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that mining may play in the overall development of Bolivia.

In retrospect, it is obvious that one-sided mining development has gravely distorted the regional economic structure, almost never promoting industrialisation. On the contrary, mining grew in complete isolation from other branches of the economy, orientated towards foreign markets.

Only two advantages of mining development can be quoted here:

- Mining earned sufficient foreign currency to finance imports of investment goods and raw materials needed by other industries;
- After its nationalisation, the mining industry was able to make a limited contribution to Bolivian economic diversification.

Balance of Eight Years of Economic Planning in Indonesia

By Maruli H. Panggabean, Cologne

It was on July 5, 1959, that President Sukarno promulgated his by now much abused decree concerning a planned economy. With its publication democracy in Indonesia practically came to an end at least for the time being, for this decree excluded the people from participation in political decisions and social control in the affairs of state. In the beginning of this period there was admittedly still much talk about social control, but this was nothing but propaganda, for the data required for the exercise of a suitable control were unavailable. Today, almost all politicians in Indonesia admit that they had no idea how bad conditions were in the Indonesian economy a few years ago.

President Sukarno was quite right in declaring in 1959 that the number of political parties in Indonesia was excessive. It had been impossible to form a cabinet without a coalition, which meant that all cabinets were constantly threatened by crises. But when he incorporated in his National Council the so-called "functional groups", i.e. a heterogeneous conglomeration of interests, he did not really change the situation. Admittedly, no cabinet crisis occurred in the eight years of his leadership, but constant cabinet reshuffles and the progressive expansion of the Government (120 ministers) could also not ensure continuity in the execution of political decisions. With the promulgation in 1959 of the decree introducing a planned democracy and a planned economy all concerted political action came to an end, and as the political will disintegrated, the appearance of a mystical leader in the person of President Sukarno was bound to be most opportune. Furthermore, to round off his policy of "divide and rule" he also took into his Government the Indonesian Communist Party to act the part of the Trojan horse of democracy.

In this analysis it is intended to look at the eight years of economic planning in the light of this political development. The main question that arises is how in the face of such manifold interests one has tried to give effect to economic decisions in a continuous and coordinated manner.

State and Private Enterprises

In the economic order of Indonesia economic decisions may be taken by the state as well as by private or cooperative undertakings. Foreign enterprises, which before the second world war had dominated most spheres of economic activities were either nationalised or confiscated in 1957/58.

State enterprises operate mainly in the following sectors: foreign trade, heavy industry, mining, plantations, public utilities, banking, the sugar industry and transport.

Before the second world war private entrepreneurs and merchants were still rare, being in general unable to compete against the bigger and more efficiently run foreign enterprises. Possibilities for expansion and rationalisation were limited by lack of means. It was impossible to finance expansion through savings or hidden reserves, for profits earned by Indonesian firms were small owing to strong foreign competition. Being in general commercial firms or limited partnerships, they were legally barred from access to the capital market, which at that time was in any event still in its infancy.

It was only in the years of 1950 to 1955 that the Indonesian Government began taking measures for the furtherance of Indonesian enterprises. Within the framework of the "BENTENG" (Fortress) policy, which was carried out by the then Minister for Economic Affairs, Mr Sumitro Djojohadikusumo, Indonesian private enterprises were granted facilities in the shape of credits on favourable terms, import licences and political protection against foreign competition. Thanks to these measures Indonesian enterprises increased rapidly in number. There were then some 4000 to 5000. Many of them were neither bona fide nor really enterprises in the true sense of the word. They were entitled to sell the import licences which they had obtained from the Government on fulfilling certain conditions (such as the transfer to the Central Bank of advance payments). For this reason many of these imports licences got into the hands of already well-established Indonesian and foreign private enter-

prises, which also had better contacts with foreign banks for the financing of imports. The main occupation of the business which was not bona fide consisted in nothing other than trading in licences. When in the following year the Government took strict measures against these abuses most of the private enterprises disappeared rapidly from the export- and import trade. There remained, however, those bona fide private enterprises that formed the nucleus of Indonesian commerce. They were at first trading companies, specialising step by step in such industrial activities as textiles, clothing, food, cigarettes and tools.

During the period of economic planning in Indonesia (from 1959 to March 1966) Indonesian private enterprise was no great success. As part of its policy of indoctrination government propaganda attacked the allegedly prevalent liberalism, and in its place there was introduced a system of "libertinage-economy", under which import-licences and foreign exchange were granted, not by criteria of efficiency, productivity or social benefit, but to those with influence or enjoying the protection of those with influence. Any genuine firm had no alternative but to attempt to obtain through a minister an introduction to the competent quarters if it wanted an import licence. Other undertakings, unable to accustom themselves to such extremely unusual business practices, soon began complaining about lack of raw- and other materials. Because of this lack one clothing firm, which had previously enjoyed a high reputation in the Indonesian community, had to reduce its output before long to 10 to 20% of its capacity. This method of planning the economy had failed to bring about an effective coordination of economic decisions and had dealt the death blow to Indonesian private enterprise.

Problems of Coordination at the Centre

The import- and export business is today practically in the hands of state enterprises, private participation being very small. On the other hand, the present cabinet has declared its intention to let private enterprise have a larger share in the country's foreign trade. It is in the light of this declared intention that the government regulations of May 20, 1966, concerning export premiums and introducing simpler rules for exports must be explained. However, there is still a long way to go before the aim of transferring foreign trade to private firms can be achieved, for nothing has as yet been done to alter the functions hitherto exercised by state enterprises in the field of foreign trade. The supporters of a planned economy based their attitude on the conviction that state enterprises were the best source of capital formation; today, however, it has become evident that they are nothing but a source of fiscal revenue required to cover ordinary state expenditure. However, profits of enterprises run by the state are small, and some of them operating abroad for prestige purposes require on the contrary appreciable foreign exchange support from the state.

If the budgeted contribution of state enterprises to the national development budget of 1961 showed a

total of 4,000 milliard rupiah (after deduction of corporation tax) their actual contribution (before tax liabilities) amounted to 1,000 milliard rupiah. State enterprises often have to struggle with problems which necessarily arise from a centralised system of coordination. A general council for coordination is placed above all state enterprises of each branch of industry. The council, while still being part of the economy, is in turn responsible to the competent ministry. It is the council that takes such decisions as are important to the respective branch of industry. This formalised and strict demarcation of powers is not conducive to a solution of the problems which result from the overlapping of responsibilities. Policy decisions concerning output, finance, depreciation or stocks are in reality closely interlinked, and it frequently happens that it is found impossible to determine exactly who is competent to take the required decision. Adjustment to an unexpected change in market data suffers because factories, due to the division of labour as fixed in advance, need not concern themselves with sales policies. Factories founded by the Indonesian Development Bank (Bank Pembangunan Indonesia) are for instance not allowed to sell their end-products direct as they are obliged to deliver them to state sales organisations. This division of labour, decided on in advance, as well as the coordination of economic decisions at the centre impairs the economy's ability to adjust itself to unexpected changes in conditions and thus efficiently to execute the over-all plan.

The present cabinet, by its decision of May 24, 1966, to constitute an export team, has brought about a decentralisation as far as decision-making in the field of foreign trade is concerned. It is however a regional decentralisation, affecting in the main decisions about customs procedure, warehousing- and shipping documents. They are of great importance in view of the present food shortage. It may be assumed that the present cabinet will take similar decisions concerning the operational policy of state factories so that adjustment in procedure can be effected smoothly.

The Eight-Year Plan

Indonesia's eight-year plan is "holistic planning", which attempts to mould the mentality and the relationships between individuals into a certain shape. The initiators of the eight-year plan have clearly stressed that the plan puts the "spiritual aspect" of the planning in the forefront. The pattern according to which the mentality and the relations between individual Indonesians were to be formed was nationalism. As the authors of the plan have, however, never attempted to define how nationalism was to manifest itself in practice, they left the interpretation of the concept to the President. He, for his part, was however unable to interpret the meaning of nationalism consistently with the result that the Indonesian Government was at the time constantly being faced by mutually exclusive decisions and questions of priority on which it could not agree. When questions

of priority came up in Parliament the President simply passed over the problem by saying that the Indonesian revolution was a complex of many forces. The basic thought underlying his concept was that everything had priority so that, naturally, the very concept of "priority" lost its meaning.

The eight-year plan provided in its A-programme for an increase in the output of food and clothing so that by the end of 1967 Indonesia would no longer have to import food. In addition, the A-programme envisaged production increases in other sectors of the economy. The same programme called for developments in the cultural field, education, research, etc. Total expenditure on increased food and clothing output for the eight-years' period was estimated at 54 milliard rupiah. Second place occupied industrial projects involving a total expenditure of 52 milliard rupiah. In all, the A-programme budgeted for an expenditure of 240 milliard rupiah, i.e. 30 milliard rupiah annually.

The B-programme was concerned with finance. In it it was amongst other things shown how the means of finance were to be raised in the form of foreign exchange. The plan envisaged foreign exchange revenue totalling for the eight-years' period \$ 2.5 milliard—revenue to accrue for the most part (\$ 1.9 milliard) from the export of oil.¹ Although the concept of "production sharing" had already been raised in public debate, there was no mention of it in the B-programme of the eight-year plan.

Not a single project of the eight-year plan has been carried out, and this fiasco can be explained only by the fact that no consistent decisions were taken and that the problem of priorities was not resolved but shelved with glib explanations.

"Production sharing"

The concept of "production sharing" comprises a plan aiming at participation in the production by foreign capitalists who have provided state enterprises with the means of financing their development projects.² It therefore entails agreement between the Indonesian Government and a foreign lender of capital. In reality there is no reason why this concept of "production sharing" should not apply to Indonesian private enterprises, but this possibility has to date not been discussed.

In as far as the rules concerning production sharing apply to products which are bought and sold in the world market, problems arise from price fluctuations. The state enterprises produce farm products for which a world market exists, such as copra, tobacco, rubber, tea, spices, etc. As the prices for these products are steadily falling in the world markets, agreement on production sharing must be interpreted as an attempt to stabilise the prices for primary commodities as between two parties. In the event of a further fall after

¹ Indonesia: Perspective and proposals for U. S. Economic Aid, Economic Survey Team to Indonesia, Yale University, Southeast.
² Asia Studies, New Haven 1963, Warta Ekonomi, September 8, 1962, page 455.

the contract about production sharing has been concluded the Indonesian Government benefits. On the other hand, it incurs a loss should the prices rise after conclusion of the agreement. But in view of present world production any rise in the prices for primary commodities is unlikely. It follows that the concept of production-sharing works in principle to the advantage of the Indonesian Government. The Indonesian Government (that is the former cabinet) has already concluded such agreement in 1965 with some Dutch undertakings (Fokker Works). But through the measures of the present cabinet the previous Government's plans to start an aviation industry in Indonesia have been vitiated, the Government having decided not to proceed with the project for reasons of economy.

However simple the attempt at stabilising the prices for primary commodities may appear, it is in reality highly complicated to work out the rules for production sharing. The creditor receives at certain times primary commodities from Indonesia, which he must sell if he is to recoup his capital. It is he, therefore, who must either take the agricultural products to the market himself or he must conclude an agreement with a company which markets the produce on his behalf or uses it itself. In either case does the sharing of profits mean for the creditor a complicated tie-up of diverse agreements. It follows from this that agreement on profit sharing generally presupposes three parties willing to participate in such a contract. Apart from this, production sharing also presupposes on the part of the creditor great willingness to assist the Indonesian Government in the covering of its capital needs.

The Fiasco of the Eight-Year Plan

The fiasco of the eight-year plan can be explained by the fact that the plan has been used exclusively for propaganda purposes. There was a lack of guide-lines and principles to ensure the effective execution of the plan. In view of the political situation in Indonesia since 1959 the plan could not be carried out because of the instability of the cabinet irrespective of the fact that no cabinet crisis was possible in the prevailing guided democracy. The size of the cabinet and the non-existent social control produced problems which President Sukarno was no longer able to control.

The present cabinet endeavours to build into the executive systems of control in order promptly to discover any failures. The cabinet has so far not worked out any detailed economic plan. A provisional programme comprises the following steps:

- Until the end of 1966: Stop-gap policy: The Suharto Government attempts to overcome the lack of food. For this purpose it has already received emergency credits: \$ 30 million from Japan; \$ 50 million from the Netherlands; \$ 13,3 million from India; \$ 50 million from the Federal Republic of Germany.
- Until the end of 1968: a policy of consolidation—a policy of price stabilisation, monetary equilibrium,

fiscal equilibrium and stabilisation of the balance of payments; these are amongst other subjects points to be considered during the second phase of the programme.

□ During the final phase the Government is to raise problems in connexion with the re-arrangement of the national economy. This policy of reform can be

regarded as the starting point for an organic construction of Indonesia.

This programme bears witness to the present Government's tendency towards extreme caution. It shows moreover what damage the previous Government has done to Indonesia's national economy.

World Business Trends

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Slowed Down Growth of the US Economy in 1967

During the last months there were increasing indications in the United States of a slowing down economic expansion for 1967. Although in the fourth quarter the GNP was rising somewhat faster once more by \$ 13,800 million to \$ 759,100 million (annual rate adjusted for seasonal variation), this unexpectedly good result was derived mainly from the considerably increased accumulation of stocks. Due to stagnations in sales the producing economy involuntarily had to stock finished products to a larger extent than hitherto. Above all the demand for goods and services of private enterprises and households is expanding more slowly. Weak points are in particular private expenditures for housing which have been declining for quite some time and the recently dragging sales of motor vehicles. Also the unfavourable development of foreign net demand is proving to restrain economic growth. As compared with the previous year imports increased considerably stronger than exports.

In 1967 the speed of economic growth in the United States should even more than hitherto depend on the development of military expenditure, all the more since the accumulation of stocks will not continue. After President Johnson on account of the Vietnam War has demanded a subsequent increase of defence expenditure by \$ 12,300 million to \$ 67,700 million during the current fiscal year, this expenditure should grow at least at the present speed until mid-1967.

Only thereafter it will hardly increase further provided the Vietnam War does not escalate unexpectedly.

In 1966 the private sector's investment activities were among the major expansionary forces of the boom. Now, however, there are first indications of a damped propensity to invest. In the first half of 1967, according to most recent surveys private enterprises will spend on new plant and equipment only 3% more (adjusted for seasonal variation) than in the second half of 1966, while during the whole of 1966 almost 17% more has been spent than in 1965. Apart from the cancellation of tax deductions for investments the propensity to invest is negatively influenced by the already reduced utilisation of capacities and the limitation of profits, that have led to a less optimistic assessment of future economic developments.

During the last months the expansion of private consumption has lost speed. Since September retail trade turnovers (adjusted for seasonal variation) have been declining and sales of motor vehicles have been developing sluggishly. Also during the next months the increase of private consumption should be damped because "primary demand" and with that incomes increase more slowly than up to now. Although standard wages will continue rising vigorously, income increases of private households will be more limited than hitherto due to reduced working hours and a lower growth of the number

of employed persons. The decline in private house-building that has been continuing since April will go on still for the time being if the Administration should not increase its financial aid.

The minor slackening in the upward trend of wholesale prices during the last months is based above all on a fall in prices of foodstuffs and industrial raw materials. On the other hand, the wholesale prices of investment goods and durable consumer goods, which are more important to business activities, have continued increasing vigorously. Although here, too, the acceleration of the price increase that started in spring 1966 seems not to have continued. In November, 1966, living costs were 3.6% above the previous year's level. Also in the first half of 1967 the upward trend of prices will continue comparatively strongly. The hourly wages in industry are increasing more strongly than productivity, so that the labour costs per production unit are rising noticeably. However, demand should remain sufficiently high to permit entrepreneurs to pass cost increases on to buyers.

The general trend in foreign trade continues to be marked by a more pronounced growth of imports as compared with exports. In 1966 imports were 20% higher than in the preceding year, while exports increased by 10% only. However, the declining export surpluses together with the growing foreign exchange expenditure for the war in Vietnam render the equalisation of the balance of payments more difficult. In the third