' between them could only be a temporary 'holding operation'. The objective of negotiating a balance of power to affect some influence over the production and control of the national surplus was always going to be an elusive one. The support provided by Western corporate and military agencies to the military once the secessionist rebellions had been defeated indicates further the depth of the schism between the military and the masses and confirmed the military's corporate-class allegiance. Thus, whilst Sukarno's '*Marhaenist*' credo defined the possibilities of cooperation and consensus to resolve divisions within society, there could be no consensus over the ownership and control of the system of production and the distribution of the surplus that it generated.

The irreconcilable nature of this struggle for productive and distributive control came clearly to the fore when the military increasingly dominated the heights of capital ownership. The military elite made no bones about their claim to the right to control the generation and distribution of the surplus generated by 'their' companies. This transcended the Government's ownership and distribution of the surplus, or the right to determine the distribution of that surplus to the community and labour. The corporate ascendancy of the military represented a rupture in the state's ordering of the system of production organisation and, more particularly, an expression of the state's inability to reconcile the competition for the ownership and control of the country's resources. The nationalists' agenda of economic sovereignty was thus hijacked by the military as they increasingly added a dominant capitalist role to that of the *dua fungsi*. Under the NASAKOM façade of an alliance of mutual interest lay a bitter war for control over the production process and the distribution of surplus.

Overall, whilst Sukarno's strong centrist control effectively suppressed class struggle and dissidence, as well as challenged foreign economic dependency and control, these manoeuvrings could not ensure a resolution of the struggles let alone address the sources of dissent. Whilst he made various attempts to ameliorate the economic hardships and distract the power interests from their struggle, these initiatives only served to postpone the inevitable conflict between labour and capital precipitated by the 1965 military coup. Thus the state maintained a form of national political control by rallying popular support for unifying campaigns against national threats such as

civil war and imperialism. The achievement of national unity and the defeat of imperialist powers would enable national development and improved standards of living, thus obviating the need to challenge capital ownership. Whilst the state was ostensibly balancing the competing interests, its orientation, predilection, and the environment determined that it would serve indigenous business interests first, and foreign interests where they advantaged local capital interests.

A further key conceptual theme of this thesis has been that the material conditions determining national policy direction have defined the character of the production apparatus as a developing system of production organisation. Thus, whereas historical discourse often suggests that a regime-overthrow marks the institution of completely new political and economic systems, this research has suggested that there is generally a marked continuity across ‘watersheds’ of political change. In the context of a rupture to Guided Democracy, whilst Sukarno was unable to reconcile the irreconcilable competition for control of the production apparatus, his regime instituted systems that can be seen as crucial for New Order rule. The next chapter develops an appreciation of the role of Sukarno’s ideological campaigns for national unification and solidarity as a case in point. The more oppressive, and unintentional, material condition was the reintroduction of the exclusionary process with the ‘exclusion’ in this context transformed from the system of colonial appropriation excluding Indonesians, to a military-dominated system of private capital appropriation. The next chapter considers the process of exclusion, including the exclusion of indigenous business.

Chapter 8

The New Order

“Capitalist development is accelerating in Indonesia due to the economic, political, and social policies implemented by the New Order since 1967. These policies have facilitated the development of classes associated with the maturation of capitalism – a bourgeoisie, growing salaried and professional middle classes, as well as a steadily growing working class” (Hadiz, 1992b: 64).

“He (President Soeharto) was not a sophisticated thinker, but he was ready to listen to the right people.” Mid-1960s US Ambassador to Indonesia, Marshall Green (Winters, 1996:48).

Following its seizure of power in 1965 the Soeharto military regime demolished labour and political institutions, and jailed or killed labour-peasantry class’ leaders and cadres deemed a threat to private corporate interests. The banning of any left or communist political or industrial associations was supported by a coalition of indigenous business, dominant political and economic groups such as Muslim political parties, small and medium business and anti-communist trade unions. There has been overwhelming evidence proving a strong, if covert, western – especially English and US’ – government role in this elimination of leftist opposition. This culminated in the US government’s formal ‘warm welcome’ for the military leadership in its takeover of the Indonesian state (Crouch, 1985:297).

This takeover by the New Order regime forms the background to this Chapter’s investigation of the character of the regime, its ambitions, and most importantly, the interests served by the autocratic rule. It postulates a specific rationale for the destruction of the representative systems of a particular group in society that not only demanded a greater share of the wealth, but also demanded an equitable voice in the ownership of the productive and wealth-generating apparatus. This forms the crux of

this analysis of the political and economic authorities in charge of the production and distribution of the national surplus.

The primary consideration concerns the role, influence, and objectives of foreign powers and corporate interests in the shaping of New Order national and international political and economic policy. The following brief survey of key Soeharto-era events is thus illuminated by an appreciation of the regime and its international allies' class-objective and motives in not only rejecting Sukarno's attempts at reconciling divergent interests, but enforcing a system of class dominance.

This class-perspective of political change goes to the core of the fundamental difference between this thesis and the established conceptual understanding. Whilst the New Order state ideological credo represented Soeharto as bringing 'economic order' to the Indonesian people as a welcome rejection of Sukarno's megalomania and economic incompetence, the contrary appreciation of this thesis concerns the application of social control to serve sectional interests. This regulatory role is considered in the context of international corporate pressures to shift Indonesia's productive base to serve the needs of changing international market demand, and – as a corollary – international corporate management requirements for low-cost, manufacturing industry, labour. The investigation charts the way in which the Soeharto ruling regime moved to accommodate and engage with these international pressures.

The investigation of state-controlled processes of accumulation is juxtaposed against the contradictions between international and national corporate objectives of securing a ready supply of low-cost labour in an environment of strict social controls, and a growing international campaign to ameliorate Indonesia's harsh working conditions and soften the repressive autocratic state rule. Social divisions and contradictions in the system are illuminated by an appreciation of these conflicting imperatives. This forms the background for an explanation of the deep schisms in Indonesia's body politic leading up to the Asian financial crisis of 1997.

The primary theme of the institutional, political and industrial organisation of labour as a mechanism of class-control and the prime agency of accumulation is counter

posed as a critical alternative to the literature that ascribes capital accumulation to business' initiative and dynamism. This prefaces a critique of those theorists who attribute the continuing intractability of Indonesia's economic crisis following the Asian Financial Crisis of 1997 to the Soeharto clique's 'corruption, collusion and nepotism'. In other words the source of Indonesia's continuing economic problems resides in distortions and frictions to sound business practice. This is juxtaposed against my dominant theme that the essence of accumulation resides in labour exploitation.

The chapter concludes with some consideration of the impact of the massive changes resulting from the Asian financial crisis on systems of production control and regulation, and the possible future implications of the resulting changes to the political and corporate system.

Setting the corporate agenda

Having defeated the forces representing the interests of labour and the peasantry the Soeharto government determined to replace the broad-based 'cooperative' system of politico-economic administration of earlier Republican regimes with a system of corporate control. The immense complexity of imperatives facing government was addressed within a framework of maximising the possibilities for accumulation of indigenous capital interests. We shall see, however, that only enterprises and support organisations associated with the military-state government gained preference in the allocation of business opportunity. The motivations for this preference, the character of the enterprises, and the effect of the preference will be examined in the context of the developing form of production control and labour regulation.

Kadin

To facilitate business expansion, the government established the enterprise association of *Kadin*. *Kadin* was run by Cabinet-appointed military-business executives and was the forerunner of the Indonesian Chamber of Commerce and Industry. The association defined the 'inner circle' of state supported enterprise. Robison contends that *Kadin's* primary aim was to bring business class' 'influence to bear in a concerted way within

the existing structures of power' (Robison, 1990:142). This 'business class' did not, however, include indigenous Muslim small and medium enterprises.

Kadin played a vital role in driving the substantial domestic investment growth that occurred between 1965 and 1975, coincidentally facilitating the re-engagement of foreign capital investment into the Indonesian economy, as well as excluding other indigenous business from this engagement. Growth was thus largely led by state investment and by a large number of private corporations enjoying 'political patronage, located not only in trade, but in manufacturing, forestry, property, and transport' (Robison, 1990:143). Robison argues that as a consequence the Muslim-oriented petty bourgeoisie 'continued on its path of gradual decline in trade and small-scale manufacture' (Robison, 1990:143). In 1987 *Kadin* was officially accorded the status of sole channel of communication between government and business.

Political patronage and state protection provided privileged access to credit, concessions, trade and manufacturing monopolies, consumer good distribution, and state supply and construction contracts. Chinese-owned businesses took a large share of the indigenous investment. Corporate directors generally enjoyed long associations with the military, acting as financiers for army commands and individual generals, and *de facto* managers for corporations owned by the military. This patrimonial corporatist control was the 'principal mechanism for the advancement of business interests in the policy process' (Robison, 1987:143).

There was a massive expansion of the patrimonial capital group of Soeharto associates and family members, such as those 'led by Liem Sioe Liong, Willem Soerjadjaja, Tan Siong Ke, Bob Hasan, Hendra Rahardja, Ciputra, and various Soeharto family interests including the Bimantara group' (Robison, 1990:145) These companies extended their industrial endeavours with foreign partners into vehicle and component manufacture, cement, electronics, oil-associated industry, and steel manufacture (Robison, 1990:145). The capital accumulation of these corporations was made possible by the strict regulation of foreign capital towards enabling the dominance of the patrimonial group in the nominated sectors. Foreign access was facilitated in those instances where imported technology and skills was required. Overall, Robison considers that the growth of the indigenous capital groups was made

possible by the ‘privileged permission to form monopolies,’ and by the ‘concessions, licences and credit made possible by political patrons in a heavily regulated economy’ (Robison, 1990:143).

Rudner has identified a direct connection between the business grouping and the military, where the ABRI leadership reaped political and economic advantages from its association with a ‘small coterie of entrepreneurial generals, managers, of large business enterprises, and most notably, the Pertamina state oil monopoly, which (had) financed the army’s political take-over’ (Schiffrin, 1976, 217).

Re-engagement with international capital

To establish the economic fundamentals necessary for capital accumulation, and to politically justify its authoritarian rule, the government had to address the economic crisis, especially problems of hyperinflation, the budgetary deficit, and the flight of international investment. The state created organisations to plan appropriate economic directions and priorities, and investigate ways and means of obtaining aid and ‘winning back’ foreign investment. At the same time, the state instituted agencies intended to consolidate existing systems of social regulation and labour control. The state’s corporate accumulation ambitions and priorities are seen in the form and character of the institutions such as *Kadin*, the Supreme Advisory Council, and *BAPPENAS*, set up to deal with economic problems, and in the methods by which these institutions addressed them.

Planning

An urgent imperative for an integrated system of economic, social, and industrial planning and re-organisation was the establishment of the economic fundamentals that would appeal to the corporate objectives of foreign investors on the one hand, and those that would maximise corporate-state capital accumulation on the other. In the establishment of these fundamentals the planners had to account for economic nationalist sentiment and interventionist predilection, but exclude any Sukarnoist implication of cooperative, equitable distribution of the surplus. To accomplish this multifaceted objective, Soeharto appointed a group of Jakarta University, US Ford Foundation trained, economists – dubbed the ‘Berkeley Mafia’ – to run the new

national development planning agency called *BAPPENAS* (*Badan Perencanaan Pembangunan Nasional*). The academic planning team formulated national economic policy with advice from IMF and the IBRD economic technocrats. Indonesia had resigned with the IMF in February 1967 and the World Bank in May of that year.

The military government adopted the Agency's recommendation for a new economic regime of 'fiscal responsibility' through economic deregulation and market orientated developmentalist policies (Utrecht, 1987:182). In 1968 the World Bank set up a permanent mission in Jakarta and worked closely with the nation's national planning apparatus. Between 1968 and 1972 the World Bank and its affiliate, the International Development Association, provided \$350 million in loans for repair work, rehabilitation of roads, agriculture, electricity, telecommunications, and other infrastructure (Palmer, 1978:31).

Negotiation of aid/investment agreements

Aid was also provided separately by the Japanese and Western nations, but on different terms than those of the international agencies. Japanese and Western aid was more specifically designed to re-establish foreign corporate links and opportunities within Indonesia. In the competing ambitions of the donors and Indonesia, donors were in a strong position to dictate terms advantaging their national corporate interests. The Indonesian state, on the other hand, could offer the industrial security of a 'pacified' political and industrial environment. The power of the military state had enabled the institution of perhaps the most important economic 'fundamental': a tightly controlled, 'depoliticised', workforce. The nature of this labour-regulatory framework will be discussed below. The issue here is the aid-provision mechanism.

Once the wealthy nations were assured the Indonesian state had set in place a secure industrial, political and economic environment for investment, they commenced negotiations over the terms of their aid/investment. They supported a 'U.N. circles' idea of a 'Country Program' whereby 'various bodies giving project aid compare(d) notes so that all aid ... (fitted) ... into a recognisable national plan of the recipient country' (Palmer, 1987:26). The US provided emergency credits of \$US 174 million in September 1966. This was followed by a meeting to reconcile the investment

objectives in Indonesia with the major Western creditor nations (US, United Kingdom, the Netherlands, France, Western Germany, Japan and Italy with Australia and the IMF as observers). Known as the Paris Club, these meetings led to the formation of the creditor consortium *IGGI* (Inter-Governmental Group on Indonesia), with Australia joining as a full member, and Canada and many West European nations coming in later. The observer status of the IMF and the World Bank became that of guide, secretariat, and broker. Aid was tied to access to Indonesia's natural resources, to the rejection of external political campaigns (such as '*Confrontasi*') that could threaten corporate and strategic interests, the guarantee that nationalisation of foreign enterprise would not occur, and that US aid would not be used to repay debts to communist lenders.

In October 1966 *IGGI* granted a \$US200 million 'stabilisation' loan. In 1968 a \$325 million loan with \$250 for stabilisation and \$75 million for the 'rehabilitation' of infrastructure, particularly roads, communications, irrigation systems. The loans were in two parts: credits for the import of consumer or capital goods produced in the lending country, and credits for 'developmental projects' that tended to be in those sectors that constructed the infrastructure necessary to facilitate the extraction industries dominated by the foreign companies whose country of origin were the principal aid-donor states (Utrecht, 1987:191). The loans enabled the resumption of commodity imports, the stabilisation of the domestic economy and thus the reduction of inflation, and encouraged private investment in the consumer goods industries and agricultural sector.

The overall result of this re-engagement with international capital was to create long-term economic growth. Gross domestic investment as a share of GDP grew from 4.5 per cent to 15.8 per cent between 1966 and 1971 (Hill, 1994:65). Robison notes, however, that the influx of substantial levels of foreign investment was essential for the advancement of capitalist accumulation, creating growth without redistributing wealth or power (Robison, 1986:110).

Aid and the development of the patrimonial state

The next phase of the regeneration of state-controlled capital accumulation, as part of the restoration of the economic system, was determined by the conditions and allocation of aid. This became the basis for the development of a new corporate 'rentier' power-elite within the Indonesian ruling class.⁵ This elite consisted of 'influential persons' within the state apparatus who were able to 'demand rent from outsiders, and who were reliant on 'favourable' regulations and/or required to give something in return for getting access to the remaining resources' (Budiman, 1990:32,3). The Indonesian rentier class consisted largely of the military's senior officer corps. The money from military corporations flowed to the army through a series of foundations and business ventures, such as banks and pension schemes, which were supporting its military operations. This income was not restricted to the generals, with even the lower ranked officers relying (and continuing to rely) on business links to supplement their incomes and their pensions. Politicians, civil and military state personnel determined patronage or 'tributary' relations of political and economic influence through the allocation of licences, contracts and quotas. Their bargaining strength lay in their ability to provide the necessary preconditions for production, trade, and internal commercial operations such as through the state-nominated authority to influence or control financial institutions.

Metropolitan donor countries deployed aid to leverage access for their national capitals in particular situations of Indonesian state support for foreign, over indigenous, investment. An example was the ICI - Dulux pressure determining the government's decision to prohibit exports from an indigenous-owned plant as that plant supplied more than 50 per cent of the market. Palmer argues that the state program supported foreign investment in low-risk, high profit sectors, and that this investment did not create flow-on incentives for local enterprise, especially in the high surplus generating extractive industries. Foreign interests with Indonesian administrators obliged indigenous interests to negotiate with the foreign 'owners' as corporate producers in Indonesia and as marketing agents of the product (Palmer, 1987:104).

Throughout the period covering the entrenchment of the New Order state, power relations between rentier interests and international capital denied the possibility of substantial indigenous capitalist accumulation in key sectors of the economy. A corollary of this failure to reinvest in capital intensification was the relative decline of productivity for comprador capitalist enterprise *vis-à-vis* its international competition. This will be shown to result in the intensification of workloads through increasing labour repression as military-controlled enterprise management sought to maintain surplus production in the face of declining output.

Competition for extraction

An important factor contributing towards the consolidation and transformation of the New Order state was the growing strength of Japanese investment in Indonesia *vis-à-vis* the US and Western European corporate investment. The Soeharto regime's resolution of this national corporate jockeying for control of Indonesia's resources indicates it held sufficient political strength to advantage indigenous rentier interests in the process of negotiation between US, Japanese and Western European corporate powers. This negotiation signalled a momentous change in the financial base of the regime through the advance of New Order corporate-state accumulation.

Japan had initially acceded to the US imposed order of metropolitan state dominance in the organisation and coordination of a 'national plan' to advance Indonesia's development through aid. As Japan re-established its metropolitan industrial base and moved to expand its sources of energy and raw materials supplies, there was a critical breakdown between the aid partners over access to Indonesian resources. Japan attempted to utilise IGGI to allow direct private investment, including joint venture capital, to constitute official aid. This would have allowed Japan to classify funds lent to its own companies as aid. These Japanese ambitions led to a growing Western European and US hostility, but Japan considered it was discriminated against by the US domination of the extraction of particular commodities, especially oil (Robinson, 1985:198).

⁵ Tanter (following Mahdavy) describes rent as income used to create an entity of mutually-advantaging political and corporate interests (Budiman, 1990:59).

Whilst still playing a key role supporting the IGGI program, Japan determined to expand its access through a special Japan/Indonesia partnership that would subordinate links with other capital interests 'to a programme of accelerated state-capitalist industrialisation' (Robinson, 1985:196). Japanese lobbyists and corporate representatives sought privileged access to Indonesian commodities, and developed a liaison with supportive elements within cabinet, and senior bureaucratic officials, Chinese, and 'marginalised petty-bourgeois elements, hostile to the "liberal" western strategy' (Robinson, 1985:196). This liaison led to an expansion of Japanese investment opportunity, in association with Chinese and comprador-rentier capital. Between 1972-6 there was a rapid expansion of Japanese investment relative to US and Western Europe. Japan achieved a near monopoly interest in the major Indonesian exports of timber and oil, and dominated secondary industry investment.

The latter companies channelled funds to affiliates in Indonesia set up to promote exports. This led to a program of heavy borrowing that Robinson associates with a dramatic rise in private Japanese investment in Indonesia (Robinson, 1985:199). This is reflected in the subsequent growing disparity between Japanese and US aid, so that by 1973-4 Japanese investment presented a serious challenge to Euro-US capital dominance of the Indonesian economy (Robinson, 1985:197).

**Table 8.1: Investment in Indonesia by IGGI members:
1967-1976 (US\$000)**

Country	Amount	Projects
Britain (excl. H.K.)	36725	31
West Germany	28744	14
Japan	1030424	162
Canada	96203	4
Netherlands	77412	28
New Zealand	70	1
France	11959	4
Belgium	77854	15
United States	147659	45
Australia	64794	23
TOTALS	1571880	327

Source: Robinson, 1985:204

Indonesia's support for Japan, in promoting a corporate advantage over other national capitals in the competition for the extraction of Indonesia's resources, played a crucial role in the transformation of the Indonesian state from a rentier-based, to an industrial capitalist based system. This creation of a capitalist-state system is considered in a following section describing the oil-boom consolidation of indigenous capitalist power, but it is appropriate to signal the important role that aid played in this transformation, especially through contributing to a tightening association between the corporate-state and foreign private capitalist accumulation (Budiman, 1990:39).

Disciplining labour and society

The chief objective in the New Order state's program to create the necessary 'fundamentals' for capital accumulation was the institution or extension of a regime to discipline society and labour. The state's ability to crush the more radical sections of the labour movement, to establish firm controls over labour and the peasantry, and to

deny dissident political activity, was a major consideration in the foreign corporate decision to reinvest in Indonesia. The nature of the regulatory system, how it was applied, and its impact on labour is thus considered in relation to foreign and indigenous capital accumulation.

The military overthrow of the Sukarno regime and the subsequent massacre and gaoling of political opponents formed the basis of the Soeharto regime's political power. This obliterated most critical systems of industrial or political representation for labour and the peasantry. It prevented any possibility of a revival of Sukarno-era labour activism and of opposition to foreign investment during the introductory phase of the New Order's program of social regulation. To secure its political and economic objectives the state reconstructed existing systems of social, political, and industrial organisation. It strengthened the state security apparatus to repress internal dissention, it redeveloped the unifying ideology initiated by Sukarno to support the developmentalist goals and production relations, it instituted a common system of industrial representation controlled by the state and run by the military as part of the agenda of industrial repression, and it denied a political voice for labour and the peasantry. Hadiz characterises the campaign as aiming to 'exorcise the spirit of militant unionism from the body, as well as the collective memory, of organised labour' (Hadiz, 1997:62)

Strengthened state repressive apparatus

The state security apparatus was the paramount institution employed by the state to enforce its developmentalist agenda. The military/police enforcement of systems of industrial and social regulation was a logical extension of regulatory processes that were an inherent part of the development of the Republican state. In the first instance, the military was an intrinsic part of the revolutionary forces, and as such instrumental in fomenting the political mobilisation for Republican unity in the face of foreign and internal opposition. The military remained committed to what they perceived to be the political imperatives of the developmental objective. As the military assumed domination of the commanding heights of corporate control, it instituted a hierarchical system of industrial regulation over those corporations, which followed on as a general system of industrial regulation. The Sukarno-era military formation of a union

confederation in competition to other union organisations such as the PKI formed the final component of a system of industrial regulation instituted by the military.

As Soeharto's New Order was now firmly within the aegis of the Western strategic alliance, there was little apparent requirement for an extensive force to protect the country from an external threat. The military 'security' role was now dedicated to ensuring that the state's developmentalist objectives were implemented without political or industrial opposition. Thus the training, equipping, and mobilisation of military forces backed by its intelligence apparatus was extended at both the national level of the military-state, and at the village level through a 'skeleton structure' or 'shadow government' controlling civilian institutions. With the large numbers of active-duty and retired officers serving on boards and in the management of both private corporations and state-owned businesses, 'the lines between public and private, and military and civilian, duties (were) constantly blurred' (GSP Subcommittee, 1992:71).

The military apparatus imposed on Indonesian society a hierarchical regime of regulation and control, from the village to the capital-intensive manufacturing production line. Active-duty and retired officers were appointed as governors and regents of districts and villages, ensuring military control of the population through the state apparatus and through civilian administrations. In 1992, military officers accounted for 12 out of 27 governors, 134 of 299 district regents, and 12 of Soeharto's 41-member cabinet ministries, including the important ministries for Home Affairs, the judiciary, and Political and Security Affairs. There was a cynical saying in Indonesia: 'Under colonialism, we had a governor-general; now that we're independent, we have general-governors' (Rossiter and Lee, 1994).

Military regulation of industrial relations occurred through the hierarchy of production and social organisation from the level of Cabinet representation, and senior union management, and through the line-relations at workplaces and corporate plantations. Thus top personnel in the Ministry of Manpower were men who had made their careers in the state security apparatus, and asserted a military dominance over labour affairs. A 1986 Minister of Manpower Bill legitimised the military's role in quelling strikes (Hadiz, 1992a).

Developmentalist ethos

The New Order's developmentalist values appear to have been shared by the leadership of the anti-communist Muslim community, the unions, and the military-union federation of SOBSI. These shared values facilitated the introduction of systems of social and labour regulation supporting the New Order's corporate objectives. During the New Order state's political and economic entrenchment and following the repression of left-wing unions, the remaining union leadership provided their full support for the corporate state's program of labour regulation, developmentalism and foreign investment in the Indonesian economy. Senior union officials enthusiastically accepted their state-anointed roles as emissaries of the New Order in the international campaign to convince foreign investors of the viability, stability, and security of the industrial environment. A 1969 union representatives' visit to Europe advised investors that Indonesian workers were 'patriotic and bound to the national interest' (Palmer, 1978:100). The leadership group, led by Agus Sudono of the Amalgamation of Indonesian Islamic Workers Organisation (*GASBIINDO*), told European corporate leaders that Indonesian workers were 'conscious of the fact that the struggle of the Indonesian nation had entered upon a phase of development that badly needed capital' (Hadiz, 1997:64).

These economic goals were promoted through a national ideological campaign supporting developmentalism and a corporatist ethos that incorporated the elements of mutual cooperation and the common interests of labour and capital. Thus the achievement of state labour-regulatory objectives must be seen in the general context of the overall hegemonic system of social and political control. This campaign built on the formula used by Sukarno to gain national unity in the achievement of state goals. This regime, however, enforced the ethos as an obligatory element of social and political behaviour, with the intention of marginalising dissident forces and voices. Sukarno's *Pancasila* ideology excluded labour and the peasantry as a class power. Under the Soeharto system reference to class power or struggle was 'unpatriotic' and punishable by law. This reversed the Sukarnoist unifying mechanism of the external 'enemy' of the Republic, to portray those opposing or criticising state policy as internal enemies of the state.

The state promoted a national ethos to foster a unified national commitment to the ideals of productivity. This ethos incorporated the two 'guiding tenets' of *bangun* (adjective *pembangunan* means development, from *bangun* to uplift awaken or emerge, to wake up, structure; and *pem - an* to build, develop) and *Pancasila*, as discussed in the last chapter. The origin of *pembangunan* lies in independence ideals of a national common purpose of self-determination and a rejection of foreign economic dominance. This was incorporated in the state ideal of the creation of national economic resilience, economic development, and nation building. Whilst Sukarno stressed the use of the term to promote the idea of equitable development emphasising the necessity to assist the economically disadvantaged, Soeharto transformed it into an ideological justification for private enterprise and legitimisation of the state emphasis on nation-building development (Chalmers and Hadiz, 1997:3-5).

The New Order incorporated *Pancasila* into all aspects of state policy making, but specifically re-designed and codified the ethos in the context of industrial regulation as *Hubungan Industrial - sebuah pengantar: Industrial Pancasila (HIP)*. Industrial relations academic Dr John Suprihanto codified *HIP* for the workplace (Suprihanto, 1985). It emphasised traditional Indonesian values of harmony and consultation leading to consensus. The aim of working was held to be human dedication to God, for other people, for society, and the nation. As with *Pancasila* it represented a clear denial of conflicting class-interest in that workers and entrepreneurs were seen to have the same aim of community progress for mutual welfare. Thus Mursalin, the Minister of Manpower during the late 1960s, stated that 'interpretations of labour relations based on class conflict and free fight liberalism must be immediately wiped out and replaced by interpretations of labour relations based on *Pancasila*' (Hadiz, 1997:65). Conflicts were seen as sourced in individual situations, and thus resolvable through *musyawarah* to achieve *mufakat*. In *HIP* there was a balance of 'fairness and properness' between the workers' and entrepreneurs' rights and obligations to the company. 'One sided' actions like oppression, strikes, and lockouts did not conform to *HIP* principles. The author of the *HIP* referred to the responsibility of workers 'for their working place, for their family, for their trade union, for the interests of society and state, and to bear responsibility in respect to God' (Suprihanto, 1985:92-94). It is also of interest to note that key ideological components of the document were written

in the Javanese language, reflecting the Java-centric dominance of the Soeharto regime.

The state conducted regular campaigns in a general program of social organisation supporting developmentalist goals. The final campaign before the Soeharto regime lost government was based on promoting national discipline for development. Just prior to the Asian financial crisis in June 1997 the government led a campaign promoted on billboards, banners and television exhorting Indonesians to be self-disciplined in working for national development. For example, the slogan of '*disiplin nasional, syarat mutlak suksesnya pembangunan nasional*' (national discipline, the core prerequisite for successful national development).

State unionism

The state's general program designed to ensure labour's non-conflictual and cooperative role in national development was predicated on a state-defined and imposed distinction between political and economic rights and responsibilities. All aspects of the organisation and regulation of the workforce were represented as an integral part of the developmentalist economic agenda, and as such it was inappropriate to allow political party association with organised labour or the peasantry. On assuming political power, the New Order regime moved to inhibit 'political' activism from the rural and industrial base by breaking the nexus between industrial and political aspirations of labour and the peasantry (Manning, 1993:67).

Political and economic conditions determined a more gradual move by the state to 'drain' the industrial system and union representation of any 'non-economic' association, such as through the political associations of Muslim-based unions. The objective was to control the entire union movement by replacing the numbers of independent unions with a centralised and hierarchically regimented entity, under the authority of state appointed officials. The vehicle for this transformation was the precoup, military-union of SOBSI, described in the last chapter as the major labour-controlling system in military-controlled enterprise. To ease the transition the state-military apparatus encouraged the participation of prominent, pro-Islamic union leaders in the state management of industrial relations affairs. Union officials appear

to have accepted the government position that the coordination of the union movement under the one federation, overseen by the Minister for Manpower and responsible to the government, would advantage industrial labour in the New Order state. Prominent union leader Sudono could then argue his belief that the state would support industrial rights – such as the right to strike – given the ‘aspirations of the New Order to establish a democratic and constitutional way of life’ (Hadiz, 1997:36). As part of the state-supported attempts to establish the legitimacy of its industrial relations regulatory system, Sudono and other union leaders put their efforts into expanding links with foreign union federations such as the ICFTU and AFL CIO.⁶

In 1972 General Ali Murtopo, the leader of the army’s political intelligence group (*OPSUS – Operasi Khusus*), forced all unions into a single labour federation (Hadiz, 1997:47). In 1973 the government consolidated the existing 19 trade union groups under the central authority of the FBSI, with the leadership determined to reconstruct union systems to reflect the state’s developmental ambitions. Thus ‘the mental attitudes and ways of thinking of organised labour had to be revamped so that workers could better participate in development’ (Hadiz, 1997:48) The *SPSI* remained the bulwark of state developmental priorities related to labour organisation until the state allowed alternative union representation in the mid 1990s. Until then, any attempt to promote alternative union organisations was limited by state legislation requiring any new trade union federation to include unions from at least 15 industries and to have branches in at least 20 provinces.

The *SPSI* federation played a consistent role in facilitating industrial regulation on behalf of corporate interests. *SPSI* units at the workplace, where they existed, have often sided with the company. The presence of soldiers and police during negotiations between workers and management served as form of intimidation and robbed the industrial relations process of any meaning. It was standard practice for union workplace-committees to have leaders appointed by management, or to be management staff (Mack, 1995:4).

⁶ Interview with Agus Sudono, Industrial advisor to President Habibie, Director State Supreme Advisory Council, Jakarta, 28th July, 1998

In the 1991 Country Reports on Human Rights Practices, the US State Department noted: ‘The Government and employers have considerable influence over *SPSI* affairs; a retired military lieutenant colonel and *GOLKAR* district chairman with some prior union experience is chairman of the largest provincial branch of *SPSI*, primarily due to government backing. The Minister of Manpower is a member of the *SPSI* Consultative Council. *SPSI* officials are pressured to join *GOLKAR* and *GOLKAR* members dominate the *SPSI* leadership’ (US Department of State, 1992:870). Manning contends that the military role included vetting of appointments of union leaders and officials, detention of labour activists and active participation of military and police in the settlement of disputes (Manning, 1993:67).

In 1992 the *SPSI* military leadership – in full military uniform – addressed an Australian delegation of which I was a member. They argued the appropriateness of the military role in the union, both as officials and in workplaces as shop stewards, to provide ‘secure’ workplaces and ensure that management and employees strictly adhered to *HIP*. The military apparatus ensured adequate funding for its union operations by enforcing the state directive for companies to extract union dues from the annual *Liburan* (religious holiday) bonus and pay them directly to military officials. In the event an employer refused to comply with this requirement, then the Government applied production licensing restrictions and other ‘sanctions’ on that company (Mack, 1993:2).

Rural developmentalism

The coup that ushered in the Soeharto regime prefaced the destruction of all political opposition to corporate ambitions to reassert absolute control over rural production, surplus appropriation and distribution. The degree to which the political mobilisation of rural labour and peasantry was perceived as a threat to this appropriation is shown by the extent to which the massacre of rural workers was concentrated on left-wing groups, land rights associations, and industrial activists. A foreign journalist reporting on the pogroms of North Sumatra cited an army official document recording the military murder of ‘twenty-two percent of the plantation workers in the Medan area’ (Stoler, 1985:163) Most *SARBUPRI* union leaders, branch heads, or estate division representatives were killed or imprisoned. All left-leaning labour unions and other

associations were outlawed with estate union members dismissed and blacklisted from further estate employment (Stoler, 1985:163).

As all forms of representation of rural-workers were demolished, the state moved in to control the workforce in a program that superseded traditional production relations with capital intensification packages and mechanisms to enforce labour commodification. These developmentalist programs were applied in the mass-based subsistence production sector as well as in the corporate estates sector.

Estate-sector extended appropriation through capital intensification and labour-commodification

The state's agenda to reassert private corporate control over the estate sector included the re-establishment of landholder 'sovereignty'. This was carried out by plantation company employed and military-supported gangs, who ejected squatters from Dutch colonial-era estate land that had been occupied since the Pacific War.

Rural sector rehabilitation was an intrinsic part of the international aid/investment program. Following World Bank and International Development Agency acceptance of the ability of the New Order state to 'stabilise' the political and economic climate, the development-lending program to increase foreign exchange earnings prioritised the revival of the estate industry (Stoler, 1985:165). Other than road construction loans, the single largest loan (\$59 million) went towards the restoration of government estate production. The Bank and Agency supported this particular spending on the presumption that this industry provided the best opportunity for the rapid regeneration of export earnings. Spending was also based on the assumption that credit would flow to smallholders and expand the rural sector generally.

State and international agency policy was directed towards reducing estate industry costs and increasing labour productivity. To reduce labour costs, the World Bank promoted the 'retrenchment of labour... (through)... improved management practices' (Stoler, 1985:166). Between 1965 and 1968 the estate workforce was reduced by 34 per cent, and to less than half of the 1965 workforce by 1974 (Stoler, 1985:165, 6). That this was not the result of a downturn in demand or output is shown

by the strong increase in rural commodity exports (44 per cent in rubber) and in replantings over the same period (Stoler, 1985:165).

Capital intensification, technological innovation and labour reorganisation were employed to reduce labour and increase output. Thus, for example, the introduction of chemical weeding by the Belgian-Indonesian joint venture, SOCFINDO, enabled the company to reduce the number of workers per hectare by up to 60 per cent (Stoler, 1985:167). This process was reinforced by the general trend to shift production from labour intensive crops, operations, and cultivations. There was a shift from rubber to palm-oil production, and the replacement of permanent with temporary labour. A report by the Indonesian Department of Agriculture showed that between 1972 and 1976 the area allotted to palm oil cultivations increased by 25 per cent (with a similar decrease in rubber cultivation), but its production increased by 250 per cent (Stoler, 1985:167). Oil palm provided a quicker return on investment, and has the lowest labour intensity of any crop. Its harvesting operations are simpler, leading to the replacement of skilled, permanent staff with casual unskilled and lower paid workers.

Government reports show that temporary plantation workers increased from 10 per cent to 29 per cent of the total government estate workforce between 1973 and 1976 (Stoler, 1985:168). Stoler considers this a 'highly conservative' figure and provides evidence to show that temporary workers constituted more than half the workforce on private estates, leading to a reduction of labour costs by up to 70 per cent (Stoler, 1985:168).

Lower paid, temporary workers were drawn from the villages around the estates and recruited and managed by labour contractors (*pemborong*). Workers are responsible to these contractors, who pay their wages. The employment relation having moved from the estate to the sub-contractor, the estates denied responsibility for temporary workers' housing, family support, terms or conditions of employment or any disabilities resulting from their employment. State employment standards such as minimum age or pregnancy leave have not applied for casual employees (Stoler, 1985:170). Whilst there was great difficulty in obtaining information on under-age employment, Stoler points to a sharp decline in estate-area school attendance from the mid-1970s, and quotes *Tempo* magazine's 1977 evidence showing that the US

Uniroyal estates employed children ranging from the age of 7 to 12 (Stoler, 1985:171).

The changes in the estate sector were symptomatic of the extensive and systematic pressures on work relations to transform rural labour into waged workers. The state had the clear objective of increasing productivity by replacing socially organised production relationships with expanded employer control over the workforce. International agencies apparently had the same objectives but employed orthodox economic rationalisations to support labour commodification. Evidence of their motivation is seen in the agencies' pressure to replace traditional forms of 'in kind' payments with wages. The International Labour Organisation (ILO) contended that the traditional 'needs-based' form of exchange was an 'inefficient use of labour restricting the free flow of market forces,' and thus the expansion of the capitalist sector. The economy 'requires a free and available labour force, unfettered by what is essentially a pre-capitalist wage system'. In short, the wage system must be "relieved" of its social policy functions to maximise economic development (Short, 1977:221) The consequent public and private estate replacement of all 'in kind' payments with wage-payments consolidated the decline in the share of the surplus to rural communities arising from specialisation, casualisation, and job losses.

The overall effect of these changes was to reduce wage-costs and shares of the surplus previously available to the village community, to women, and to families. An IBRD evaluation of the impact of its loans on North Sumatra estates showed a decline in estate worker's hourly real wage (Stoler, 1985:171).

The ability to impose cost savings by rejecting or bypassing previous employment standards and by employing casual labour epitomised the way in which the estate sector benefited from the state destruction of systems of industrial representation, and its representatives. Thus the new political environment removed the industrial resistance that had prevented casualisation prior to the coup, and ensured that there would be little opposition to the estate's campaigns to increase productivity per worker at reduced costs. The consequent growth in unemployment became an additional powerful mechanism for inhibiting opposition and restraining wage costs, and an important source of industrial labour.

Developmentalism in the small-holder sector

The state's regime of production 'discipline' applied in the mass-based smallholder production sector as it did in the estate sector, but with the difference that the state had to shape its policies to reflect the situation of largely village-community and smallholder production. In this context the state's imperative was to create price stabilisation and self-sufficiency of food supplies from the largely depressed food crop economy. To this end technocrats, supported by foreign corporations, applied the technocratic developmentalist solutions of capital intensification, technological change, and labour-commodification to increase labour productivity. As with much of the urban developmentalist agenda, however, the notion that productivity goals could be achieved by allowing the market to regulate economic organisation was largely overridden – at least for the production process – by administrative enforcement of the new policies. Rudner argues that there was a clear technocrat/military appreciation that demographic considerations and rural attitudes prevented the effective use of the market to adequately generate strong productivity advances in the rural sector (Schiffrin, 1976:211).

The primary consideration was to remove production 'inefficiencies' perceived to be endemic in traditional systems of village production, especially in cultivating and harvesting. The traditional system of village cropping and cultivation included all able-bodied members of the community who received a share, generally a ninth, of the surplus from the crop. State planners determined to replace these village systems of production organisation with market systems of labour regulation. The state introduced the *tebasan* system whereby the crop was sold to a trader before it was harvested. This expanded the farmer's control over the work by enabling the paid employment of a team of skilled harvesters to do the harvesting. This increased productivity per worker, and increased returns for the farmer. This accounts for the early 1970s spread in this sector of what Manning refers to as 'discriminatory' or 'exclusionary' labour contracts which discriminated in favour of small, often better-off, groups of wage workers in rice farming (Manning, 1993:54). Other components of this change included 'sharecropping, land-labour interlinkages binding labourers to landowners in the wet season through the offer of sharecropping rights in the more

risky dry season, and labour-credit linkages tying labourers through indebtedness' (Manning, 1993:54).

The overall effect of the *tebasan* system on the peasantry was to reduce the share of surplus available to villagers, and remove the share that had been available to those without alternative sources of income or subsistence production. Palmer shows that as a consequence, women and those not generally employed in harvesting after the change were worse-off (Palmer, 1978:90). This led to a decline in income and employment in villages that consolidated the pressures forcing the rural workforce to seek industrial employment.

The spread of labour commodification to regions where traditional rural production and distribution systems had previously prevailed, served both to facilitate and expand the supply of wage labour. As well, the commodification of labour forced an increasing body of the rural population to rely on wage-relations to survive.

The program of capital intensification in the food-crop sector was achieved with direct state support for technological advances, through foreign corporate investment of capital goods. Government credit policies enabled the replacement of traditional hand-pounding methods of rice manufacture with new small village rice mills. The introduction of mechanical rice-hullers increased worker productivity but reduced employment for village women. The technology is estimated to have eliminated 125 million days of wage-labour previously open to women on Java (Higgott and Robison, 1985:135). Thus whilst in 1971 about 80 per cent of Java's rice crop was hand-pounded, this had dropped to between 10 and 50 per cent by 1973 (Palmer, 1978:90). Warren refers to the 'well documented labour displacement effects of mechanical rice hullers and tractor-tillers' and quotes Sinaga: '[o]ne tractor in normal use... replaces 2,210 man-days of human labour per year if replacing cultivation by hoe, or 650 man-days per year if replacing a combination of plough and hoe. This represents a potential shift of more than Rp. 1 million per tractor per year away from the pockets of labourers.' (Warren, 1985:135)

Rudner sees a major objective of the military elite's 'predilection for closely-governed, ideologically-neutral, technical policies of modernisation' was to provide

‘cheap rice for official consumption’. Agricultural policy was ‘turned into an instrument of the military and civil establishments’ to serve its needs and interests... with considerable agricultural resources transferred to the government, especially the military’ (Schiffrin, 1976:212) This created increasingly retrogressive social allocations of income and land, with benefits tending to accrue to the wealthier farmers (Schiffrin, 1976:212). Overall the process created a ‘growing rural inequality, with poorer peasants suffering unemployment, a decline in real incomes, increasing debt-bondage and worsening conditions of land tenure’ (Schiffrin, 1976:213).

Green Revolution

The state-engendered rural program to support the regime through the expansion of the rural surplus was dwarfed by the capital inputs provided by foreign aid and investment. The most pervasive was the ‘Green Revolution’ developmentalist program providing aid and investment for new technology such as high yielding varieties of rice, pesticides, herbicides, fertilizers and improved irrigation. The aim was to force food production to outstrip the increase in population, with the surplus providing a base for indigenous capital accumulation and supporting the relocation of labour from agriculture to industry. At the same time, it was believed a rise in farm income associated with a wider availability of consumer products would encourage individual incentive and ‘unlock’ the peasant from subsistence to profit-oriented farming (Warren, 1985:133).

In 1968 the Green Revolution program was adopted in Indonesia to intensify rice cultivations by enforcing the introduction of fixed input packages. These packages were developed by international companies such as ICI and paid for with ‘in kind’ contributions from the surplus production. Inputs were delivered through the Government’s *Bimas Gotong-Royong* agricultural development program (Robison, 1986:253). Farmers were obliged to provide fixed procurements of paddy on a per hectare basis as repayment, and in 1969 this was fixed at one sixth of a presumed local average yield.

Impacts of state/corporate developmental programs

There were three major impacts of state and foreign aid and investment rural developmentalist programs on accumulation systems. They advanced the business connections of state-corporate interests arising from the expanded foreign investment in the rural sector, they developed the rural corporate elite's capital base; and they precipitated a shift of rural labour to industrial employment. A brief description of costs of these programs serves to indicate their implicit economic priorities and redistributive effects. In the first instance, the ability of a farmer to gain from the inputs depended on the relative skills in making the best use of the packages, on the differing quality of land, and the overall relative ability to achieve the stipulated increase in yield (Palmer, 1978:83). This created a differential access to the resources, finance, credit and infrastructural requirements necessary for the High Yielding Varieties (HYV) of rice to succeed. More powerful farmers gained privileged access to the best of government services. Farms below a certain size had difficulty in becoming viable under the new technology. The peasant with a very small holding usually had no access to the new technology. In Java and Bali it is estimated that more than half of the rural families were unable to subsist on the output from their own fields (Warren, 1985:134). Warren argues that it was these people who were most disadvantaged by the capitalisation of agriculture with their earlier heavy reliance on village redistributive practices and customary rights for the distribution of the village surplus (Warren, 1985:134).

Overall these programs served to consolidate the wealth and influence of farmers able to utilise them. Further, these farmers consolidated their advantage by investing the agricultural profits into capital intensive, high return, trading, money lending and secondary production investment, such as rice hulling equipment (Hill, 1994:287,8). Thus the programs expanded the rural surplus but displaced the landless and poor from the rural sector. The proportion of agricultural workers in the national labour force declined from 74 per cent to 51 per cent between 1961 and 1990 (Manning, 1993:67). This impelled the movement of labour into industrial employment.

Agriculture-sector related industrialisation

The ruling regime moved to support the production and appropriation of an agricultural surplus by providing protectionist, and monetary/fiscal subsidies to build the rural sector's industrial manufacturing and service base (Schiffrin, 1976:213). The state restricted foreign investment in this sector and in associated commercial industries, such as trade, finance, construction and distribution (Schiffrin, 1976:215). The Ministry of Trade endorsed state-corporate enterprise's setting up of cartels and syndicates to control trade in traditional commodity exports, and main imports. The infrastructure supporting this urban industrialisation was largely built by unpaid village labour ('*gotong royong*'). Political prisoners were frequently forced to work on road construction and other public works (Schiffrin, 1976:215). The savings gained by employing this cheap or unpaid labour went towards the cost of public utilities, largely electric power (Schiffrin, 1976:215). Returns to manufacturing owners were subsidised by the state, and the foreign aid-supported development of infrastructure supported the energy needs of these companies. The state imperative to advantage indigenous investors appears to have been designed to maximise the flow-on potential to state-corporate enterprise of foreign aid and investment in the rural sector. Importantly, the military emerged as the prime beneficiary of these industrialisation policies (Schiffrin, 1976:217).

The rentier-state under attack

Indonesia's re-engagement with the world economic system served both to consolidate the military-corporate political and economic power of the state, and to generate substantial wealth for foreign extractors of Indonesia's wealth. The control, appropriation, and distribution of the surplus fed the popular disenchantment with the corruption and cronyism of the Soeharto regime. The President of the University of Indonesia Students' council condemned the state's 'expropriation of land, forced sales of rice to the government (creating an) increasingly difficult life in the villages' (Palmer, 1978:153). A student Petition (The 24th October Petition) called on the 'Military Government, Intellectuals, Technocrats and Politicians to review their development strategy to remove inequalities, free the people from corruption and abuses, and strengthen representative institutions' (McDonald, 1980:136).

The primary target for public antagonism was, however, foreign, chiefly Japanese, corporate intervention in the Indonesian economy. The state was believed to be working with foreign investors to impose a form of neo-colonial political and economic domination for the extraction of Indonesia's wealth. The most common targets of public anger were the presidential advisers benefiting from foreign investment (the *cukong*), the cronies and relatives of those in power, Chinese brokers to the military elite, and foreign investors. A series of riots, student and press criticism of economic policy began in 1973, and culminated in the January 1974 *Malari Affair*. There was unambiguous evidence of Japanese economic involvement and control: Japanese investment was concentrated in ten giant *keiretsu* with involvement in most sectors of the Indonesian economy (Palmer, 1978:161). Thus between 1967 and 1974 Mitsui invested the equivalent of more than a quarter of all foreign investment approvals, utilising Japanese banking, shipping and insurance agencies in Indonesia to carry out the investments. The Japanese effectively controlled the demand for goods in key sectors of the export market (Palmer, 1978:160). Japanese moves to dominate shipbuilding and the management of the inter-island fleet was clearly intended to provide a greater opportunity for Japanese corporations to dominate the Indonesian export market in an economy largely dependent on sea-transport for international trade.

The strength of Japanese economic dominance triggered popular indigenous business' outrage at the discriminatory allocation of business opportunity by *Kadin* and state-IGGI through aid and investment agreements. As public antagonism increased, a January 1974 visit of the Japanese Prime Minister generated the *Malari (Malapetaka Limabelas Januari* the 15th January disaster) mass demonstrations in Jakarta and attacks on Japanese corporate offices, Japanese cars and shopping centres. The government forced the closure of critical newspapers and journals and jailed many of its critics (McDonald, 1980:138).

The *Malari Affair* represented another major turning-point in Indonesia's political and economic development. Most importantly it encouraged the state to improve opportunities for indigenous capital accumulation, and it led to a greater state determination to 'indigenise' a greater share of the capital development arising from foreign investment.

Oil and the transformation from rentier to capitalist-state

The government's greater preparedness to accommodate some of the political and economic concerns of its constituency did not represent any shift from its accumulation agenda, and thus of the regulation systems supporting that agenda. Whilst the pledges given to the economic nationalists required additional finances, these were made possible by a fortuitous influx of revenues from the 1973/4 international oil price rises. In fact, these revenues enabled the state to consolidate its political and economic power *vis-à-vis* foreign state and corporate interests, by allowing it to be less reliant on aid and low-wage manufacturing exports. Robison contends that the oil earnings and revenues served to consolidate the 'power of the state and its officials, the process of industrialisation and the emergence of major domestic corporate groups' (Robison, 1990:101)

The support for indigenous investment incorporated firmer controls over the investment activities of foreign corporations, the allocation of licences for state-nominated indigenous corporate monopolisation over production and distribution, and the tightening of the system of labour regulation. The application of 'stringent requirements on foreign investors' led to the expansion of indigenous entrepreneurial activity, and a relative decline in foreign dominance of the food, import and domestic distribution, logging, plywood and cement production industries (Robison, 1987:145). The state imposed controls on the access to technology and capital intensive sectors where domestic capital needed foreign technology, organisation, and skills. That these expanded opportunities represented a consolidation of the corporate-state rather than indigenous enterprise generally, is evidenced by the Government granting of monopoly privileges, concessions, licenses, and credit to political patrons.

The state's determination to retain and extend its control over the production process and labour is shown by official declaration that government was not 'particularly concerned' about aid-donors' political pressure to relax labour controls (Manning, 1993:74). The political and economic autonomy enabled by the oil revenues, and the high level of unemployment in the mid to late 1970s, created the conditions for the

state to impose even greater labour controls, such as by imposing central control over wages and through the mass dismissals of striking workers (Manning, 1993:74).

New engagement with international capital

The state's ability to shape national economic policy was dependent on maintaining an adequate supply of income from the exchange of Indonesia's commodities on world markets. With the evaporation of this supply following the mid-1980s oil price collapse and a general world recession the state strategy of creating an integrated industrial base of consumer and capital goods supporting the interests of the state bureaucrats and corporate groups was under threat (Robison, 1990:101). A November 1982 US Embassy report noted that Indonesia had gone from a current account surplus of nearly \$500 million to a deficit of more than \$7 billion in two years (Utrecht, 1987:193). The IMF, IBRD, and aid-donor countries were again in a strong position to pressure the New Order state to reduce protection and open access to Indonesia's resources. The IBRD argued that the subsidised and protected economy created an inefficient and uncompetitive manufacturing sector 'that was unable to constitute an alternative sources of export earnings' (Robison, 1987:386). More importantly in terms of the impact of the re-engagement with international capital on systems of labour regulation, the World Bank urged 'that the Indonesian economy be allowed to respond to the free operation of the international division of labour' (Robison, 1990:108).

In response to this pressure, the government devalued the currency by 27.6 per cent to expand non-oil exports (Robison, 1990:109). It reduced government spending, subsidies to basic food and fuel, and shelved public project investments. Further, it reduced the number of import monopolies and allowed downstream⁷ producers to independently import capital goods needed for export production. It provided concessions for foreign investors, lowered tariffs, relaxed existing limits to foreign equity, and cut corporate tax and protection for indigenous business.

⁷ 'Downstream' (*'Industri Hilir'*) is manufactured goods:electronics, consumer goods, and footwear. 'Upstream' (*'Industri Hulu'*) is chemical steel, heavy industries, goods and some manufactured goods. Television and communications are also regarded as *hulu*. As President, Soeharto expressed his 'preference' for continued protectionist policy supporting upstream industry, which formed the bulk of Soeharto conglomerate capital (*Jakarta Post*, 26 December 1994).

The state's program of expanded opportunities for international investors appealed to international investment of markedly different character to that previously seeking to extract a surplus from Indonesian production. Winters refers to the growing international power of 'mobile' investment funds dedicated towards manufacturing consumer goods in low-wage countries (Winters, 1996:190). Robison makes a further reference to the pressures to shift Indonesia's industrialisation emphasis from import substitution to export-orientation, with Indonesia forced to accomplish 'a greater integration with the new international division of labour' (Robison, 1990:101).

In more specific terms, mobile international capital's primary objective was to exploit Indonesian-state support for access to the prime production factor for wealth appropriation: a cheap and rigidly controlled workforce. Foreign investors were seeking competitive low-wage opportunities, especially given recent wage rises and growing industrial activism in the NICs. The systems of labour control developed by the New Order had created an ideal industrial basis on which to construct the export-orientated light-manufacturing industrial development envisaged by mobile capital and the IMF.

The New Order accommodated the imperatives of the international institutions, with the proviso that new foreign investment was to be primarily towards expanding downstream production, and with the usual caveats to provide a share of the surplus as rent and patronage to state and crony companies. On this basis the government supported the World Bank's loan condition to introduce a 'structural adjustment program' facilitating the shift of rural labour to supply urban industrialisation (Lambert and Casperz, 1995:577). The World Bank justified this shift in terms of the conventional economic rationale of comparative advantage arguing that the low export earning potential of agricultural labour was an inefficient use of Indonesia's comparatively advantageous factor 'endowment' of cheap labour. Export earnings would increase by shifting rural labour to efficient and productive work in 'modern' sector manufacturing factories (Sjahir, 1993:25). This logic became part of the New Order regime's campaign to expand foreign investment by promoting Indonesia's comparative advantage of cheap, docile labour in the manufacturing sector (Winters, 1996:64).

The state's tight regulation of labour supply and workplace-discipline led to a massive influx of foreign investment funds. There was an increase of gross private, primarily downstream, investment from Rp. 571 billion in 1975-76, to Rp. 5,584 billion in 1980-1981 (Robison, 1990:149). From 1965 until 1991 Indonesia's manufacturing industry grew at the rapid pace of 12.5 per cent annually (Hill, 1994:78). This represented a major shift in Indonesia's system of labour organisation, especially through a proletarianisation of the workforce.

The corporatist-state retained dominance over protected, large primarily upstream conglomerate enterprise, and export-orientated new foreign investment was concentrated in the labour-intensive low-wage export-orientated light manufacturing industries such as textiles, garments, and footwear. The influx of manufacturing investment was largely sourced in the Newly Industrialised countries of Taiwan, Hong Kong and South Korea. This was largely labour-intensive, export-orientated industry such as footwear, clothing, electronics, toys and agri-business (Schwarz, 1994:258).

The continuing protectionist support for upstream, largely family and patrimonial, corporate control has remained a thorn in the side of downstream investors. They have argued that this protection and corruption imposes extra costs on inputs, limits competitive investment opportunity, and – through *Kadin* – prevents downstream access to the 'select circle' of dominant capital interests (Robison, 1990:149, 150). Nevertheless upstream entrepreneurs promote the continued application of protectionist measures 'as long as it is necessary to benefit the country' (*Jakarta Post*, 6th January, 1995).

Thus, overall, the influx of foreign investment, rather than threatening the independence of the Soeharto patrimonial system of corporate ownership entrenched and extended its capital base. The government sought to represent these as being in the national interest, justifying the selective application of economic nationalism.

From comprador-rentier to capitalist state

The New Order's corporate-state power base did not suffer from the oil price collapse. It used the opportunity to reconstruct its accumulation processes to build on the capital consolidation enabled by the oil boom and decades of rent from foreign extraction investment. These factors and the patronage relation with foreign manufacturing companies ensured that the corporate-state was now solidly entrenched as the dominant element of the capitalist class. This economic power was consolidated within the family conglomerates through legislation requiring wealthy Indonesians to invest in 'family-based companies or international corporations', with the latter obliged to take on a proportion of indigenous capital ownership (Robison, 1986:349). The dominant political grouping included the politico-bureaucrat controllers of the state apparatus, an upper bourgeoisie of major domestic client corporate groups, and the international corporate capital interests integral to the state's industrial strategy.

Robison's 1984-5 interviews with HIPNI (Young Businessmen's Association of Indonesia) entrepreneurs support the argument that the resource rent and extractive industry ownership by the military-corporate-state enabled the long-term entrenchment of that class power. The contemporary generation of young rich and influential indigenous capitalists are the progeny of prominent Indonesian families who built their corporate ownership on Pertamina oil-wealth. According to Robison's HIPNI sources, 'the power and resources to launch indigenous Indonesians into business on a competitive basis was in the hands of no more than half a dozen individuals, including the President and one or two of his closest advisers (probably Metope and Hemaden), the Governor of Jakarta, and the President Director of Pertamina. With these few men rested the power to give contracts for supply and construction, directorships, and even to provide finance' (Robison, 1986:356). Robison contends that the HIPNI entrepreneurs were quite open in their affirmation of the importance of political patronage to private capital accumulation (Robison, 1986:356).

Conclusion

The 1965 military coup signalled the demolition of the post-war political interregnum that had allowed a political voice for labour and the peasantry. The state-initiated pogroms against labour/ peasantry' class organisations removed all opposition to the capitalist class' domination of the apparatus and machinery of production control and appropriation.

The coup was the culmination of foreign and local corporate political and economic campaigns to gain control over the apparatus of the state to establish absolute control over the production and distribution of a national surplus. It enabled unfettered state-control over labour and the peasantry as a productive resource. This was the key condition for the return of foreign investment. The state's repression of labour and the peasantry thus underpinned the achievement of the Indonesia ruling elite's ambition to re-engage with the international capitalist system. This prefaced the transformation of state-corporate accumulation from a system primarily dependent on rentier income to an increasingly industrial capitalist-based regime.

In the competition between national capital and indigenous interests lay the elements of conflict. This conflict is seen to facilitate competitive bidding by the Soeharto regime, especially between Japan and the US, allowing the Indonesian corporate-state to consolidate its interests. These state initiatives created significant corporate linkages and income flows for international and Soeharto crony enterprises. However, this chapter has described the more substantial corporate opportunities accruing from the Indonesian state's selective provision of corporate access to, and control over, Indonesia's productive resources, especially the supply and disciplining of labour. This highlighting of the necessity to understand the organisation of capital alongside the organisation of labour has provided a critical counterpoint to the literature emphasising entrepreneurial initiative as the primary basis of wealth generation.

The re-engagement with international capital was underpinned by the strongly enforced infrastructure of social and industrial controls. This social/industrial regulatory regime incorporated the concept of development (*pembangunan*) as justifying rigorous controls over society and the workplace. This concept worked to

the extent that the ruling regime was able to create national income, and allow the 'trickle down' of a proportion of the surplus to advance the interests, primarily of the middle class, but, in terms of the important function of maintaining a peaceful political and industrial system, the working class and peasantry.

An intrinsic component of the state's national economic project was the introduction of developmentalist logic and regulatory systems into the smallholder and plantation sectors. In the former this change was intended to provide a means of creating a rural surplus, to expand production to feed the population, to transform production relations to build a rural system of corporate organisation and capitalisation, and to enforce the movement of the resulting excess rural labour into the developing manufacturing sector. This allowed the Indonesian economy to gain advantage from international capital's demand for low-cost labour to work in the burgeoning consumer goods manufacturing industries.

The New Order state entrenchment was consolidated by the oil-boom and could survive the post-oil boom return to a dependency on foreign capital investment and aid. This 'dependency' was, however, contingent on the ability of the state to determine the allocation of the spending into the new international economic order without jeopardising its existing patrimonial corporate interests. With the post-boom re-engagement of the Indonesian economy into the international political economic system, patrimonial state rentier interests were transformed from parasitical 'rent extractors' to become Indonesia's first dominant indigenous bourgeois political and economic power. It was this re-engagement, however, that sowed the seeds for a developing challenge to the system of regulation that supported this new bourgeoisie.

Chapter 9

Conclusion

By chronicling the driving forces defining the material basis of Indonesian society and structural transformations to this base over time, I have argued that the single most important factor determining what Indonesians produce and how they produce it has been the surplus appropriation ambitions of the respective ruling regime. I have emphasised that the defining characteristic of the economy for the different colonial and postcolonial regimes was the manner in which the regulation of labour for surplus appropriation was organised. The prime focus of my research has thus been on elucidating and analysing the developing politico-economic structures and institutions imposed by succeeding state regimes as the instruments for ordering capital and labour for wealth extraction from Indonesia. These structures and institutions were seen as embedded in the mode of production as the historical environment defining dominant forms of economic organisation.

This conceptualisation of labour as the key force in wealth-creation and the state as ‘enforcer’ of surplus production and appropriation illuminated a fundamental difference between this research and much of the literature on Indonesia’s development. Whilst the literature generally accounts for the crucial role of the state in establishing the fundamentals for economic development, it rarely takes account of the state’s labour-regulatory role or of labour’s pivotal role in surplus production. Thus, for example, Robison’s seminal text *The Rise of Capital in Indonesia* makes no reference to labour’s role in the ‘rise’ of capital (Robison, 1986). By contrast, Hadiz acknowledge labour’s input as a technical factor of production but not as a core element in wealth-generation (Hadiz, 1997). This essential denial of a class relation between labour and capital constitutes the core difference between the central thesis of this study and the orthodox conceptualisations of the sources of wealth and character of the dominant economic order.

The alternative perspective of this thesis not only provided an appreciation of labour's economic role in surplus generation, but also deepened the understanding of the political processes underpinning Indonesia's economic development. Labour was seen as playing a key role, not only as chief protagonist in the struggle against surplus appropriation by the ruling regime, but – as a corollary – in the collective organisation to challenge regulatory systems and with its broader political participation in broader social struggles against exploitation and oppression. This conception made for a more critical appreciation of the sources of tension in the Indonesian body politic, especially of the periodic political upheavals against ruling regimes.

This study of succeeding systems of labour-regulation has shown a strong link between production and regulation. It has also highlighted Indonesia's engagement with the world economy, an engagement that led to the evolution and systemic shift in what Indonesians have produced and how they have produced it. The research outlined the development of regulatory systems from traditional hierarchical tributary relations to contemporary-state regulatory regimes. These developments, it has been argued, were closely related to the commodification of labour, and, with Indonesia's engagement in the world economy, a consequent dependency on labour, export, and consumer-good markets.

These conceptual themes have contributed to illuminating the way in which Indonesia's productive apparatus has developed, the character of regulatory systems underpinning surplus production and appropriation, and the sources of tension and rupture that undermined successive ruling regimes.

The study analysed the political economy of Indonesia in terms of discrete eras of production organisation and appropriation with the object of charting how succeeding regimes regulated the population to extract wealth from the country. Whilst it is acknowledged that the respective eras incorporated several forms of production organisation, the analysis concentrated on the dominant forms of production associated with profound shifts in the system of appropriation arising from Indonesia's historically developing engagement with the international economy. The thesis charted the common forces that emerged from each regime to define a particular form of labour control and its dynamic. Each particular regime's decline

was marked by a major rupture that set in train a new regulatory regime. These ruptures have been characterised as ‘Sequences of Crises’ (Yasunaka, 1978), arising from haphazard circumstance or accident. This research showed they were not accidental but symptomatic of struggles to control the wealth-generating system, that is the system of production organisation and appropriation.

The eras

The Dutch corporate seizure of the highly valued Indonesian spice-trade from their many European and Asian competitors marked Indonesia’s initiation into the European imperialist arena. More specifically, this drew Indonesia into the socio-economic framework of the dominant European mode of production that had spawned long-distance trade. The VOC’s utilisation of the local elite to facilitate the extraction of a surplus from traditional tribute-producing systems was a function of the character of Dutch metropolitan commercial and production organisation. Holland’s significant industrial strength not only determined a powerful international corporate presence of the joint-stock company, but also determined that the VOC gradually translated its trade-presence into political rule and territorial occupation by relating to the Indonesian economic environment in terms of business imperatives rather than expanding territorial control through imperialist conquest.

This both defined the difference between the Dutch enterprise and its European mercantile competitors and the subsequent forms of economic intervention and production regulation. The bringing of European economic forms to Indonesia translated into a ‘hands free’ production relation between the peasantry as surplus-producers and the Dutch corporate representatives. This precluded a need for the VOC to outlay resources to obtain forced labour, or to expend resources on territorial conquest and labour-management. This understanding of the early stages of Dutch economic penetration formed an important defining-moment on which was built a conceptual understanding of the overall power-relations through which the Dutch colonial regime extracted wealth from Indonesia.

Stresses and changes in the mode of production were seen as reflected in an expanding Dutch colonial state intervention accompanied by a shift to more liberal

forms of production organisation. The VOC's late 18th Century inability to retain commercial viability led to Indonesia's takeover as a production entity by the Dutch metropolitan state. The brisk winds of competitive capitalism and an increasing dominance of the ideology of economic liberalism had determined a shift in state policy towards direct production and appropriation relations between Indonesian producers and the colonial authorities. The history thus affirms a connection between shifts in the mode of production and the forms of production regulation applied in the periphery.

Establishing the foundations for expanded capital accumulation

I have characterised the Cultivation System as an agency for establishing the conditions for the rise of capitalist production relations through the widespread entrenchment of a repressive state apparatus. This formed the production-regulation basis for the massive profits of the Corporate Plantation system. The Cultivation System thus provided the regulatory framework within which vast areas of Java's arable land were converted from subsistence to world-market crop production. The inability of liberal reformist policies to generate sufficient income for the centre indicated that Indonesia's social, political and economic system was not ready for transformation to a market economy.

This is affirmed by those economic histories showing an appreciation of the Cultivation System as a stage in Indonesia's economic development. Thus Booth argues that as 'a cost-effective and ample labour supply was a prime requisite to export oriented cultivations [and as] control over [Indonesian] labour ... was difficult to manage and exploit', it was necessary to impose a severe labour-regulatory system to enforce that supply. Severe labour coercion was thus vital for Indonesian economic development, as it drew 'many millions of Indonesians into increasing dependence on the world economy for their livelihood' thus enabling a 'closer engagement in the world economy' and (implicitly) national economic development (Booth, 1990:274). This affirms the logic firstly that the Cultivation System established the conditions for capital accumulation, and that labour-regulation was a prime consideration in this establishment.

It also conforms to a central theme of this research of the priority of ordering labour for the production and extraction of a surplus. The den Bosch regime sought to maximise production and surplus extraction by regulating and disciplining labour as a class. Further, by establishing this state apparatus of class control the Cultivation System supported the subsequent successful penetration of private corporate investment in Indonesia. We recall that it was the lack of this fundamental condition that precluded private accumulation under the early 19th Century colonial regimes.

Having imposed this regulatory infrastructure the state moved to open its surplus extraction operation to private investors. Whilst the Cultivation System created the opportunity for private corporate accumulation there were continuing restraints to its accomplishment. Labour and land had to be ‘liberated’ from the institutional constraints of village community systems and state-control. The role of the state in facilitating this transformation, especially through the 1870 Land Act, and labour with the shift to plantation production and state-enforcement of work-contracts was examined in Chapter 3. These state-engendered institutional changes freed labour from the village support base, and land from crown or traditional collective ownership.

Capitalist production and financial organisation

The shift from a largely state-owned and smallholder system of export-crop production to oligopolist regulation led to a massive influx of capital and the conversion of small estates into metropolitan-controlled combines. The Corporate Plantation system marked the final transition from mercantilist production organisation and labour regulation to capitalist wage-relations and market regulation.

The Corporate Plantation regime’s underpinning of a system of exploitation secured through uncontrolled factor commodification undermined Indonesian villages’ institutional subsistence and defence systems. This led not only to marked declines in standards of living but the erosion of the basis of social organisation. As Polanyi affirms: ‘to allow the market mechanism to be sole director of the fate of human beings and natural environment [results in the] demolition of society. Robbed of the

protective covering of cultural institutions, human beings would perish...No society could stand [these effects] unless its human and natural substance... was protected against the ravages of this satanic mill' (Polanyi, 1996:27).

The analysis highlights how the state moved to underpin accumulation and appropriation by incorporating devices to strengthen the infrastructural basis of social organisation, by transferring political control to the periphery and by expanding indigenous participation in administration. The 'welfarist' Ethical state rationalised colonial rule as a decentralised, independent regime. Intentionally or not, the ethos provided a moral challenge to the growing republican-nationalist movement's independence ambitions. The state ethos of 'mutual responsibility and mutual interest' in the running of the country, and by implication in the sharing of the wealth from the country, became the dominant ideology.

The state and class control

The notion of the state as an administrative apparatus forms part of the general critique of a class-power understanding of the role of the state. Thus Anderson and Benda have characterised the Ethical state as an apolitical, independent and representative institution concerned primarily with administrative efficiency (Gordon, 1993:445). This approach is contested in Chapter 4 where I have argued that the state retained its focus on production regulation to secure and maximise long-term wealth-generation from Indonesia. This again reflects the contradictions in understanding between the evidence that each colonial regime's primary role was to regulate production to facilitate appropriation, and the assumption that the state could somehow be distanced from this colonial project.

The proof of the falsity of the perception that the state did not play a labour-regulatory role on behalf of metropolitan corporate and state-power interests is demonstrated by evidence of the strict maintenance of the exclusionary system of surplus appropriation under the Ethical regime. Certainly the state allowed for an expansion in the numbers of Indonesians in the legislature and employed in (lower) levels of government administration. This expanded indigenous administrative opportunity did not, however, enable democratic representation in the colonial parliament. More

pertinently for this research, the reforms did not incorporate the breaking of exclusionary restrictions and western dominance of financial, production and distribution systems. Thus the essential underpinnings of colonial organisation were retained.

The clearest support for the conceptual understanding of the colonial state as an agency and driving force for private capital accumulation can be noted in the consideration of the mass political opposition to colonial appropriation. The growing storm of civil unrest leading up to the Second World War was driven by mass-opposition to foreign economic control. The earliest indication that the unrest represented a challenge to the exclusionary system was evidenced in the indigenous bourgeoisie's agenda to 'break open' Chinese monopoly constraints on indigenous business. The resulting political organisation spread like wildfire and expanded its small-business base to incorporate a national struggle against foreign political and economic domination.

Whilst these conflicts between nationalists and the ruling regime are considered as forming the basis of a continuing post-colonial class conflict, I have also acknowledged that there is some opposition to the notion of a class-conception of the nationalist movement's struggle for independence. A reluctance to embrace class is best exemplified in the argument advanced by Ingleson that the popular struggle against colonialism reflected race antagonism towards Dutch rule rather than class antagonism against exploitation and exclusionary power. My reconsideration of the character of the political struggle, undertaken in Chapter 4, clearly shows, however, that the primary issue of contention was over the ownership and control of Indonesia's system of wealth production and appropriation. Once political sovereignty was achieved, the fact of civil war and political confrontation is most sensibly explained in the terms of a continuing challenge to economic control.

The Japanese interregnum

The Japanese occupation of Indonesia established a 'staging point' for post-colonial regimes, demolishing exclusionary structures and precipitating the overthrow of foreign political control. The force of the Japanese regime, which, in one stroke,

broke Dutch state and class ties underpinning colonial appropriation, is examined in Chapter 5. Stripped of the mystique of Dutch colonial reformism, the analysis reveals Indonesia's productive apparatus as a 'workhorse' for imperial needs. The Japanese draining of resources from Indonesia, coupled with the *romusha* mobilisation, enhanced national motivation and ability to achieve post-war political and economic sovereignty.

Summary of colonial appropriation

Chapter 5's analysis of the Japanese occupation saw their wartime presence, based as it was on the imperative to extract all Indonesian resources deemed necessary to support Japan's industrialisation and the war effort, as epitomising the basis of all colonial rule. It can be argued that the rigours of Japanese rule represent a harsh caricature of the overall Dutch colonial era, especially that of the final liberal-reformist phase of colonial rule. Nevertheless there was a consistent colonial imperative of surplus appropriation that applied for all colonial regimes, whatever the relative degree and severity of extraction imposed. Further, the literature provides no substantial challenge to the argument that the prime objective of colonial rule, of whatever nationality or creed, was to extract Indonesia's wealth for metropolitan interests.

Having established the objectives and imperatives of colonial rule, I have investigated how colonial regimes accomplished wealth appropriation. This raises the question of what drives the system of Indonesian economic organisation, specifically the issue of what defines what Indonesians produce and how they produce it. In the process of investigating the chronology of Indonesia's production system consistently strong linkages are drawn between the colonial project and systems of production regulation. The thesis charts the way the Dutch consolidated trade-control by turning indigenous production towards producing a consistent supply of trade commodities. Clearly the major issue was not only to appropriate the current surplus of trade commodities, but also to convert indigenous production systems to an expanding supply of such commodities and away from traditional, subsistence production.

The links between the colonial objective and the regulation of production have been illuminated by my thesis' major theme that labour is not simply another factor of production but rather a prime element of wealth production. The analysis of successive regimes of colonial appropriation has affirmed that the primary objective of colonial rule was to enforce the supply, regulation, and disciplining of an indigenous workforce. The perception of labour's pivotal role thus provides not only a deeper understanding of the way Indonesians were organised under colonialism, it explains the colonial state's motive in enforcing a strict exclusionary distinction between political and economic opportunities available to Indonesians *vis-à-vis* Europeans.

As the colonial state expanded and entrenched its administrative and coercive systems to enforce the production of world-market commodities throughout the archipelago, the colonial-extractive agenda moved to make Indonesian land and labour more accessible for private corporate investors by enforcing a greater supply of land and labour on commodity markets. At all stages in the development of the colonial project the state was crucial to the ordering of this colonial agenda, primarily through the regulation and disciplining of labour, but also through the reproduction of labour and the political control of society.

Republican rule

Following the Allied defeat of the Japanese, Indonesian nationalists fought a revolutionary war for political sovereignty. The nationalist forces were united in a confrontation with the forces of recolonisation, and the spectre of a new international system of economic imperialism led by the US. The world system conceptual approach employed in this research illuminated the post-war context of an international political and economic jostling between the old colonial powers and the US for corporate control over Indonesia's resources and the re-establishment of a political and economic strategic presence in the region.

Indonesians' unity of national struggle against re-colonisation hid, however, serious divisions within the Republican movement concerning the ownership and control of Indonesia's resources and its productive base. The ruling Republican regime

represented corporate interests determined to re-establish Indonesia as a production system for private capital accumulation. Most of the apparatus of western corporate extraction and production control remained intact, and, whilst allowing a greater degree of industrial and political association, the new Republican state baulked at challenging foreign corporate domination and appropriation. As a milder regulatory system than the Ethical regime, parliamentary democracy offered only modest reforms to mollify the widespread industrial agitation for major structural changes to the industrial regulatory system.

The Republican regime's greatest challenge was to reconcile regional and central corporate ambitions. This struggle is portrayed as a 'fracture of capitals' fighting for control over resources – especially for the control over labour, and for surplus distribution. Provincial elites supported by western extractive interests determined to assert political and economic control over provincial production and the distribution of wealth from their regions. This provincial challenge to the central authority of the Republican regime was to prove significant insofar as it precipitated the rise of military power, not only as the major player in the national political system, but as the key institution able to enforce social and industrial discipline for capital accumulation.

The importance of the emergence of the military from this political maelstrom to become the single major national challenge to parliamentary democracy is examined in Chapter 6. The military's enforcement of national political unity, coupled with its growing corporate ownership and substantial western military support, determined that it was in a position to rule the country. However, it was constrained from seizing political power by the mass political support from the worker-peasant movement demonstrated for the populist leader Sukarno. This worker-peasant alliance represented a real threat to the military, foreign, and local corporate interests' corporate autonomy and production control.

Sukarno's incorporation of the military and the PKI into a coalition government postponed civil war, but could not suppress each group's ambitions for absolute rule. The struggle between the military, strongly supported by international and national corporate and strategic interests, and labour and the peasantry, was vastly complicated by the international struggles between the western allies and 'international communism'. Competing US, PRC and USSR regional strategic and resource-need

ambitions for the region conflicted with Indonesia's aspirations for political and economic autonomy. The Cold War struggles determined that Sukarno's alliances with the PKI and associations with the PRC and the USSR would lead to increasing western allied pressure to overthrow the regime. The underlying aim of these internal and international oppositional forces, however, remained the destruction of any political and economic threat to corporate autonomy especially as this might be supported through the combined political power of labour and the peasantry.

The 1965 military coup demolished this threat of a worker-peasant challenge allowing the unfettered establishment of a regime of production regulation and labour control. The New Order's destruction of the organised labour-peasantry movement created the fundamental conditions for the expansion of foreign private investment. The state's repression of labour and the peasantry facilitated Indonesia's re-engagement with the world economy and the consequent transformation of state-corporate accumulation from rentier income to a more well-defined system of capitalist accumulation.

The military's destruction of all semblance of a labour or left-wing 'voice' re-established Indonesia's status within the international capitalist hierarchy. This status is primarily a function of the regime's ability to repress and discipline labour and the peasantry as a class, and demolish all forms of collective association enabling its revival. With the institution of this new regulatory regime, Indonesia provided a reservoir of 'pacified' labour for international investors. As an aggressively anti-communist regime the New Order identified Indonesia as a Cold War Warrior firmly in support of US regional strategic and economic objectives.

The coup, although brutal, is sometimes considered as justified in terms of the imperative of removing an economically incompetent megalomaniac who had dragged Indonesia into international disrepute and economic ruin. My research and analysis demonstrates, however, that this representation of the military clique as bringing order to the country is fundamentally flawed. Further, it totally misconstrues the character of Indonesia's post-colonial development and the basis of New Order rule.

Succeeding parliamentary democratic regimes were unable to create order out of the chaos of competing economic challenge. Their attempts to engender indigenisation by imposing western market-developmentalism were examined in Chapter 7. It is argued that these attempts failed because they were incompatible with Indonesia's politico-economic systems and foreign extractive and strategic agendas. More particularly the regime was not prepared to address the legacy of colonial agrarian wealth-extraction by imposing systems and structures that would ensure industrial development by redirecting the national surplus towards economic self-sufficiency.

On the political front, the masses were still chaffing under the yoke of an industrial system that had advanced little from the late-colonial era. The reformist, indigenous-capital based, parliamentary agenda bypassed their aspirations for industrial reform. Overall, parliamentary democracy was an interim exercise of parliamentary reformism that did little to address the legacy of colonialist wealth extraction and non-recapitalisation.

Sukarno finally achieved supreme political authority buoyed by national support for his revitalisation of the 1945 Republican agenda. My analysis highlights that the historical impact of his regime on economic development and the formation of regulatory regimes resided in his populist, unifying strategies promoting national political and economic goals. It was argued in Chapter 7 that the historical importance of his regime was in the creation of a national unifying ethos. In this understanding the enduring influence of the Sukarno regime lay in its power to mobilise national support around these campaigns of unification. However, the Sukarno regime's failure to control inflation and achieve adequate income distribution for the masses left Sukarno prone to overthrow by a militarist regime offering strong leadership and political and economic stability.

The New Order built on Sukarno's nationalist slogans and campaigns, but translated his political ethos into developmentalist goals. The essential difference between the regimes was that Sukarno promoted the ideal of national advantage through national identity and cooperation in the production and a sharing of the fruits of national development, whereas Soeharto relied on the ethos that developmentalism would generate wealth and improved standards of living. The success of Soeharto's agenda,

of course, relied on the state's ability to repress political opposition and regulate labour. A key element of this ideological hegemony was the marginalisation of any groups or individuals perceived as threats to the regime's control over the production and regulatory system.

The contradiction between the New Order's claim that it was uniting the country behind developmentalist goals, whilst particular – largely foreign and comprador – interests flourished and others languished, illuminates the regime's role as social and industrial regulatory agent for international and patrimonial investors. Firstly, the broad indigenous business community had little voice in the new regime, with the 'indigenisation' agenda lost in an imperative to appeal to major international investment players. Secondly, the appeal to the international investment community led to an early dependency on income derived from the resource-sectors that built patrimonial associations but accomplished little towards developing a strong national industrial base. It was only in the latter, mid-1980s, stages of New Order rule that the post oil-boom economic exigencies forced the development of an indigenous capitalist class, still tightly under the control of Soeharto's patrimonial regime. This development, rather than undermining inequality of corporate ownership and income distribution served to deepen the contradiction between the economic ethos of national advantage through developmentalism and the vested economic interest of the Soeharto regime. It was at this mature stage of the New Order regime that a popular appreciation developed where the ruling regime's aspiration of national economic welfare belied a systemic, and systematic, appropriation of wealth for the Indonesian ruling class.

If the parliamentary democratic era was an interim period of unresolved conflicts between class-protagonists, then the Sukarno era represented a supreme battle for political supremacy between the chief representatives of the class protagonists of labour and capital, with Sukarno as mediator. This conflict was finally resolved with Soeharto's military defeat of the Communists and his imposition of a strict regime of social and industrial regulation. This regime represented continuity between the colonial forms of social and industrial control. However, whilst the colonial system usurped the traditional hierarchical and tributary surplus appropriation system, the New Order's patrimonial elite assumed the surplus production and appropriation role.

'Tribute' in the contemporary context is best understood as the rent that accrued to the ruling group for instituting and enforcing the social and industrial regulatory infrastructure necessary to produce and appropriate a surplus from Indonesia's workforce. The evidence of the developing power and authority of the New Order regime highlights the giving way of the military leadership's comprador status to an indigenous capitalist class mutually dependent on the military apparatus to enforce control and generate wealth.

The pivotal force for the incorporation of the Soeharto patrimonial regime within the international system of production and distribution relations has been shown to be its system of collective control over labour and the broader society. The stability of the economic and political links between the Indonesian ruling elite and international capital were thus a function of class control over the mechanism of surplus-generation and thus of labour.

The regulatory mechanisms instituted by the New Order regime brought investment opportunities but this investment was conditional on increased regulatory systems that became ever more coercive in character and increased demands for greater work-intensification. This engendered a challenge to the New Order's system of regulation and as such constituted a political and industrial threat to the security of the appropriation regime.

Summary

I have demonstrated that the forces defining the development of Indonesian colonial and post-colonial political and economic history were many and varied, with the trails showing frequent strong divergences between scholarly explanations of why and how Indonesia's productive base developed the way it did. However, I have argued that a consistent pattern has emerged from the study of Indonesian history when informed by considerations of the nature of production organised imposed on the people, and the relation between these forms and the economic ambition and priorities of succeeding ruling regimes. In this light ruling regimes' material preoccupation with extracting wealth from Indonesia has entailed a turning of the Indonesian people's productive energies and preoccupations towards that end. Clearly this is deeply

intertwined with the basic imperative to provide subsistence needs and advances in standards of living, with successive regimes more or less committed to this imperative. Nevertheless the paramount issue for all ruling regimes was to transform the economy to maximise the economic opportunities for world-market engagement. This priority is seen in this research as inextricably tied with the need to maintain the reproductive base, specifically of the reproduction of labour as the linchpin of surplus-generation.

The political component of the process of wealth production and appropriation has been described as a fundamental determinant, both of the way in which the ruling regime organises the social environment to facilitate 'public and industrial order', and as part of the overall project of defining the form and direction of capital accumulation. This in turn defines the political response, where the workforce as a social entity challenges the general forms of political control, the degree of severity of extraction, and the shares of surplus accruing to the corporate and state owners of the system of production and distribution.

This chapter is followed by a postscript applying my conceptual themes to the post-New Order politico-economic environment. I introduce this discussion with a brief reflection on the perceived utility of the thesis' analysis for an understanding of the continuity between colonial and post-colonial regimes. Clearly the thesis that the prime reason for a colonial occupying presence was to extract a surplus for the metropolis, with the state as agency of extraction, and the country as 'productive enterprise' requires further theoretical translation to apply as an explanation of the forces operating in a post-colonial environment.

There are, however, some clear elements of continuity. A core element of the analytical framework is that wealth is generated by labour under conditions of state-imposed regulation to enforce surplus production and extraction for capital accumulation. The assumption underpinning the analysis of post-colonial regimes has been that the reins of class control, whilst occasionally obscured by the struggles between capitals and between labour and capital, have been consistently retained by private capital. This was explicit in the New Order period with the state seen as largely an agent for foreign capital interests.

A further translation of the processes of economic organisation as applying in the post-colonial environment showed that the essential structural elements of colonial rule remained intact with the military arm of the Republican state assuming the colonial labour-regulatory role. In the contemporary context the increasing international investor-driven tendency for manufacturing development was accommodated by the enforced shift of the peasantry to urban industrial employment in industrial estates. The regime is clearly carrying out the function of enforcing the supply, regulation, and disciplining of an indigenous workforce.

This historical perspective on Indonesia's political economic development is incomplete without at least some acknowledgement of the current dilemmas facing the nation. Whilst the systemic basis for the collapse of New Order rule since the 1997 Asian financial collapse warrant continuing research and analysis, the following postscript draws upon the conceptual concerns of this study to illuminate these changes.

Chapter 10

Postscript to the New Order

“Indonesian labourers have virtually been delivered to their employers’ arbitrariness and greed” (Indonesian Observer, 27th August 1991).

The systemic unravelling and collapse of the New Order requires critical reflection. Interrogating the momentous ending of the New Order also provides the opportunity to draw upon the understanding of the processes that underscored efforts to enhance the momentum of accumulation and the associated forces making for change. This chapter draws together the thesis’ major themes to explore the view that the New Order’s demise was not accompanied by, and did not translate into, a fundamental transformation in the system of production organisation and labour discipline.

These arguments are framed in an international context of the post Cold War redefinition of regional strategic and economic relations. Within this context, the Asian financial crisis is seen as triggering expanded opportunities for international corporate investment in Indonesia. These external factors form the analytical framework for an understanding of the destabilisation of New Order rule. The character of this destabilisation and its implications for the processes of capital accumulation and labour regulation are considered in relation to the prevalent view that the political and economic viability of the New Order regime was fundamentally anchored in its protectionist systems. The demolition of these structures and systems thus determined the demise of New Order rule. However, whilst IMF and World Bank liberalisation agendas have forced a change in political leadership, the New Order’s economic edifice remains intact. An alternative argument is available for the demise of New Order rule. This relates the international corporate agenda to the maintenance of New Order systems of production and labour regulation as the cornerstone of surplus generation. The transfer of political power is thus perceived within a political, rather than an economic, context

The contention that protectionism underpinned the New Order's economic viability prompts critical reflection on the view that Indonesia's continuing economic problems are sourced in systemic corruption, collusion, and nepotism. This perception has driven an international clamour for "reform", especially by the IMF, World Bank, and foreign investors. These interests promote the view that the state must impose stronger corporate governance and transparency in corporate dealings. Whilst there is no doubting the imperative, there is no reason to suppose that the decline in economic viability is any more a function of corruption than of protection. I want to contest the veracity of the argument that attributes Indonesia's economic problems to the ruling elite's systemic corruption and collusion fall into the same conceptual 'trap' as those who perceive protectionism to be at the core of Indonesia's woes. This research thus looks elsewhere for the sources of continuing instability in the Indonesian politico-economic system.

Corruption can be equated with protectionism as a mechanism for underpinning the patrimonial regime. It is the 'machinery' whereby the distribution of favours and economic opportunity acts to protect family, accomplice and friends' political and economic power and privilege, and thus sustain the edifice of patrimonial rule. It will be argued, however, that the 'patronage' system of corruption, nepotism and collusion cannot be seen as the driving force of the economic system. This thesis' conceptualisation of the production process as the source of wealth, as with protectionism, relegates corruption to the sphere of the distribution of the national surplus. As such, the viability of the system is a function of its capacity to generate surplus and to ensure the regulation of labour for this end. In addressing this question this postscript shifts the focus to the question of the degree to which the edifice of patrimonial rule has retained control over the production process, thus protecting its systems of the distribution of surplus through corrupt dealings by the patrimonialist elite.

The international and political context of New Order destabilisation provides a basis for the analysis of the objectives and class-base of Soeharto's political successors. A core consideration is the extent to which political upheavals and economic hardship prompted class-challenges to the New Order's system of production and labour regulation. These considerations provide the basis for concluding reflections on the

continuing political economic implications of these recent upheavals within Indonesia.

International corporate re-engagement

Indonesia's post-oil boom slump in foreign exchange earnings caused the Indonesian state to once again appeal to the international investment community and aid agencies for financial assistance. As in the late 1960s, the aid and investment was conditional on Indonesia's 'opening up' its resources to expanded foreign corporate access. However, the political and economic environment defining Indonesia's bargaining strength and donors' ambitions had undergone a significant transformation since the 1960s. The history of this transformation illuminates the basis of the resulting changes to the system of production organisation underpinning expanded foreign corporate intervention.

The transformation to the Indonesian political and economic environment is seen as a core function of its system of production control. As we saw in Chapter 8, the New Order state achieved its power through the institution of a repressive system of production regulation. The New Order's political and economic strength was its ability to impose almost absolute social, political, and industrial control over the social and production system. The apparatus of labour control and denial of industrial democratic representation was the fundamental mechanism underpinning an expanded international corporate intervention and aid provision and thus creating the foundations for the New Order's developmentalist program. The New Order used this foundation on which to build an edifice of patrimonial corporate power. This power was consolidated through a combination of state-protectionism and rent on foreign corporate extraction. The collapse in rentier-income threatened patrimonial profits but not the regime's political and economic base.

The changes to the international investment environment chiefly concern the growth in international demand for low wage-cost manufactured goods and the rapid technological and commercial/financial advances facilitating the placement of manufacturing capital in low wage-cost locations. The World Bank, as chief representative of the international donor and investment community, pressured

Indonesia to transform its productive base to facilitate its insertion within the world franchise manufacturing economy based on a wage-minimisation competition. The Bank's fundamental conditions for investment/aid were the redirection of the productive base to the 'modern' manufacturing sector, expanded access to the patrimonial state's commercial, productive and export monopoly apparatus, and the continuing enforcement of the low wage-cost regime. The transformation of the Indonesian economy by the New Order's authoritarian regime of political and economic control had determined the possibility that the state could accommodate these conditions.

The World Bank's rationale for the first requirement is encapsulated in its aid-condition for Indonesia to 'make way for the replacement of inefficient and costly industries such as automobile manufacture and steel production, by internationally competitive industries able to compete effectively on world markets'. This was in order for the Indonesian economy to 'respond to the free operation of the new international division of labour' (Robison, 1990:108). The second condition represented the chief component of corporate investors' overall objective for Indonesia to 'open up' its economic system of corporate control and conglomerate monopoly to an expanded corporate access, equity, and surplus extraction. World Bank officials argued that 'according to the economic principle of comparative advantage', Indonesia's economy must be opened 'to unfettered investment by international capital' (Robison, 1990: 108).

The foreign corporate imperative to retain the system of labour-regulation as a core condition for expanded intervention was implicit in the Bank's rationale justifying the replacement of Indonesia's alleged 'inefficient' industries through 'comparative advantage'. Indonesia's productive base was to be restructured to locate the economy within the new international system of production-specialisation. The imperative for Indonesia to embark on a massive economic restructuring to satisfy the claimed advantages accruing from the application of a 19th Century economic principle begs an investigation of how the principle applied to Indonesia and its relationship to the corporate ambitions that formed part of the aid/investment conditions. The contradictions between the application of this principle and World Bank imperatives

for the ‘opening up’ of Indonesia’s economy to greater international corporate access illuminates the way in which the state retained power.

In international trade terms Indonesia’s comparative advantage lay in its abundant supply of low-cost, strongly regulated, labour. The way in which this supply was enforced has been extensively canvassed elsewhere. Whilst the World Bank obliged the state to dismantle its protectionist and monopoly constraints on foreign corporate access as a condition of aid-provision, a condition of this aid was also the maintenance of a protectionist system of wage-cost minimisation that assure Indonesia’s ‘comparative advantage’ in cheap labour. The international corporate demand for the New Order state to demolish its protectionist apparatus thus related solely to foreign access to Indonesia’s supply of resources, especially that of cheap labour.

For some economic theorists, the New Order rule turned on its ability to inhibit market pressures by instituting ‘market frictions’ such as corruption, nepotism, and protection to prop up Soeharto’s rule. In this understanding their removal would threaten the stability of the New Order state. Thus, in Robison’s characterisation, by demanding an ‘opening up’ of Indonesia’s economy to global competition, the World Bank put the government in a quandary over the extent to which this could occur ‘without causing fundamental damage to the regime and its social and economic base’ (Robison, 1990: 108).

I argue that that what is missing from this analysis is an appreciation of the role of the labour and social-regulatory system as the key to state-corporate power. Its inclusion informs the process whereby accommodation of the World Bank’s imperatives determined an expanded corporate intervention, whilst the political and economic power of the Soeharto regime was strengthened rather than jeopardised. This foreshadows the argument that the final death-knell for the New Order regime did not reside in IMF structural adjustment program imperatives to dismantle protectionist mechanisms, but with the mass political revulsion against the undemocratic, repressive, and corrupt state regime. The IMF programs are seen as influential triggers for mass political action, but primarily in terms of their impact on living costs.

Expanded production regulation

Foreign investors' appropriation ambitions are evidenced by an investigation of the chief characteristics defining foreign manufacturing expansion into industrial estates and of the processes at work within these state-constructed industrial manufacturing production enclaves. International capital's increasing technical ability to move production facilities where costs could be minimised (Winters, 1996: 30) determined the huge late 1980s flow of investment monies largely into Indonesia's industrial estates. Many of the companies investing in these Indonesian estates did so to escape the 'rising labour costs and unrest that threatened investment in the newly industrialising countries of South Korea, Taiwan, and Hong Kong' (Beeson and Hadiz, 1998: 301). The estates were located near major population centres such as Bandung, Jakarta, and Surabaya. The most substantial industrial concentration was the Greater Jakarta manufacturing zone that incorporated the manufacturing centres of Jakarta, Bogor, Tangerang and Bekasi (*Jabotabek*). The foreign investment formed the core of a dramatic expansion of the 'low-wage, export oriented industries that have underpinned Indonesia's industrial development since the mid-80s (Hadiz, 1992a: 2).

Industrial estates' industrial priorities

The state played a powerful role in the delivery of labour, a point encapsulated in the quote introducing this postscript. The quote suggests that this state-role operates through the full cycle of labour organisation: creation, supply, and workplace enforcement. This 'delivery' of workers into industrial manufacturing employment is considered in the context of state-systems supporting greater work intensity.

It is evident that there were several major industrial ambitions driving corporate investment in these enclaves. We have already seen that a fundamental objective was to avoid the threat of industrial conflict and increasing wage-costs that existed in the NICs. Clearly a major motivation was the ability to impose industrial discipline without the sorts of constraints pertaining in these countries.

The estates were designed to maximise work-intensity and minimise production costs through intensive workforce supervision in a strictly regimented environment.

Manufacturing production was supported by the extensive, state-controlled system of labour supply, regulation and enforcement. State and corporate control operated in three distinct contexts. Firstly, the state and the state-run union were the agencies responsible for the overall supply and control of labour. The state facilitated the transfer of rural labour to industrial work, and the *SPSI* acted as an employment agency through its village and industrial networks. The state regulatory system was external to the systems of discipline imposed by individual companies, but served to enforce individual company's control decisions.

Secondly, the state and private contractors supplied the physical infrastructure for production. This included the essential services for the estates, including labour-transportation, the construction of factory complexes, the estates, and the state-enforcement apparatus providing company protection. Finally, the companies moving into these factories installed the appropriate regulatory technology to maximise output, such as plant technology, production lines and supervisory systems.

Labour regulation within the estates

Labour supply

A poignant example of the military strategy of enforcing the transformation of rural to industrial labour was given by the Indonesian government in their response to criticism of industrial repression by the international NGO, *Asia Watch* (January 23, 1993). *Asia Watch* asserted that groups of Indonesian workers were forced to participate in military training under the surveillance of *KOPASSUS*, the army Special Forces. According to the Indonesian government, the workers were given physical and vocational training, including marching, saluting, obeying commands, standing at attention, and running obstacle courses. 'The Indonesian military assists with this training, which is received ... by workers from all over the country. It is thought that this combination of training eases the transition from an agricultural environment to an industrial one and prepares the trainees for work in an industrial environment' (*Asia Watch*, Indonesian Statement: 118). Lieutenant Colonel Sutrisno, a military officer in charge of the West Java training program noted that the military assistance used in the training centres comes from the various branches of the Indonesian Armed Forces including the Marine Corps and *KOPASSUS*, a special combat-trained force

which is exceptionally suited to train young job-seekers from a variety of backgrounds (Indonesian Statement Exhibit 98).

The physical infrastructure

A typical estate complex consists of large numbers of factory buildings within a barbed wire fenced perimeter patrolled by the military. The Tangerang estate, for example, contains 1,500 companies and employs about 200,000, mostly women, workers (Razif, 1992: 6). The 'prison camp' security apparatus was intended to protect company property. However, the more fundamental reason was to protect companies' surplus appropriation by imposing absolute controls over labour. The apparatus was intended to inhibit any form of industrial association. It also limited association between employees and the wider community, prevented outside scrutiny of the systems of work-discipline applied by individual companies, and prevented employees escaping the disciplinary conditions imposed by employers. Overall, the physical and institutional structure of the industrial estate was designed to create a separate, exclusionary, enclave within which the corporate ambitions of labour-control for work intensification could be realised. Whilst the security apparatus had achieved new heights of technological innovation, the overall system incorporated similar characteristics to that of the corporate plantation system of labour regimentation a hundred years before.

Industrial discipline

Within the estates employers have carte blanche to employ whatever form of disciplinary action that is deemed 'appropriate' to enforce work requirements and workplace discipline. Thus in June 2000 Sony company employees took industrial action against management's decision to force staff to stand at their workplaces for entire shifts 'so that workers would be flexible and mobile enough to carry out several tasks as a conveyor belt carried television sets and other products down the line for assembly' (*Business Times*, June 14, 2000).

A further example of disciplinary measures taken by estate companies was a Jakarta factory executive's decision to force several female employees to stand for several hours in the full sun as punishment for missing a day's work. Part of the punishment

included holding up a placard bearing the words 'I skipped work yesterday'. One employee miscarried after two hours. The *Jakarta Post* reported that 'this means of punishment had been enforced by the company for some time. The four workers who reported her case were later sacked by the company without any severance pay (*Jakarta Post*, 12/1/1995). This example, one of many reported in the Indonesian newspapers over recent years, shows the extent to which some employers were prepared to go to enforce workplace discipline.

In-house forms of labour regulation

There is strong evidence to show that women bore the brunt of estate-companies' industrial demands. Wolf's research shows that the semi-skilled labour-intensive employment in these factories was mostly carried out by female labour. Women were employed at less than subsistence wage levels (Rutten and Dirkse, 1993:138). Employers believed that it was 'more economically efficient to employ (female workers) because they cost less than males and were less likely to disrupt the production process with complaints or labour protests (Rutten and Dirkse, 1993: 142).

What is also significant is the evidence that NIC employers appear to have imposed even more oppressive regimes of control and work-intensity than their Western and Japanese counterparts. The presence of these companies and the severity of their industrial regulation affirms that NIC companies' move to the country was designed to advantage from the state's authoritarian social and labour regulatory system, and the state's non-interference in internal industrial organisation. The effectiveness of this labour-intensification strategy was shown by major brand name Japanese, Western European, and US companies increasingly licensing their products to NIC enterprises.

The differing employment conditions resulted from contractual obligations imposed by the major companies, the competitive pressure between subcontracting companies, and NIC management experience of industrial confrontation in the home countries. The evidence of a strike against a large South Korean owned, Tangerang-based, electronics factory shows a typical example of NIC companies' industrial policy. The predominantly women workers in this factory went on strike after being forced to

work 11 hour shifts with no overtime payment. They complained of physical side effects from the work and also of sexual harassment on the part of the Korean managers. There was no *SPSI* unit allowed in the factory because the Korean owner said he knew from the Korean experience that if unionisation were allowed, workers demands would escalate (*Asia Watch*, September 1992).

Colonial parallels

An investigation of the parallels between colonial systems of corporate organisation and those operating in the industrial estates illuminates the character of the relative surplus-extraction processes. The particular focus is on the role of these estates in increasing work-intensity and output. The Dutch state's imposition of the rigorous Cultivation System of coerced labour generated massive profits for the metropolis, and formed the foundation for the subsequent late 19th Century vastly expanded corporate plantation investment.

The corporate plantation system of production organisation was characterised by minimal state restrictions on how planters went about maximising work-intensity, and by the strict separation of the estate from the local community and village production. These estates were set up on prison-camp lines, with the military enforcing security and labour discipline. The intensive supervision and labour control enabled the generation of much higher levels of output than those obtaining in the unsupervised and unregulated village production system.

A rupture in the regulation regime: industrial confrontation

A crucial outcome of these mechanisms and systems of control was that employers had, by the late 1980s, benefited from paying workers the lowest industrial wages in Asia (*Financial World*, 10.7.1990). Whilst these low wage-costs were underpinned by the high degree of state-regulation and enforcement it was clear that there was a threshold beyond which further labour intensity and oppression would generate a political and industrial backlash. At this margin of exploitation, with subsistence-levels below the rate of remuneration the regulatory apparatus came under political and industrial challenge. When this occurred the repressive apparatus, with its

constraints on association, was unable to constrain conflict and rebellion, and we see a major rise in industrial disputation and political action.

It is argued that the pressure in the manufacturing sector to increase the rate of exploitation generated a worker consciousness leading to a mobilised opposition against the oppressive conditions of employment. The greatest industrial opposition occurred within those companies imposing the greatest degree of workplace oppression.

The role of the liberalisation policy in destabilising the regulatory regime is underscored by the fact of industrial confrontation centring on the modern sector. As the degree of work-intensity increased and real wage-levels declined, companies faced a 'sustained wave of industrial action on an unprecedented scale that (was) widespread across Indonesia'. The action 'took the form of wildcat strikes and mass demonstrations (with) most industrial action being in the export oriented economy' (*Jakarta Post*, 18/8/97). There were 46 strikes across Indonesia between 1986 and 1990; by 1991 there were 114, with 96 per cent of these in manufacturing (*Kompas*, 18 November 1992). Strikes were largely against those companies, such as textiles, clothing, and footwear, which formed the core of World Bank/IMF-supported export-orientated developmental policy. Most of the industrial conflict occurred in the *Jabotek* area, but working class action occurred across diverse regions from Surabaya to Medan in Northern Sumatra (Hadiz, 1993: 186). In one instance 14,000 workers from a single factory took strike action against their employer. In the majority of cases, strikes were triggered by companies' violating minimum wage stipulation's. Other major claims included the denial of benefits, working conditions, dismissals, lack of union representation and military/company intimidation (*Far Eastern Economic Review*, 2 April 1992).

The extraordinary escalations in mass demonstrations and industrial confrontation and the emergence of a new industrial purpose and unity amongst Indonesia's manufacturing workers signalled an unravelling of the state's ability to enforce its control over labour. The *Jakarta Post* affirmed that the rise in industrial action and the growth of non-government industrial support organisations posed an 'increasingly serious challenge to the forms of workers control exercised by the state for over 20

years (*Jakarta Post*, 18/8/97). Whilst the regulatory apparatus had guaranteed industrial stability, it now appeared unable to assure a 'pacified' industrial environment for local and international corporate investors.

The above discussion and analysis of industrial estates suggests the need for further research relating to labour's political and industrial struggles in these estates. There is a clear need to ascertain whether the contemporary political fracturing of the Indonesian working class can be overcome in the longer term. This vital imperative must then be considered in the context of possible options for a strengthened and unified workforce in the face of the general liberalisation 'reform' agenda. Clearly these questions suggest an invaluable focus for the continuing analysis of the processes and political implications of the industrial and economic struggles that are an inevitable part of the industrial estate system of wealth production and appropriation.

A broadening political/industrial battle for reform

Women workers in the primarily export manufacturing sector led much of the industrial action against estate companies. In 1992 and 1995 discussions with officials from the Women's' Section of the *SPSI* and individual women employees of export-sector manufacturing industry companies I determined that most women workers were more strongly prepared to take industrial action than male employees (Mack, 1992/1995).

Whilst economic issues were a fundamental factor driving industrial action, workers considered that the right to political/industrial association, assembly, and organisation was of equal importance in industrial campaigns. The state's denial of that right consolidated opposition to official industrial institutions, and led to the creation of alternative organisations. Workers developed small, informal discussion and educational groups, (*koperasi simpan-pinjam*) outside of the *SPSI* framework. Such groups were generally run in conjunction with small labour-oriented NGOs whose members characteristically consisted of veteran labour activists or former student activists.

The existence of these defensive associations and NGO support groups, whilst necessarily informal and clandestine, proved the strength, unity, and commitment of mobilisation. In order to adequately represent the needs and aspirations of the participants, these groups operate outside the institutions and structures designed to enforce state control over the political system, labour and the production process. 'Thus worker struggles have necessarily been led by small, almost amorphous grass-roots based organizations that by definition operate outside of them' (Razif, 1992:1).

International pressures for industrial reform

The industrial repression and consequent worker action attracted worldwide attention. An ever-growing international political pressure was brought to bear to liberalise the New Order regulatory regime. Of particular interest was the way in which this resulted in the internationalisation of the struggle for Indonesian workers' rights. The first consideration concerns the Indonesian state's response to the international pressure to moderate its regulatory regime, the internal schisms that this engendered between corporate interests and the state, and the implications of these schisms for the subsequent political destabilisation of New Order rule.

Whilst there were European political campaigns pressuring the New Order state to moderate its labour-regulatory regime, the state was more responsive to the US campaigns. The Indonesian government was clearly cognisant of the fact that the US criticism could threaten Indonesia's exports to that country. US labour groups campaigned for the US government to revoke Indonesia's access to the tariff concessions for developing countries if Indonesia did not address key industrial rights issues (Schwarz, 1994: 257). In June 1992, *Asia Watch* and the International Labour Rights Education and Research Fund (ILRERF), a non-governmental organization based in Washington, petitioned the United States Trade Representative to review Indonesian labour rights practice. Under US law, the President, at the recommendation of the Trade Representative, must end tariff benefits to a US trading partner under the Generalized System of Preferences (GSP), if the country is not 'taking steps to afford internationally recognized worker rights' such as the freedom of association, the right to organise and bargain collectively, to ban forced labour, and set the minimum age for the employment of children. A cutting of the GSP tariff

benefits at that time would have resulted in an annual cost to Indonesia of about \$ (US) 400 million (*Asia Watch*, January 23, 1993).

The Indonesian government went to great lengths to explain, justify and moderate its industrial policies in response to the US petitions. The Indonesian government prepared a 170-page defence against the *Asia Watch* charges and on October 16 1992 sent a delegation headed by the director of the Ministry of Manpower, Dr. Payaman Simanjuntak, to explain its position to the GSP Subcommittee. Nevertheless, in June 1993 the US Trade Representative advised Indonesia that unless it improved its labour record it would lose its trading benefits with the US. The US was supported by Western European political pressure on the Indonesian government to ensure that Indonesian workers were paid statutory minimum wages and allowed freedom of industrial association.

The state moves to moderate the regulatory regime

The Indonesian government made some concessions including legislating for a rise in the minimum wage and the revocation of government legislation allowing employers to summon troops to put down strikes (Schwarz, 1994: 261). The Manpower Minister, Batubara, moved to implement some of the ILO industrial reforms, and demanded employers pay the state-nominated wage-rises.⁸ His appointment as President of the ILO annual conference in 1991 suggested that for some international rights organisations the New Order was gaining international support for its attempts to implement reforms (Hadiz, 1997: 161). The government's pressure on employers meant that between 1990 and 1997 the minimum wage in the Jakarta area nearly tripled (Beeson and Hadiz, 1998: 300).

The Indonesian Department of Foreign Affairs considered that the Government should take 'steps toward meeting ILO standards while considering Indonesia's situation' (Hadiz, 1997: 166). In 1994 Soeharto called for employers to provide higher wages and better conditions (*The Australian*, 5.5.1994). He argued that 'many entrepreneurs and industrialists still viewed their workers simply as one of the factors of production, ignoring their real interests...that the wage system should not widen

⁸ Interview, July 14, 1991

the existing gap between rich and poor ... but not rise so steeply as to threaten the competitiveness of the Indonesian economy' (*The Australian*, 5.5.1994).

Rationale for moderation

The fact that the Soeharto state acceded to some aspects of the international and internal pressure to liberalise the industrial regime clearly resulted from the US threat to Indonesian trade. The Indonesian establishment's continuing concern to represent the regime as showing a preparedness to address labour rights issues is evident in a memorandum of industrial changes presented to President Habibie by his industrial adviser, Sudono (Appendix 3). In a section referring to proposed changes to the *SPSI*, the memorandum noted that 'the new Confederation has to be rooted nationally - domestically or internally and externally, and has to try to be acceptable to the ICFTU. The ICFTU is the backbone for labour unions in industrialised countries. Therefore the ICFTU provides access to industrialised countries international institutions under the United Nations including the IMF and World Bank. The ICFTU has consultative status in the UN and with bodies under the UN.⁹ In these terms, the state was clearly intent on tying its liberalising proposals to aid access.

Emerging contradictions within the state

The state faced a fundamental and irreconcilable contradiction: it was being pressured by the US to ameliorate the harsh conditions of extraction, and thereby dismantle the system of exploitation that was the linchpin of the New Order regime of accumulation, in return for securing the maintenance of preferential trade advantages. In its efforts to reconcile this contradiction, the Indonesian state moved to moderate the degree of exploitation but not the regulatory system that underscored the system of labour control. The effect was to alienate political and economic interests who feared a loss of authority and a decline in the distribution of surplus. Moreover, it was becoming evident that the Soeharto state's preparedness to acquiesce to the foreign political and economic pressures to moderate the oppressive labour regime indicated incapacity to maintain absolute authority over labour. It will be argued that this

⁹ Minutes provided to the author of a meeting of the Cabinet and Agus Sudono regarding labour reform, Jakarta 29.6.1998

compounded the inability of the state to meet the competing needs that had hitherto defined the production and distribution of surplus.

These contradictions were exposed when the Asian financial crisis swept through East Asia in July 1997. The crisis crystallised a mass aspiration for major political reforms, creating the conditions for the political overthrow of the New Order regime. This overthrow followed Soeharto's agreement with the IMF to implement a market liberalisation, program in return for the provision of aid. The consequent application of an IMF structural adjustment program to abolish the 'market frictions' of state-subsidies for essential consumer goods, such as kerosene and rice, led to the mobilisation of mass forces opposed to New Order rule (Mallett, 1999:260). The institution of processes of political reform enabled the election of governments pledged to reject authoritarian rule in favour a broad process of political representation.

The resulting political reforms challenged the military's dual-function, corporate authority, and repressive role. This triggered an Indonesia-wide series of military-led disturbances and political confrontations that were intended to undermine the challenge to the military's political dominance.

Tensions within state rule

The New Order government was acutely aware that its system of industrial regulation had generated sufficient political opposition within developed countries to threaten Indonesia's export trade to those countries. It also perceived a political imperative to ameliorate the harsher effects of the regime to justify the severity of extraction. The New Order state had consistently employed the political rationale that its sole imperative was to strengthen the economy and generate higher standards of living for the Indonesian people. On the other hand, any perceived unravelling of the strict regulatory regime threatened foreign investors' secure supply of a cheap, strongly controlled labour force. The state had to balance these competing interests to retain political authority and maintain investment.

The role of succeeding Manpower Ministers in promoting this ‘balancing act’ was evidenced by the intention of new Manpower Minister Abdul Latief’s to maintain Batubara’s commitment to improve wage levels to ‘curb industrial unrest without conceding the politically-charged issue of the freedom to organise (Beeson and Hadiz, 1998:301). The state’s maintenance of its ‘industrial agency’ role in the supply of cheap labour for foreign capital was shown by the succeeding Minister’s refusal to brook any industrial association outside the institutions controlled by the state. In the perennial argument used by New Order officials to denigrate alternative representative organisations, Latief blamed all industrial organisations outside the *SPSI* as the responsibility of groups designed to threaten the status of the official organisations (Schwarz, 1994:260). NGO activity on behalf of the workers, and unofficial unions was represented by the military as ‘communist inspired’ threats to social stability.

The state’s moderation of industrial excesses and the enforced wage rises led to the US maintaining its GSP with Indonesia, but inspired condemnation within the New Order regime that was led by the military, and supported by business groups. These interests considered it imperative for the military to continue to impose its domination over labour to repress ‘intransigent, dissident elements’ and maintain the low wage-cost environment. They brooked no undermining of the military’s role in underpinning the New Order. Any accommodation of workers’ demands represented a break in the system of industrial ‘law and order’ and a challenge to the regimented, hierarchical authority structure. Foreign political action was seen as an intervention in matters of internal security.

Corporate executives strongly supported the military’s continuing industrial role. Further, they believed that the power and authority of the military to maintain its role as the agent of industrial enforcement could not be jeopardised by workers’ industrial action or international political pressure because Indonesia’s ‘security forces would not allow social disorder’, and that the ‘phase of reformism would pass by (Beeson and Hadiz, 1998: 301).

The reality and dominance and power of the military and the state’s inability or refusal to challenge this power is shown by the failure of successive reformist

Manpower Ministers' attempts to restrict the military's intervention in industrial relations. Even in 1998 after the political demise of the Soeharto government, the Habibie government Manpower Minister, Fahmi Idris, was still requesting the military and police to cease 'interfering in labour affairs ... in drafting collective agreements between workers and employers, negotiating solutions to disputes – particularly dismissals – and other bipartite affairs. The Minister expressed his concern that 'businessmen have often invited military officers to join the negotiations with workers to resolve labour problems, but their involvement has always been in favour of management' (*Straits Times*, August 23, 1998).

Underpinning the regulatory regime

In 1997, just prior to the full impact of the Asian financial crisis on the Indonesian economy, the Soeharto government moved to enforce its labour-regulatory regime. Whilst still putting pressure on companies to pay the state-stipulated minimum wages, Soeharto introduced a new manpower bill into the Indonesian parliament to, as the *Jakarta Post* argued, 'revoke laws which so far have relatively protected the basic rights of workers and legalise unfair labor practices into law' (*Jakarta Post*, 18/8/97). The main objective appeared to be to convince corporations that the government retained its firm labour-regulatory intentions. The main thrust of the bill was to ensure 'labour flexibility' by short-term work contracting and subcontracting.

A further contradiction emerges with the pressure to accommodate corporate ambitions by imposing a regulatory framework to increase labour productivity by short-term work. This led to a decline in the authority of the *SPSI*. The confederation gained its labour regulatory authority from its centralised industrial bargaining power. The widespread introduction of individual contracts undermined this authority and power. Business sought other means of controlling labour. The *Jakarta Post* stated that the 'delegitimation' of the military-dominated union meant that companies employed private security firms. The extent of this is indicated by the growth in company security costs where '...some business circles estimate that invisible costs now reach 16 per cent to 30 per cent of production costs while labour wages account for only 4-11 per cent (in the manufacturing industry sector)' (*Jakarta Post*, 18/8/97).

At the end of 1997 the market capitalisation of the Indonesian economy declined from \$US225 billion to \$US33 billion, with \$US140 billion owed in hard currency debt (*Australian Financial review*, Jan 24, 1998). Approvals for FDI dropped by 40 per cent in the first quarter of 1998 in comparison with the same period in 1997. Exports declined by 8 per cent, and there was a loss of 20 million jobs (*Far East Economic Review*, November 12th, 1998).

The massive political and economic disruption caused by this financial crisis triggered the political destabilisation that undermined New Order state authority. The IMF demanded the Indonesian state impose drastic social, political, and economic measures as a condition of the provision of loans. These included balanced national budgets, rises in interest rates, the abolition of subsidies on food and electricity, an acceleration of deregulation and privatisation, the opening up of greater foreign access, and the sale of banks and industries regarded as inefficient or under performing. The most politically destabilising imposition on the Indonesian economy, however, was the IMF's imperative for the government to remove subsidies on basic consumer commodities, especially on food and fuel. The Soeharto government had effectively subsidised the cost of labour for business with these subsidies, and their removal was a major financial blow falling on top of the massive inflationary increases and job losses. The consequent 70 percent increase in fuel prices sparked mass demonstrations that only ended when President Soeharto stepped down from office on 21st May 1998 (*Straits Times*, 23.8.1998).

The financial crash undermined the military's political and economic base. Military corporations collapsed as foreign investment and rentier income was withdrawn, and the cost of investment massively increased. The government-funded wages and salaries were barely sufficient to adequately provide for the basic needs of personnel. An Indonesian economist contended that 'military airlines are grounded for lack of cash, their office buildings stand half empty and their factories cannot pay their debt. Many of their forestry concessions have long been cleared, leaving much of Kalimantan, Sumatra and Irian Jaya deforested. He considered that military-owned enterprises were the military's 'cash cow, [and] when the cow does not provide any milk anymore, ABRI (the armed forces) must find another source of income – like racketeering' (*Canberra Times* - May 26, 2000). This opinion was backed by the

Financial Times in an editorial contending that the continuing military-corporate ownership and paid security role in industry and society, by allowing the military to finance themselves, means that the government ‘allows for lawlessness, for distortions in the economy...[where] ...the infrastructure, the people who run all this are underpaid and live in a system that is corrupted’ (*Financial Times* 3.12.1998).

The industrial security role of this ‘racketeering’ came to the fore with the evidence of military instigation of riots and attacks on Chinese/Indonesian companies (*Jakarta Post*, 15.7.1998). The evidence of the military’s involvement suggests a two-fold intention: to threaten the democratic reformism of the state, and to intimidate business into paying the military protection money against future threats to their property. Forewarned of the ‘riots’, corporate executives paid the military substantial amounts of money to secure their property or to enable them safe transit to Jakarta airport and to Singapore for ‘guest worker’ employees (interview, CEO Asia Pulp and Paper Company, Jakarta, 23.7.1998.)

The continuing power and authority of the military is shown by the fact that, whilst dismissed from his position as armed forces commander, Soeharto-appointment General Wiranto remained on active military duty and is currently Coordinating Minister for Political Affairs and Security. He chairs cabinet meetings and decides the agenda, suggesting that the armed forces continue to play a dominant role in civil rule (*Washington Post*: 4.12.1999).

Summary

A major theme of this thesis is that succeeding ruling regimes regulated production and labour to maximise surplus value extraction, and at particular stages of capital accumulation, the system of political and economic controls underpinning the regime was destabilised. This chapter interprets the continuing political and industrial turmoil surrounding the collapse of the New Order in this context

In part, the tensions in the New Order period arose from Indonesia’s engagement with international capital, associated with particular forms of production and labour regulation underpinning capital accumulation. The loss of export earnings following

the end of the oil boom and strong international political and corporate pressure determined that Indonesia would open its resources and productive and wealth-generating apparatus economy to greater foreign corporate access. The IMF/WB measures promoted the relaxation of constraints on trade and the dismantling of the apparatus of patrimonial corporate-protection, but clearly supported the maintenance of the New Order state interventionist and regulatory regime as an agency of labour control.

This renewed engagement with the international political economy and the subsequent massive inflow of foreign investment funds was predicated on the Soeharto state-provided infrastructural and resources support for foreign corporate interests, especially that of a strongly regulated, low-wage, labour supply. The manufacturing investment expansion transformed the New Order state-corporate basis of accumulation from a primarily rentier-based to an industrial-based capitalist system. State-led, labour-controlling opportunities for foreign corporate access in Indonesia conformed to the general pattern of expanded foreign capital intervention under colonial regimes.

The infrastructural support for the inflow of foreign investment capital was primarily directed at transforming the productive system to accommodate corporate requirements defined by the New International Division of Labour. This meant the construction of industrial enclaves dedicated to the maximisation of work-intensity and labour control. There was a major shift of the workforce from rural to industrial employment. This pool of labour, the international pressures to enforce low-cost, high output productivity, and the existing state repressive and legal apparatus, were the fundamental mechanisms to 'discipline' labour to accept the conditions of employment in the industrial zones. The labour market enforced this process, and acted to inhibit workers' struggles in the process. Thus the 'the high level of surplus labour in the market' served to 'undercut labour's bargaining position' (Beeson and Hadiz, 1998: 301).

Whilst this access generated wealth for foreign capital interests, it also created the conditions for the destabilisation of the social, economic and industrial system underpinning capital accumulation. Thus whilst foreign capital gained access to

Indonesia's 'comparative advantage' of cheap, docile, labour – with a resulting dramatic expansion of manufacturing industry – this access presented threats to the security of regulatory regime, in particular through the proletarianisation of labour.

Labour assumed a pivotal role in capital accumulation under the New Order. The regulatory mechanisms instituted by the New Order regime to minimise the opportunities for labour participation in any aspect of ownership or distribution of the surplus supported foreign extraction from the country, and the rentier system that sustained patrimonial corporate accumulation. However, this investment was conditional on increased regulatory systems and manufacturing companies' increased demands for greater work-intensification. This created a working class' challenge to the New Order's system of regulation and as such constituted a political and industrial threat to the security of the appropriation regime. The New Order state was forced to modify its surplus-creation imperatives.

The centrality of labour to accumulation is shown in the analysis that the sources of New Order corporate strength did not reside in the sphere of surplus distribution – such as corruption, nepotism, and state protection – but in the production system. These factors may have sustained the Soeharto regime's corporate power where it relied on foreign interests to distribute a share of their extracted surplus income, but it played a relatively minor role in supporting the construction of a productive base of industrial capitalist endeavour on patrimonial relations with foreign capital. This new corporate role of the New Order patrimonial system was primarily based on the strength of the labour regulatory apparatus.

The rate of Indonesia's commercial and financial expansion, and the lack of state regulatory controls on the direction and coordination of development, led to an unstable financial system that was attacked by international currency speculators following the mid-1997 Asian financial crisis. This structural disability, and the consequent IMF demands to reduce state spending as a prime condition for the allocation of loans, led to the political overthrow of the Soeharto regime. The collapse of New Order political rule was not, however, a function of the World Bank/IMF imposed reductions in protection and conglomerate monopoly control. The final political rejection of the Soeharto regime, whilst triggered by the mass hardship of the

financial crisis and the IMF structural adjustment program, was driven by a mass revulsion of the New Order's thirty-two year domination of the social and political environment.

The evidence of a post-New Order maintenance of the apparatus of labour regulation is shown by subsequent leaderships' lack of preparedness to fundamentally address the issues of work intensification. In fact, the crisis precipitated even greater pressures on labour, and consequent increases in industrial disputation. Any decision to accommodate the demands of the working class continues to be strongly opposed by the military. The military has sought to retain their corporate power and dominant role as agents of social and industrial control. This schism within the regime of accumulation remains unresolved, as the military exerts continuing pressure to affirm its *dua fungsi* and paramount role as repressive apparatus of labour control. This has meant that at no stage has the re-institution of a system of parliamentary representation been seen to challenge the system of industrial regulation.

It is clear that the ruling regime's continuing inability to reassert political and economic control to assure Indonesians of a greater share of the surplus remains the continuing friction between the class interests of capital ownership and labour. The non-recognition of the contradiction between the imperative of de-regulation for capital interests, and maintained regulation for labour constitutes a continuing component of the maintenance of class dominance.

Overall, the transformation of the Indonesian political economy under the New Order conformed to the broad conceptual understandings underpinning this thesis. At all stages, the establishment of a dominant ruling apparatus has depended upon the strength and ability to control labour for surplus production and appropriation. Further, as succeeding regimes engaged with the international political economy there was a transformation in the regime of accumulation, specifically concerned with the way labour was organised to facilitate extraction. In this final instance of the demise of the New Order state, a conjunction of local and international corporate priorities determined an expanded level of labour exploitation. This led to a growing popular antagonism towards the state regulatory apparatus, and the consequent decline in effectiveness of that apparatus.

Appendices

Appendix 1

Proclamation of Independence

Proclamation

We, the people of Indonesia, herewith proclaim the independence of Indonesia. All matters concerning the transfer of authority and other matters will be carried out in orderly manner and in the shortest possible time.

Jakarta, 8-17-1945

on behalf of the people of Indonesia

Sukarno-Hatta

Appendix 2

Jakarta Charter

Jakarta Charter

Truly, freedom is the right of all nations, and therefore, colonialism throughout the world must be eradicated, because it is not compatible with (the principle of) humanitarianism and (the sense of) justice.

And the struggle of the Indonesian Independence movement has come to a happy moment to lead the people of Indonesian safely to the threshold of a free, united, sovereign, just and prosperous Indonesian State.

With the blessing and mercy of Allah the Almighty, and moved by a noble ideal for free national life, the people of Indonesia hereby declare their independence.

And, therefore, in order to form a government of the State of Indonesia that (might) protect the whole nation of Indonesia and the entire territory of Indonesia, and in order to promote public welfare, to sharpen the mind of the nation, and to participate in the realization of a world order, which is based on freedom, eternal peace, and social justice, the independence of the Indonesian Nation is formed in an Indonesian Constitution, manifested in the democratic State of the Republic of Indonesia, which is based on (the principle of) Lordship, with the obligation to carry out the Islamic syari'a for its adherents according to the principle of a just and civilized humanity, the unity of Indonesia and (the principles of) peoplehood guarded by the spirit of wisdom in (the forms of) deliberation (and) representation, and the realization of social justice for the whole people of Indonesia.

Jakarta, 6-22-1945

Ir. Sukarno.

Drs. Mohammad Hatta.

Mr. A.A. Maramis.

Abikusno Tjokrosujoso.

Abdulkahar Muzakir

H.A. Salim

Mr. Achmad Subardjo

Wachid Hasyim

Mr. Muhammad Jamin

Appendix 3

Memorandum of industrial policy



DEWAN PERTIMBANGAN AGUNG
REPUBLIK INDONESIA

HASIL PERTEMUAN
WAKIL KETUA DPA/KETUA KOMISI EKUIN
H. AGUS SUDONO
DENGAN
PRESIDEN B.J. HABIBIE
Nomor : 01/IA2/DPA/1998

Hari/tanggal : Rabu, 24 Juni 1998
Pukul : 09.00 WIB
Tempat : Bina Graha
A c a r a : Pengarahan Presiden B.J. Habibie

Hadir :

1. Feisal Tanjung	- Menko Polkam
2. Syarwan Hamid	- Menteri Dalam Negeri
3. Jenderal TNI Wiranto	- Panglima ABRI
4. Prof. Muladi, S.H.	- Menteri Kehakiman
5. Ir. Giri Suseno	- Menteri Perhubungan
6. DR.Ir.Rahardi Ramelan	- Menteri Perindustrian dan Perdagangan
7. Ali Alatas, S.H.	- Menteri Luar Negeri
8. Ir. Akbar Tanjung	- Menteri Sekretaris Negara
9. Moh. Andi Galib, S.H.	- Jaksa Agung
10. Sintong Panjaitan	- Sesdalopbang

Memorandum of Advice to the President and Cabinet by the Vice-Chief of the Supreme Advisory Council, Agus Sudono, 29th June 1998.

Memorandum re Meeting of Vice Chief of DPA and head of economic and finance commission with President Habibbi, accompanied by the Minister of State, Secretary and nine others to discuss matters of labour. In this relation, the Vice Chief of advisory group was asked to give suggestions. These were as follows:

1. Ratify ILO Conventions no 67 relating to Freedom of speech and Trade Union Act.

2. It is imperative for the Republic of Indonesia to have a strong democratic, independent and responsible Confederation of Labour, that can become a “partner” for business and Government in:
 - production;
 - profits;
 - responsibility;
 - keeping and maintaining a conducive business-environment and contributing towards national stability.

Further, that this organisation can be a “balance of power” to the SBSI (implicitly endorsing the legality of the SBSI, but competing with it).

3. This Confederation has to be rooted nationally - domestically or internally and externally, and has to try to be acceptable to the ICFTU. The ICFTU is the back-bone for labour unions in industrialised countries. Therefore the ICFTU has an access to industrialised countries’ international institutions under the United Nations including the IMF and World Bank. The ICFTU has consultative status in the UN and with bodies under the UN. Given the ICFTU’s role for labour unions in industrialised countries, and the ICFTU’s claimed access to the international institutions, it is vital for the new Confederation to make strong links with the ICFTU in order for Indonesia to gain internal access to industrialised countries and their institutions.

4. HIP should continue as a crucial part of the national Pancasila ideology, but without legal penalties and sanctions.
5. It is important for there to be a national code of industrial conduct to regulate harmonious relations between government employers and workers.
6. It is time for Indonesia to have a national manpower planning policy. This must be implemented across all economic sectors:
 - strategically
 - conceptually, and
 - comprehensively

So this manpower policy must have relevance and ensure balance between economic development, planning and human resources development planning and growth of job opportunities.

7. It is vital for there to be a national standardisation of productivity, where wage-rises are strictly related to a growth in productivity.
8. The Indonesian Government should ask assistance from ILO experts in order to facilitate the planning and implementation of the above suggestions.

Conclusions

Habibie accepted the eight suggestions and Agus Sudono was asked to help implement the suggestions, with the other ministers including the Manpower Minister holding responsibility for their implementation.

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