

**STATE, POLITICS, SOCIETY
AND INSTITUTIONAL LEARNING**

Lessons of the 20th Century

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INTRODUCTION

Indonesia is once again in crisis. Since the downfall of Soeharto in May 1998, political infighting, legal paralysis and economic stagnation has led to great disillusionment inside and outside the country. The high ideals of *reformasi* have been abandoned and democracy seems unable to deliver even modest reforms. All this is symptomatic of the sudden switch from an authoritarian to a democratic regime. Countries do not change regimes smoothly and quickly like a car changing gear. It is more like a gear change without a clutch, involving much noise, grinding and heat. To vary the analogy, the new political architecture has to graft onto existing formal and informal institutions. Successful learning involves adaptation of behaviour to a new set of rules (institutions); unsuccessful learning means that rules cannot be agreed and conflict persists. Hence, whether change is imposed by coercion or accepted voluntarily, there must be institutional learning on a national scale.

Because Indonesia has for so long flip-flopped between authoritarian and democratic modes, Indonesians have had to adapt to two very different kinds of political system. By the measure of years, authoritarianism has been the main tradition, democracy the minor one. A crucial question is therefore the survival and resilience of democratic norms and institutions under authoritarian regimes? Can democratic norms and institutions be learned under the tutelage of or in resistance to an authoritarian state such as late-colonial Indonesia? Was the learning of the democratic 1950s able to survive Guided Democracy and the New Order, or has democracy to be reinvented? Conversely, how anti-democratic were the authoritarian norms and institutions of Guided Democracy and the New Order?

Economic history gives some insight into these problems. Portrayed in the simplest possible terms, Indonesia is trying to follow other nations in achieving a double transition from poor to rich nation and from authoritarian to democratic rule. Sustainable socioeconomic development demands institutional and political development, but there is no coordinating nexus and no predetermined time path. Some countries seem to find the double transition fairly steady and inevitable, but others struggle. Autocratic governments like the New Order may suppress political development, while democratic reforms may, as now, be perceived to impede economic development. Development is therefore an uncertain process of searching and learning, which at worst may go into reverse as one of losing and forgetting. Indonesia's 20th century, punctuated by crises and a sequence of regime changes, was particularly unfavourable for achieving the double transition.

This paper begins by outlining the challenge of the double transition, identifying the role of institutional learning and relating it to politics. Part II identifies the 'flip-flop' pattern of Indonesia's 20th century political and economic history and considers the extent to which adaptations to authoritarian and democratic modes proved functional or dysfunctional in the long run. Part III examines three important aspects of institutional learning: legal reform, the role of the people (*rakyat*) and the role of the elite. The conclusion draws out implications for the new democratic Indonesia.

I. THE CHALLENGE OF THE DOUBLE TRANSITION¹

Indonesia seeks to follow other countries in moving from the status of underdeveloped country (UDC) to developed country (DC). This involves a double transition, an economic one from poor to rich and a political one from autocratic to democratic. These two transitions are seldom simultaneous. Developmental states such as South Korea, Taiwan and Singapore achieved the economic transition before the political one; others such as India and the Philippines have sustained democracy without completing the economic transition. The possibility also arises that countries may get stuck in an intermediate zone where lack of economic progress frustrates political reform and lack of political reform frustrates economic progress. A simple matrix is helpful.

	POOR	(transition)	RICH
AUTOCRATIC	UDC		Development state
(transition)			
DEMOCRATIC	Poor democracy		DC

This hollowed out matrix illustrates how countries like Indonesia could struggle to escape from the vast. A process of circular frustration could last for quite a long time without any clear outcome. There is no good theory to predict the time path, or to explain why some countries escape to achieve a double transition or is able to predict how or when others may do so. History is rationalisation after the event.

The challenge of the double transition can be conceptualised as one of complex search strategy. For each country, the transitional zone is largely unmapped. The experience of developed countries – and perhaps the failures of some other undeveloped one – may be a rough guide but the social and political terrain invariably differs. Society must somehow be led or conduct itself across its own terrain, ideally in the shortest time and without extreme conflict or hardship. What makes the task so difficult and slow is society rarely proceeds as a unit. Even under authoritarian regimes, progress is mostly in groups and by small steps, giving rise to all kinds of tensions.

Search strategy can therefore be reconceptualised as one of iterative social learning. By studying the experience of other countries and through its own processes of trial and error, a society must be able to reject unviable paths and identify those offering good long-term prospects. Ideologies are like virtual reality glasses, whose vision must be tested over actual ground. The essence of such social learning is conflict and its resolution. In this way the experience of myriad small and large groups is diffused and gradually formulated in rules. These rules or institutions embody social knowledge, so that once unknown terrain begins to acquire recognised features and pathways. In this way social capital is accumulated, translated into behaviour and eventually embodied in culture.

¹ This argument summarises Dick (2002b)

Politics are therefore fundamental to social learning as the main process by which institutions are negotiated, legitimised and validated. In the modern era of popular sovereignty and republicanism, it has been easier to create nations and endow them with a constitutional façade than to develop political systems that enjoy popular legitimacy and allow public choice. In many nation-states, democracy still struggles against the much older tradition of authoritarianism.

II. PERIODISATION AND INSTITUTIONAL ADAPTATION²

Indonesia's 20th century can be broken into the following periods of political and economic change, with those of political and/or economic development in italics:

Year	Politics	Economics
1901-20	<i>Ethical Era</i>	<i>Expansion and boom</i>
1920-30	Reaction	<i>Expansion</i> (after 1923)
1930-42	Repression	Depression and recovery
1942-45	Occupation	Catastrophic decline
1945-49	<i>Revolution</i>	Uneven recovery
1950-57	<i>Parliamentary Democracy</i>	<i>Rehabilitation</i>
1957-66	Guided Democracy (1959)	Stagnation and decline
1966-73	<i>Modest reform</i>	<i>Economic recovery</i>
1974-98	Repression	<i>Rapid development</i>
1998-	<i>Democratisation</i>	Crisis and stagnation

The key feature of this periodisation is that in only one-third of the century did political and economic development coincide. For barely a decade, namely 1950-1957 and since 1999, has the regime been democratic. Authoritarianism has been the dominant mode and, except so far for the current period, has reasserted itself after each period of democratic reforms. The tentative democratic reforms of the Ethical period were halted in the 1920s by repression of the Nationalist movement and Communism. The genuine parliamentary democracy of the early years after the transfer of sovereignty was shut down by the return to the 1945 Constitution and the experiment of Guided Democracy; and the political freedoms of the early New Order were abandoned in the crackdown of 1974.

This 'flip-flop' sequence did not facilitate institutional learning. As will be shown in more detail below, each regime change was accompanied by a good deal of reform and institutional learning, but the benefits were not cumulative. In moving through the transitional zone, societies need to converge upon some time path. Only by narrowing oscillations can a consensual and sustainable equilibrium path be found. If the oscillations remain extreme, instability will persist. As in some South American and southern European nations, authoritarian and democratic institutions and behaviours can coexist and mutually frustrate each other for a long time without mechanisms of resolution. Adaptation to authoritarian modes is not conducive to democratic society.

² This section is elaborated in Dick (2001)

Such modes may be imposed by violence, often by military rule, but ultimately, as in the case of the New Order, do not retain popular support. The institutions essential to democratic modes, however, take a long time to gain widespread acceptance and may be resisted by authoritarian remnants in the military, state and big business.

The following sections identify in point form key features of each period, the crisis by which it ended, and the heritage to the subsequent period(s) in terms of institutional learning.

Ethical Era

The Ethical era was technocratic, capitalist and corporatist. State administration expanded enormously in Java and was extended to the Outer Islands (Lindblad 2002). A new concern for popular welfare gave rise to policies that could be regarded as developmental in terms of agriculture, infrastructure, education and health. Meanwhile Dutch capital sank deeper roots and enlisted the support of the state in consolidating Western capital market institutions and the framework of Western commercial law, giving rise to a colonial-style corporatism that excluded labour.

Indonesians began to be assimilated to modern, urban, westernised society. They gained some access to higher education as a means of entry to the state bureaucracy, but were excluded from the higher levels of the Binnenlands Bestuur (Sutherland 1979). Representative advisory bodies were introduced and helped Indonesians to absorb democratic norms and begin to adapt to democratic institutions with more enthusiasm than the Dutch had anticipated. The intellectual roots of Indonesian nationalism were in Europe and, indirectly, the United States, where democracy was until the 1930s part of enlightened modern nationhood. Democratic socialism was more appealing than Soviet-style Communism. Moreover, the fact that the Dutch had withheld democracy from its colonial possession, while offering tokens such as the Volksraad, made it all the more desirable. Nationalist leaders were well aware that the American colony of the Philippines had older and more democratic indigenous representation and in 1935 granted self-government, while the as yet undivided British colony of India also enjoyed parliamentary institutions that were more representative and had more clout than the Volksraad.

Nevertheless, the institutional heritage of the late-colonial era was a repressive bureaucratic state with broad powers of intervention in political and economic life. Bureaucratic power was constrained only by the legal codes - which the bureaucracy could amend - and the supervision of the colonial office in the Netherlands. Political development halted in the mid-1920s and nationalist leaders directed their energies to establishing a popular movement, which provoked repression from an increasingly conservative colonial government. This unpopular colonial system meekly surrendered to Japanese invasion in early 1942.

Japanese occupation

Although only three and a half years in duration, the Japanese occupation (1942-45) marked the turning point in Indonesia's 20th century history by creating new political and social possibilities (Anderson 1972). Above all, it gave breath to the struggling nationalist movement and infused it with the oxygen of Japanese ultra-nationalism through relentless propaganda and more accessible primary and secondary education. At this critical moment, the democratic impulse was stifled by an even more vigorous and malign authoritarianism than the colonial system. First, the colonial state was greatly strengthened. Indonesians moved at last into the elite middle and upper ranks and made this apparatus their own. At the same time, the state was extended down to the neighbourhood level in both village and town through the Japanese control mechanism of the *tonarigumi* (*rukun tetangga* or RT) (Sato 1994). Secondly, colonial-style corporatism, which had applied only to the large-scale, capitalist sector, was redesigned along Japanese lines as an instrument of general economic mobilisation under bureaucratic supervision. Thirdly, and most ominously, the Japanese created indigenous military formations inspired by the ideology of ultra-nationalism. Under the Japanese system, itself greatly influenced by the German-Prussian model, the military were not an instrument of civilian rule but equal partners in the state, ultimately responsible only to the emperor himself.

This Japanese heritage was embedded in the 1945 Constitution and the Tentara Nasional Indonesia (TNI). In Indonesia, unlike the Philippines, the Japanese were not militarily defeated but in August 1945 allowed control of the state to pass to national leaders.³ Thus Japanese ideologies of ultra-nationalism, authoritarianism and corporatism were not rejected but blended with European ideology in the legal organicist or integralist tradition represented by Supomo (Reeve 1985, Bourchier 1996). In this rather curious way, the authoritarian institutions of the colonial state were relegitimated by ultra-nationalism as foundations of the new Indonesian state. Democratic institutions and checks and balances were not needed because the state was one family united by the commonalities of the Pancasila, a wise father as President and a tradition whereby conflicts would be resolved by discussion (*musyawarah*) and consensus (*mufakat*).

Independence and Revolution (transitional phase).

The tragic revolutionary phase was decisive in two respects. First, the 1945 Constitution soon became embarrassing and obsolete. The international context changed dramatically with the utter defeat of Germany and Japan and Indonesia's struggle for international recognition of independence in the face of Dutch aggression. Democratic credentials were now essential to success. Nationalist leaders could thereby demonstrate to the world that they were not compromised by wartime collaboration with occupying Japan, as the Dutch charged Sukarno and Hatta, nor as socialists likely to be swayed by Communist propaganda. This was more than expediency. The Philippines and India both received

³ This statement summarises a very complex situation. Formally, under Allied instructions, the Japanese retained military control until Allied Forces could land and organise the repatriation of prisoners. In reality, very senior Japanese encouraged Indonesian leaders to declare independence and did not oppose their taking over government. In some places Japanese positions were stormed by popular Indonesian forces which then took over police functions as well. See Anderson (1972).

independence as party democracies. Democracy, political parties and a free press were the institutions of a dynamic postwar world and offered tremendous opportunities to young, vigorous and educated Indonesians who were suspicious and impatient of state bureaucrats as collaborators with the Dutch and/or with the Japanese. Accordingly, in October 1945 the Constitution was amended by the *Maklumat X* provisions to allow for government by a prime minister and cabinet responsible to an ad hoc parliament (KNIP) (Nasution 1992). Accompanying the transfer of sovereignty, in 1949/1950 a new Provisional Constitution came into force than enshrined democratic parliamentary government.

The second way in which the Revolution was decisive was the establishment of the military as a powerful component of the state. Under the Provisional Constitution, the military were subject to a civilian minister of defence. This was an uneasy and sometimes volatile relationship (Feith 1962, Sundhaussen 1982). Demobilisation, professionalisation and regional tensions created many flashpoints in disputes over funding and accountability. Convinced that the Revolution has succeeded only because of the military campaign, the Army chafed at civilian control. Nasution and others believed that the military should be represented in cabinet and were well aware of the prewar Japanese model giving the military direct access to the Emperor.

Parliamentary democracy

In the absence of any prior experience of parliamentary democracy, the mechanics of the eight years were impressive (Feith 1962). Cabinet governments were formed and reformed by coalition with genuine accountability to parliament. New laws were passed to reform colonial administration and launch new national programs. The failures and excesses of governments were debated in parliament and the press. These processes were conducted at the national, provincial and local levels. In 1955 national elections were held, followed in 1958 by local elections on a universal franchise including both men and women. Village headmen were also elected. Political parties opened branches and campaigned down to the grassroots level as mass political organisations.

The failings were not of mechanics but of policy. Popular expectations were higher than the capacity of democratic governments to deliver in very constrained circumstances (Dick 2002a). First, collapse of the Korean War boom in 1951 left governments desperately short of revenue and foreign exchange, problems compounded by an unbalanced tax system, an unrealistic exchange rate, and worsening bureaucratic corruption. Moreover, under the Round Table Agreements that preceded transfer of sovereignty, the Dutch imposed a heavy burden of debt repayment and obliged Indonesia to bear part of the costs of running down the colonial establishment. Meanwhile remaining Dutch civil servants were reluctant to obey new masters, Dutch businesses defended old privileges, and Dutch New Guinea was not handed over. Secondly, tensions between Java and the Outer Islands, exacerbated by the formation in 1950 of a unitary state, proved difficult to resolve and in some cases required costly military intervention.

Thirdly, as mentioned, rifts within the military and between chiefs of staff and civilian ministers that translated into public clashes and even attempted coups, exacerbating the growing sense of instability.

Nevertheless, there was nothing inevitable about the end of parliamentary democracy.⁴ The system had lost credibility because of frequent changes of cabinet, their inability to resolve intractable political and economic problems, and worsening corruption but it still worked according to an agreed set of rules and there was no obvious alternative. The Constituent Assembly was reviewing the system and trying to forge an intra-party consensus on a permanent democratic constitution to replace the provisional one of 1950 (Nasution 1992). Unfortunately a series of events placed the system under tremendous stress. In 1956 Vice-President Hatta resigned, fatefully undermining the national consensus between Java and the Outer Islands, exposing Sukarno to anti-Javanese hostility, and removing any vice-presidential check on his more erratic actions. Early in 1957 there followed the outbreak of the PRRI-Permesta rebellions in the Outer Islands with clandestine backing from the United States and Britain. In March 1957 this prompted President Sukarno to exercise his powers to declare a 'state of war and siege' as a basis for military action against the rebellions. In the same month he dismissed the parliamentary Ali Sastroamidjojo government and appointed a presidential Working Cabinet (Kabinet Karya) under Ir Djuanda.

At this point, parliamentary government was suspended but still under the 1950 Constitution. The military achieved swift success against the rebels, which could have been expected to hasten the lifting of martial law. Sukarno's intentions were otherwise. In February 1957 he had announced his *Konsepsi* for a new system of government that would involve a presidential cabinet reporting to a parliament of 'functional groups'. He now had his cabinet and urged the Constituent Assembly to adopt his form of parliament. This view found some support but did not prevail. Once again, however, foreign pressure undermined the democratic system. In November 1957, when the vote on the future of Dutch New Guinea again came to the United Nations General Assembly, the Dutch remained intransigent, now with American support, and the vote was lost. On 30 November Sukarno narrowly survived an assassination attempt, suspected to have had American backing. The response was to ban Dutch flights and Dutch-language newspapers and to call a general strike, which became a pretext for trade unions to seize Dutch assets throughout Indonesia.

All these events forged a closer alliance between Sukarno and the Army (Lev 1966, Sundhaussen 1982). Under martial law Sukarno was at last exercising full presidential powers and relishing his ability to control the course of events. Meanwhile the Army was consolidating its political position and, by taking control from trade unions of seized Dutch assets, vastly expanding its economic resources. Neither party wished to return to the constraints of parliamentary government. In July 1959, when it was clear that the Constituent Assembly would not accept his *Konsepsi*, Sukarno's issued a decree dissolving the Assembly and reimposing the 1945 constitution without the constraints of

⁴ The debate between the proponents of inevitability and circumstance are well summarised in Bouchier & Legge (1994), especially the chapter by Mackie (1994). My firm inclination is to the latter view.

the *Maklumat X*. The decree was almost certainly unconstitutional, but it was not challenged (Nasution 1992). With hindsight, the institutions of parliamentary democracy had lapsed in March 1957 and, after all the subsequent strife and amidst heady, revolutionary nationalism, the coalition to reestablish it, which should under the Provisional Constitution have been automatic, had ceased to exist. Instead, the main political interests thought they would gain from the presidential patronage of Guided Democracy.

Guided Democracy

Frustration with the ineffectiveness, hypocrisy and venality of parliamentary governments and ministers did not mean that people wished to reject democracy as a whole. Sukarno very cleverly packaged his *Konsepsi* as Guided Democracy, implying that it would be 'more' democracy, not 'less'. And indeed under the slogan of ongoing revolution there were larger, all-party cabinets, louder and more aggressive political rhetoric, intense party politicking and increasing mass mobilisation. Institutionally, however, Guided Democracy was fundamentally anti-democratic. Under the revived 1945 Constitution, the President was accountable to parliament (now DPR), a People's Consultative Assembly (MPR) and a Supreme Advisory Council (DPA), on paper an impressive democratic apparatus. In practice, the Gotong Royong parliament, which in July 1959 replaced the elected parliament, had the majority of members appointed by the President from various 'functional groups', including the armed forces (Reeve 1985, Bouchier 1996). The MPR was even more biased towards appointed members, and the Advisory Council was totally appointed. Although both party members and functional groups represented different interests and views, ultimately they were beholden to the President, not the reverse. When in 1960 the MPR rejected the budget, the President dissolved it (Legge 1973: 313). The uncompliant Masyumi and Socialist (PSI) parties were both banned. Sukarno's romantic-cum-revolutionary justification was that these quasi-democratic forums allowed him as the Father and Great Leader of the Revolution to listen to and interpret the Will of the People. This soft authoritarianism was not democratic in conception or in practice.

Secondly, parliament ceased in a meaningful sense to be the originator of legislation, a function that increasingly devolved upon the bureaucracy, acting through the President, ministers and even directors-general. The legal system, which by colonial precedent had always been part of the state bureaucracy, now lost all independence of action and became increasingly corrupted. In the colonial era, the judiciary still had sufficient autonomy to challenge bureaucratic legislation or its implementation. That the constitutional validity of the President's July 1959 decree was never tested at law confirmed that the legal system had already been cowed or bought off. If grand constitutional abuse of power could not be challenged at law, neither could more minor or petty corruption.

The claim is often made that Sukarno was never corrupt like Soeharto, which at a personal level would seem to be true. The implication is that the regime of Guided Democracy was never as corrupt as that of the New Order. Historically this is an almost

meaningless proposition. Guided Democracy terminated public accountability in Indonesia. After martial law and Guided Democracy there were no longer mechanisms to enforce it. The Communist Party could make propaganda about bureaucrat and capitalist corruption, but sanctions were taken only against those who ran foul of the President or the Army. The system of state patronage was already in place and the New Order had only to bend it to its purpose.

The fundamental weakness of Guided Democracy was its utter dependence upon President Sukarno. Failure of his health precipitated a showdown between the Army and the Communist Party (PKI). Sukarno survived for a while as a figurehead but, without the artificial Nasakom balance of power, lacked the political support to maintain Guided Democracy. The country was bankrupt. Western aid was contingent upon liberalisation. As a political system, Guided Democracy had no future. Its messy heritage was mass political mobilisation, political censorship, a bloated, dysfunctional bureaucracy, utter corruption of legal institutions, nationalization of the private large-scale sector, a vibrant small-scale indigenous sector but mass poverty and external insolvency. The other vital element of the heritage was military supremacy. Reverence for Sukarno's memory distracts attention from the fact that his suppression of democratic institutions paved the way for the harsh authoritarian military rule of the New Order.

The New Order

Under the New Order, the several authoritarian streams in Indonesia's political history at last ran together. The police state, the heritage of the colonial order, was restored as an effective instrument of central will (Andersen 1983, Cribb 1994). The military, called into being by the Revolution, no longer just shared power in the state but took control of it, stiffened it with its own cadre and moulded it in its own image. The heritage of Guided Democracy was a vast system of presidential patronage without checks or balances, legal or democratic. Law became just a language for formalising the state actions. With the suppression of mass politics and the emasculation of political parties, democracy was just a five-yearly ritual. This New Order state reached an apogee of formalisation, centralisation and personalisation. Its survival rested upon tapping global resources, lack of which had starved Guided Democracy. Here the military-technocrat alliance was crucial. The institutions of capitalism were restored and rapid economic growth generated and sustained to allow massive expansion of the urban middle class and dramatic reduction in the incidence of poverty, not least through education and internal migration (Booth 1998, Thee 2002). Except during occasional crises, there were enough resources to buy off most of the population.

The final authoritarian element was corporatism. The idea 'functional groups' (*golongan karya*), which traces back to organicist thought, was essential to Sukarno's *Konsepsi* as the rationale for a broadly representative and presidentially appointed parliament (Reeve 1985, Bourchier 1996). The Army embraced the concept and declared itself a functional group but Sukarno then retreated in favour of the Nasakom concept. In 1970 the *Sekber Golkar* (Joint Secretariat of Functional Groups) was revived as a political party to be the New Order's instrument in the 1971 elections (Reeve 1985).

Formally Golkar conferred membership of parliament but in substance it was membership of the state. By contrast, the two minor coalition parties, PDI and PPP, were regarded as potentially hostile outsiders. Capitalist interests had been closely associated with the state since the colonial era, as also had large-scale state enterprise. By the time of the New Order domestic private business interests were mostly ethnic Chinese. They were not granted membership of the state but a lesser associate status that obliged them to earn the continuing patronage of the Soeharto family. Independent trade unions, which had gained a role after Independence, were suppressed again under the New Order on grounds of Communist influence. This corporatism-cum-patronage system was the New Order's alternative model to a democratic, civil society.

Authoritarianism eventually fails upon the contradiction that in the modern world sovereignty is vested in the People. Over time the clique in power, such as the Soeharto family and cronies, becomes more greedy, more arbitrary and more remote. Since the very basis of the New Order's popular legitimacy was success in economic development, the 1997 Asian crisis and subsequent economic implosion was fatal. The end of the long economic boom quickly triggered the downfall of Soeharto amidst charges of rampant corruption and abuse of power. Without him, the rest of the regime soon collapsed in fragments.

Had democracy been restored in the late 1960s, the distortions of Guided Democracy might have been less damaging. At the time there was still mass participation in political parties and elder statesmen such as Hatta as well as the student movement hoped for some revival of democratic institutions, freedom of speech and clean government. These hopes were battered in 1972, during the crisis over Mini-Indonesia, and destroyed after the so-called Malari riots of January 1974. Thereafter the repressive intelligence apparatus tightened its grip over the state and held it fast (Tanter 1990). The evolution of democratic institutions was thereby halted in all for over forty years.

Nevertheless, by the end of the New Order the aspiration for democracy was strong, other countries were good role models, and memories of democracy in Indonesia remained alive. The framework of institutions existed, such as the People's Representative Council (DPR) or parliament and several leading political parties that without too much adjustment could take on more democratic form. What barely survived were the institutions, the agreed rules of the game, that would allow a democracy to function with a strong executive accountable to parliament and ultimately to the electorate. What emerged was a weak executive, struggling to overcome the economic crisis and meet popular aspirations while besieged on all sides by vested interests of the old regime, interests that were entrenched within the state which the new executive sought to govern. In such circumstances the surprise was not that democracy has performed badly, but that it had taken root at all in such apparently infertile soil.

The malign heritage of the New Order has been the enfeeblement of civil society. By civil society is meant not the statistical population but the norms, institutions and behaviours that knit society together as a voluntary association. Collapse of an autocratic regime does not of itself destroy its vested interests, who cling to power, wealth and

privilege, or the institutions of patronage, or the habits of obedience and coercion. The half-life of authoritarian ideas and institutions may be very long. Just as enlightened autocratic regimes buy off and co-opt the people, so must democratic governments find space and opportunity for former and potential enemies too numerous to try and punish. However, if these vested interests still hold sway in the armed forces, the state and big business, they may forgo cooperation in favour of a defensive spoiling strategy, whether to increase their bargaining power, or in expectation of an actual return to power on a wave of popular disillusionment with democracy. The outcome may then be a stalemate, in which the new political system cannot properly evolve, the population is left uncertain, and the evolution of institutions is impeded. This would seem to be a fairly accurate depiction of contemporary Indonesia.

III. INSTITUTIONAL LEARNING: THREE STORIES

A Case Study: Commercial Law and Institutional Learning

In Indonesia the good governance agenda of the IMF and World Bank has stranded on the reef of implementation. After the Asian crisis and the downfall of Soeharto the importance of institutional reform was at last recognised and a good deal of well-intentioned effort was suddenly directed towards drafting new laws on the basis of well-regarded Western models. The bankruptcy law was an excellent example (Lindsey 2000). To facilitate urgent corporate restructuring, the law was quickly passed during the short term of the Habibie government. However, when test cases were brought under the new law, including by the World Bank itself, they failed. Bankrupt principals created a paper trail of fictitious parties who voted with the principals for alternative schemes of restructuring and persuaded the courts to give legal sanction. The new bankruptcy law remains on the statute books but alternative forms of redress are sought.

What is to be made of this failure of implementation? The multilateral view is that it is a failure of 'political will'. In other words, good laws can be enforced by stronger and more effective government. This can become almost a tautology. Otherwise, by what process does a country find stronger and more effective democratic government by constitutional means? An alternative view, akin to that of the 'law and society' school, is that better laws emerge out of social processes underpinned by social norms. Again in the case of bankruptcy, there is no norm in Indonesia that corporate bankruptcy is a disgraceful and unsustainable state of affairs. As long as principals remain solvent, whether through family assets or offshore funds, their corporate vehicles are mere paper assets to be bought back or sold as circumstances permit. Minorities have no rights that are enforceable at Indonesian commercial law. The public who bought shares in these listed companies might just as well have made unsecured loans to the principals. A revised bankruptcy law cannot of itself create property rights that were never acknowledged in the first place. In short, the Indonesian stock exchanges were bubbles that never rested on solid legal foundations. Much the same applies to most of Indonesia's banks, now under the control of the Bank Restructuring Agency IBRA.

An alternative view would be that Indonesia's banking and corporate system did not so much fail as be overwhelmed. Had the Asian crisis not occurred, it is conceivable that the stock exchange would in time have given rise to norms of listing and reporting. Companies that were seen to disclose would enjoy investor confidence, those that were seen to conceal and rig would lose confidence and their share price would suffer. Takeovers might have begun to occur. Instead, the Asian crisis caused systematic corporate failure, leading principals in panic to withdraw capital from their banks and listed vehicles. Capital flight and depreciation fed the panic. A crisis of this magnitude is highly abnormal and the young Indonesian capital market could hardly have been expected to remain viable.

These two views are not necessarily inconsistent. The new markets of deregulated banking and the stock exchange needed time before the formal legal institutions would gain acceptance. The scope for adaptation was limited because of global market integration and associated market expectations. Deregulation and integration was meant to impose market discipline, but it may instead have introduced too much instability too soon. Principals tried to be seen to be observing the new market institutions, but the fallback was much older norm of family business: protect family capital and survive. Those few firms that behaved ethically and sought to continue servicing foreign loans with hugely devalued rupiah soon found that this was unsustainable. Without compensating foreign exchange revenues, they would simply exhaust their capital. Default and renegotiation was inevitable.

Each bank and listed company was therefore engaged in a process of corporate or organisational learning, but because capital market deregulation was so recent, the stage of learning was not random but highly correlated. In a more stable market, the pattern successes and failures might in time have led to efficient exchange of information, the formation of new norms and institutional learning across the market. In the event, systemic failure rewarded opportunistic behaviour on a company by company basis. *Sauve qui peut!* This was cumulative learning of a kind, but dysfunctional for the future of the market.

The Rakyat

Institutional learning is always uneven. Some norms, institutions and formal laws apply to all, but many are specific to social classes or groups. For example, traffic laws are fairly uniform, though observance and enforcement varies with the type and density of traffic. By contrast, bankruptcy laws apply only to large companies and banking laws apply only to those large companies that are banks. Individuals and groups also have very different relations with the state. The vast majority of Indonesians living in hamlets⁵ and kampungs have contact with only the bottom layer of the state bureaucracy, civil servants often living in circumstances not much better than themselves. By contrast, middle-class Indonesians, including professionals and businessmen, may come in contact with middle-level to senior bureaucrats, parliamentarians and even ministers. Insofar as institutional

⁵ 'Hamlet' is used in preference to 'village' because the current Indonesian usage of *kelurahan* is an administrative cluster of hamlets (*dukuh*). The term *desa* is also now ambiguous.

learning can occur only within relationships, there is obviously a very wide spectrum. Generalisation becomes almost impossible.

Let us begin at the grassroots. Riven though they be with personal and family conflicts, hamlets and kampungs of necessity provide their own basic network of law and order. Everyone knows everyone else's business. Information is exchanged by daily gossip. Strangers are challenged. Thieves are beaten up. Perpetrators of serious crimes, such as drivers knocking down pedestrians, may even be killed. Miscreants are often not surrendered to the Police, or beaten up beforehand, because there is little faith in state justice. Payment of a bribe by the arrested or his patron can readily secure his release. Appeals to codified law against bureaucratic injustice are similarly a desperate resort, since those who hold power have the means to obtain judgement in their favour.

Since the end of the New Order, such rough justice has proliferated, including into the public domain. In Jakarta, for example, pickpockets and thieves have been dragged off public buses to be beaten up and sometimes killed. It is kampung dwellers who travel by bus, not the car-owning middle class, and they firmly believe that bus companies and police have taken no action to protect passengers against increasingly violent criminality. Nor would it be rational for police to do so, since there is no scope for earning bribes from 'riding shotgun' on public buses, as opposed to stopping motorists with ready cash. Although owning and operating much public transport, the state has therefore allowed the lower order of society to take over its policing under informal sanction.⁶

Hamlet and kampung society in Indonesia therefore fits the case of 'order without law', which is to say order without the state. From the viewpoint of Western civil society this may look to be an anomaly, but in Indonesia it has simple historical explanation. The functional bureaucratic state was a 19th century innovation on Java and not until the Japanese occupation (1942-45) did it reach down to the hamlet level (Sato 1994). Under the New Order, the RT (*rukun tetangga*) system was refined into the lowest level control function of the state, reporting to the village head (*lurah*), the lowest level of the official administrative hierarchy. Since 1998, however, as the state has weakened, the control functions of the RT have atrophied and even the *lurah* has become more vulnerable to popular pressure, including democratic election.

The proposition can be made that the Indonesian *rakyat*, that is to say those living in hamlets and kampungs, has never seen itself as having membership of the state. The reason is very simple. The administrative apparatus of the state, known in its totality as *pemerintah*, was and is an extraction mechanism that demands resources from poor people. This may be in the form of taxes, including impositions on labour time, or in petty levies and bribes. Although the New Order brought some resources to the village as part of the package of 'development', the net flow of resources, certainly for families without connections to the apparatus, was outwards. Even village cooperatives (KUD) were a means whereby village elites could use the leverage of the state logistics agency

⁶ Something similar happened in the United States after September 11, when passengers began to take physical responsibility to protect flights against hijackers.

BULOG to secure cheap credit and monopolise the buying of rice. The floor price of rice was enjoyed not by farmers as the farmgate price but by village elites when the KUD resold to BULOG.

Nevertheless, the *rakyat* definitely see themselves as members of the nation. 'Imagined community' though it may be, in most parts of Indonesia, excluding Aceh and Irian, it is very strongly imagined and for that much is still due to Sukarno, a genuine hero of the people. The means to assert that membership organisationally, however, have been few. After Independence opportunities were found in the membership of political parties and trade unions, as also in periodic national or local elections. These rights were removed in all but a formal sense early in the New Order as means permanently to suppress the Communist Party (PKI), leaving the *rakyat* as a 'floating mass'. Only since 1998 have ordinary Indonesians again had opportunities to assert their membership of the nation.

Insofar as hamlet and kampung dwellers have engaged in institutional learning, it has therefore been for the most part as part of a culture of resistance to the state, which is seen as alien, hostile and insatiably greedy. As far back as colonial times, people have sought to avoid state intervention, even in maintaining order, and to resist the state's demands for taxes and other exactions, while conceding that officials at the bottom of the state hierarchy may expect something in unofficial bribes. The New Order brought some opportunities to benefit from the state in better roads, schools and clinics, but the price exacted in terms of ritual behaviour, taxation, appropriation of land, and suppression of informal sector activities was high indeed. While the socioeconomic indicators pointed to rising material standards of living, the common perception was of struggle and deprivation. Since 1998, democracy has been seen as a means to redress the balance, whether through elections and representation or through direct action, but the mechanisms are very imperfect and ordinary Indonesians still find themselves at the bottom of the organisational hierarchy.

The Elite

If the *rakyat* has sought to maintain distance from the state, the elite has always been inseparable from it. On Java the indigenous aristocracy was co-opted by the VOC as the indispensable district administration. As the superior, European Binnenlands Bestuur gradually extended downwards to the residency/province and district, the parallel but subsidiary indigenous administration was formalised under the high-sounding title of Pangreh Praja (Rulers of the Realm) (Sutherland 1979). In the Outer Islands, elites retained more power under the system of indirect rule. After the mid-19th century, and especially after 1901 under the Ethical Policy, there emerged what Van Niel (1984: 241) described as a functional elite of a secondary or even tertiary educated technical and professional officials. Although Dutch policy closed the senior levels of the Binnenlands Bestuur to all but a handful of aristocrats, secondary education became a pathway to the lower and middle levels of the state apparatus. Given the few channels for upward mobility within indigenous society, such officials positions conferred high status and were means to a middle class lifestyle.

After Independence the opportunities for careers in the state apparatus expanded enormously, along with secondary and tertiary education. During the Japanese occupation, the hierarchies of the Binnenlands Bestuur and Pangreh Praja had been merged into a unified bureaucracy. All racial barriers were now removed, not only in the Department of the Interior but also in the other functional departments which proliferated at the centre and extended their own hierarchies down to the provincial and local levels. The territorial hierarchies of the Army and Police also became channels for upward social mobility, and to a lesser extent the Navy and Air Force. To these may be added the Law and Academia, professions which mainly came within the public sector. The prevailing ideologies of nationalism and socialism also led to most of the large-scale sector coming under state control, initially by establishment of state enterprises, then in 1958 by nationalisation of Dutch firms and in the mid-1960s by suppression of all other foreign investment. Foreign investment was restored under the New Order but key state enterprises remained in banking, transport, mining, plantations and heavy industry. Though often commercially unprofitable, they supported a large number of civil servants with a great degree of autonomy from administrative control.

What distinguishes the bureaucratic elite from the *rakyat* is not just public sector employment but also a privatised mode of consumption (Dick 1985). The bureaucratic elite is quintessentially middle class. First, bureaucrats enjoy permanent salaried employment with pensions and other entitlements. Secondly, with the exception of the very lowest ranks, they live not in crowded kampungs but in detached, street-side bungalows. Most public housing outlays since Independence have been complexes of such housing for civil servants, for whom they are part of the entitlement and may be occupied even after retirement until death of both spouses. Thirdly, if not by private ownership then as a perquisite, civil servants gain access to a family motor vehicle with all the accompanying benefits of personal mobility. Fourthly, whether by salary, non-salary or unofficial earnings, civil servants are able to afford both servants and a large inventory of modern consumer durables which, like the vehicle, are for the sole use of the household. Finally, they are sufficiently well off and well connected to ensure that their children enjoy access to tertiary education, thereby maintaining or improving their childrens' status and income.

The significance of this privatised mode of consumption becomes apparent from the contrast with urban kampung dwellers (Dick 1990). For the latter, jobs are seldom permanent full-time and often highly vulnerable to economic fluctuations. They do not own motor vehicles, except for motorcycles and bicycles, and otherwise remain dependent upon public transport. In most kampungs the laneways are too narrow even to admit automobiles. Their incomes do not permit a large accumulation of consumer durables, which in any case would attract comment in the kampung. Finally, although their children may complete secondary education, they can seldom afford the high entrance costs to good universities and tertiary degrees, so that they remain at a disadvantage in the market economy. Secondary education used to be a ticket to the state bureaucracy; it may now lead to nothing better than employment as a driver.

Thus the elite has a very different relationship to the state than the *rakyat*. As a publicly employed, salaried class, the elite holds full membership of the state. In terms of consumption, the tertiary-educated, bungalow-dwelling, automobile-owning, middle-class elite is part of urban society governed by the state. For example, bungalow housing that is well furnished with consumer durables, fronting onto the street, and with only immediate neighbours on either side is highly vulnerable to theft. Households may bear some cost of security through fences, bars and locks, as well as servants and a night watchman, but they also impose demands upon the police force as an arm of the state apparatus. As drivers, householders are likewise dependent upon the police for smooth traffic flow and protection against car-jacking and theft, while also being the prey of police for minor traffic infringements. Even if legal outcomes are negotiated, the legal code at least becomes a frame of reference. Members of the state know the formal rules, as they also know the informal rules by which they may be infringed.

From an elite/*rakyat* perspective, several common propositions may be re-examined. First, 'rule of law' is ambiguous. Does it mean rule of law within the middle-class elite or rule of the rakyat by the elite's codified law? The former certainly applies. The demands for Reformasi were articulated by mainly middle-class students, apparently with strong support within the elite. The downfall of Soeharto was the product of deep splits within the elite, much of which was clearly alienated by the extent of arbitrary rule and the size of the benefits accruing to the Soeharto family and cronies. Here middle class egalitarianism and ethics came into play but of a very different kind from the radical populism that was also apparent on the streets. Indeed, it could be argued that democratic reforms have been an attempt to defuse populism before it became more radical. The aim has clearly been to restore order within the state and respect for the state, not obviously to extend the reach of policing by the state. If anything, the reach of the state has somewhat contracted, not least through the decentralisation reforms.

Secondly, what is democracy, or rather whose is democracy? At face value democracy means one vote for each adult in a contest between mass-based political parties. After May 1998 political parties were quick to establish a popular following and the June 1999 election displayed the elements of mass participation. Nevertheless, the selection of the slate of candidates that would represent each party in parliament was much influenced by central party machinery. Politics since then has been an interplay between leading personalities and party committees. Moreover, despite selection of some 'working class' candidates, parliamentarians are overwhelmingly from the educated, urban middle class in close association with the state. Thus post-election politics has become very much elite politics, with party supporters in the role of 'noises off'. What is being learned - or perhaps relearned - are therefore the rules of intra-elite politics.

CONCLUSION

'Getting institutions right' is the new orthodoxy and, of course, it must be done in a hurry. Economic development is no longer enough. The new social engineers speak the language of legal reform and institutional change. Because the new Indonesian polity seems so unresponsive, pressure is applied by multilateral agencies such as the IMF and

World Bank, as well as by leading donors such as the United States. Indonesia should 'get its act together'. Also for many Indonesians, the new party politics seem messy, obstructive and increasingly corrupt. How much easier it all was under the New Order when policy was deliberated and the state prevailed.

Kanishka Jayasuriya (2002) identifies the anti-politics of a 'post-Washington consensus' and neatly traces these ideas back to German *ordo-liberalism* of the 1930s. Under this 'economic constitutionalism', the economic institutions that underpin the market economy should be insulated from the 'assumed debilitating effects of political bargaining' (Jayasuriya 2002: 24). In effect, this is the capitalist version of 'Guided Economy'. Ownership and control are very different from the Sukarnoist version of *Socialism a la Indonesia* but the concept of the state as the supreme, benevolent, regulatory agency traces back to the same pre-republican taproot of the 'well ordered police state'.⁷ However well-intentioned, the new social engineers are the heirs of the colonial *beamtenstaat*, Sukarno's Guided Democracy/Guided Economy and the New Order military-technocrat alliance. They stand in the mainstream of the authoritarian tradition and give it new legitimacy, even as they seek to redress the excesses of the 'old corruption'.

The fundamental evil of authoritarian regimes is that they deny people voice and the opportunity to act, individually or in groups. If people are deprived of responsibility as citizens and collective institutions atrophy, then civil society is trivialised. Social status and material prosperity are redefined in respect to the state hierarchy and the whims of its rulers, who exercise immense patronage of reward and punishment. This was as true of New Order Indonesia as of the former Soviet Union. Whether by greed or necessity, people adapt to the new institutions, often very successfully. The urban middle class especially prospered in Soeharto's Indonesia and paid little heed to rumblings of popular discontent. As bureaucrats and professionals, the middle class had some say in the design of these institutions and the distribution of resources that flowed from them. The regressive incidence of taxation and heavy spending on 'middle class welfare' are testimony to this.

To deprive a nation of politics, as was done to Indonesia for most of the 20th century, is not only to disempower society but also to prevent it from achieving the double transition to a rich, democratic country. The colonial government imposed *ruste en orde*, as later the New Order even more ruthlessly imposed *stabilitas*, but both were artificial conditions. Society was denied the opportunity and responsibility to work through conflict, to make choices, to commit mistakes, to learn from the experience and to embody that knowledge in appropriate institutions. Accordingly, it was impossible to consolidate a social consensus. Indeed, policies of divide and rule had the deliberate aim of preventing this. In the colonial era, society itself was fragmented and stratified by ethnic group, legitimising cleavages that remain like wounds in Indonesian society even at the beginning of the 21st century, nowhere more so than between indigenous Indonesians and those of Chinese descent. The New Order was more subtle and

⁷ 'Police' is used here in the older meaning of administration and denotes bureaucrat rather than uniformed policeman.

opportunistic, sometimes marginalising ethnic groups, sometimes religious groups, sometimes political parties. Overall, it set itself against any natural emergence of civil society.

Indonesia's democratic revival therefore begins from very unfavourable initial conditions. Miracles are not to be expected. By the high ideals of May 1998 or the ideal model of Western Democracy, the results are certainly disappointing. By the criterion of the common good, including economic growth and poverty alleviation, a harsh judgement is also warranted, even though external conditions since 1997 have been unfavourable. However, if democratic politics are taken as necessary to institutional learning instead of as an obstacle institutional reform, Indonesia's fledgling democracy may be assessed more positively. The country has embraced democracy at all levels and quickly determined new constitutional rules for parliament and relations between parliament, the executive and the bureaucracy. National elections have been held. Parliament has shown itself capable of choosing a consensus president, Abdurrahman Wahid, and dismissing him in tense circumstances when he proved incompetent. The military's role in the state has by general agreement been much reduced, even though a final settlement has yet to be reached. The big issues have been well debated, if not always resolved, legislation is reviewed and parliamentary accountability has been imposed. Similar processes are occurring in several hundred provincial and local legislatures throughout the country. That some of the grand issues have been resolved and the business of government has been able to proceed without much national conflict is a remarkable achievement for the early stage of democracy and encouraging signs of a successful regime change. The main failings have probably been in the executive rather than in parliament.

Of course there is still much unfinished business. The shape and structure of the new Indonesia has yet to be finalised: with or without Aceh and Irian, with or without religious tolerance, with or without a powerful military, and how highly decentralised? Nevertheless, Western critics conveniently forget the drama that accompanied the emergence of a democratic United States, Germany, France or Spain, let alone Japan or Italy where the task is still incomplete.

As Indonesia struggles to find its own way to achieving the double transition, observers should be patient and particularly heed three points. First, whose political system is the new democracy? The above analysis suggests that Reformasi is so far a matter of learning and institutionalising new rules of intra-elite politics for the urban, middle-class elite. In other words, Reformasi has been more about reconstituting the state than about reconstituting the nation. How the state relates to the nation remains uncertain. This is a matter partly of institutions and partly of ideology. Indonesia has restored mass political parties, which allow for some participation in national politics, but formal legal institutions scarcely apply. Money and connections are everything, and here the population at large is at a hopeless disadvantage. This gives rise to a dangerous gap which political dynamics may fill with ideology. In late 19th/early 20th-century Germany and Japan, there emerged ideologies of ultra-nationalism, which promised the people much and gave very little. In Indonesia in 2002 a vague nationalism fills only part of the

ideological vacuum. It may link up with a form of economic populism (*ekonomi rakyat*) as an Indonesian version of the welfare state. What stake will the *rakyat* be offered in the new democracy? The double transition is not achieved until the large majority of the population has made the transition, as well as the urban middle class.

Secondly, what will be the economic architecture of the new Indonesia? In 2002 the financial system and corporate sector has yet to be reassembled after the Asian crisis, the highly inefficient state sector has yet to be reformed, investment is sluggish, and economic growth weak. 'Economic constitutionalism' is most unlikely to succeed in an economy where the business elite is still a pariah class obliged to buy protection through the political patronage. Indonesia's business elite is even more exposed to predation than that in Thailand, the Philippines or India. The legal system is also even more corrupt than in any other of those countries. There is no quick fix. Business and politics are likely to remain highly corrupt for decades. Attainable goals, however, are to reduce the level of political risk, increase the certainty of policy parameters, and to allow ethnic Chinese business to 'buy' a stake in the political system (which they are doing anyway!). Corruption, which exists anyway, may be a reasonable bargain if it breaks the pariah status of big business.

Thirdly, authoritarian vested interests are still entrenched at the very heart of the Indonesian state: in the bureaucracy, the military and the law. These interests have shown their ruthless ability to sabotage national unity, democratic government and economic recovery. They not abandoned hope of returning to power. Thailand is an instructive case. After the constitutional coup of 1932, the military gradually took control and ruled with the cooperation of the king and bureaucracy and a compliant parliament for most of the time until 1973. The following twenty years saw a series of civilian governments interspersed with military coups and attempted coups. The military remain influential but now accept, however begrudgingly, the framework of a democratic system. This outcome was achieved only after bitter conflict and much loss of blood, but also by senior military officers being allowed to retire into civilian roles in the state, including parliament, and in several cases becoming prime minister. Political stability may require co-option, not exclusion.

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