The International Monetary Fund and Social Safety Net Construction

Failure in Indonesia 1997-1998

Eric W. Young

Thesis submitted to the Faculty of the

Virginia Polytechnic Institute and State University

in fulfillment of the requirements for the degree of Master of Arts in Political Science

Dr. Edward Weisband, Chair

Dr. Karen Hult

Dr. Jeff Corntassel

November 14, 2001

Blacksburg, Virginia

Keywords: International Monetary Fund, Indonesia, Social Safety Net

The International Monetary Fund and Social Safety Net Construction

Failure in Indonesia
1997-1998

Eric W. Young

(ABSTRACT)

Throughout the International Monetary Fund's history it has been criticized for failing to address the negative impact its adjustment programs have on the poor in borrowing countries. This study examines the Fund's declared intention and actions regarding the construction of a social safety net in Indonesia from October 1997 until May 1998. A historical narrative using Constructivism as a theoretical framework is used to explain the relationship between the IMF, Suharto and the effect their interaction had on social safety net construction. This historical perspective reveals that rather than working towards building a social safety net, the Fund's main priority was the decentralization of Indonesian political and economic structures.

Table of Contents

Chapter 1. Introduction

Background and Approach for Studying Social Safety Net Construction by the IMF

The term social safety net (SSN), though rarely defined, is common in the world of International Relations. In this study, the term social safety net will refer to the policies agreed upon by the International Monetary Fund (henceforth the IMF or the Fund) and a borrowing country, designed to protect those who are unable to protect themselves from the economic shocks of a financial crisis. The goal of this study is to address the ability of the IMF to construct a social safety net for the poor, while addressing the economic difficulties of a country borrowing money from the Fund. When the IMF is trying to restore macroeconomic stability to a country, a tension emerges between stabilization and social protection, or social safety net construction.[1] The IMF has often been criticized by elites in the field of international politics and economics for its failure to address the adverse impact adjustment programs[2] have on a borrowing country. The Fund is seen as choosing stabilization at the expense of social protection. Among the most vehement critics of the Fund are Harvard economist Jeffrey Sachs and Malaysian Prime Minister Dr. Mahathir Mohamad. This study is concerned with their charge that the actions of the IMF perpetuate a cycle of poverty among borrowing countries; in effect, the social costs of the IMF's adjustment programs are so great, that the Fund does more harm than good. The Fund has been accused of forcing austerity measures as part of a loan package that harm the poor in areas such as education, employment, health and nutrition, and cause an increase in a borrowing countries

[1] "Review of Social Issues and Policies in IMF-Supported Program." International Monetary Fund, Prepared by the Fiscal Affairs and Policy Development and Review Departments. 27 August 1999. Pg. 10 [Internet, WWW] ADDRESS: http://www.imf.org/external/np/esafhipc/1999/social.pdf
[Accessed: 10 March 2000]

[2] An adjustment program is a set of measures agreed upon by the IMF and a country borrowing money from the Fund. The policies or measures in an adjustment program are designed to readjust the balance-of-payments

overall poverty rate. The effects of an IMF loan package are felt by the poor in a borrowing country, because they are the segment of society least capable of insulating themselves from economic hardships.[3]

The research question I am addressing is whether or not the IMF can provide adequate assistance to the poor when they lend money to a borrowing country. The IMF adheres to classical liberal economic orthodoxy. Their approach to dealing with borrowing countries involves efforts to increase exports, minimize government impediments to trade, and reduce government expenditures. In essence, the IMF's guiding philosophy attempts to eliminate a government's balance-of-payment difficulties, by letting market forces right the economy. According to J.F. Hornbeck's Congressional Research report "The International Monetary Fund: An Overview of its Mission and Operation," the Fund tries to solve the problems of increased economic liberalization:

> Many developing countries continued to use pegged exchange rates, however, so the overall mission of supporting international financial stability has evolved to its current state of dealing with the developing world's balance of payments problems, which combined with their often weak financial systems, relatively small economies and the increasingly *liberalized nature of capital markets has left them vulnerable to occasional, extreme outflows of capital* (emphasis added).[4]

During a financial crisis, such as the one Indonesia experienced in 1997-98, the poor were more likely to feel the effects of the crisis and subsequent attempts at recovery through pro market oriented reforms even more acutely than those with the means to protect themselves through

---

difficulties a borrowing country is experiencing. The adjustment program is designed to lay the foundation for a full recovery, and for the IMF to be repaid the money it has lent the country.

[3] Levinsohn, James, Steven Berry, and Jed Friedman. 22 April 1999. Pg. 20 "Impacts of the Indonesian Economic Crisis: Household Evidence." [Internet, WWW] ADDRESS: http://www.econ.lsa.umich.edu/~jamesl/indo.pdf [Accessed: 15 December 2000]

savings, or access to a countries powerful elite, such as the Indonesian President Suharto, his family and his cronies. The IMF admits that employment frequently suffers from efforts at trade liberalization. A quote taken from the IMF's pamphlet on the social characteristics of its policies with borrowing countries states, "Although the removal of distortions should free the potential for output and employment in the export sector, the reallocation of resources induced by relative price changes takes time and is often accompanied by employment losses in previously protected sectors."[5]

This study will address whether or not protecting the poor from the effects of the financial crisis was a priority for the IMF in 1997 and 1998. The standard by which the Fund's success will be judged will be taken from the 15 January 1998 Memorandum of Economic and Financial Policies of the government of Indonesia. The Memorandum says: "Indonesia has made significant progress in alleviating poverty over the past 30 years. Yet large numbers of poor still remain, and it is imperative that the adjustment program does not result in a worsening of their economic and social conditions."[6] The IMF's effectiveness in preventing it's adjustment programs from hurting the economic and social conditions of the poor in Indonesia will be judged by examining the relationship between the principal actors in the situation, President Suharto and the IMF.

---

[4] J.F. Hornbeck, 6 June 2000, "The International Monetary Fund: An Overview of its Missions and Operations." Congressional Research Service. Washington D.C. The Library of Congress.
[5] "Social Dimensions of the IMF's Policy Dialogue." International Monetary Fund. Pg. 4 [Internet, WWW]. ADDRESS: http://www.imf.org/external/pubs/ft/pam/pam47/pam4703.htm [Accessed: 16 December 1998].
[6] "Indonesia-Memorandum of Economic and Financial Policies." 15 January 1998. Pg. 9 [Internet, WWW]. ADDRESS: http://www.imf.org/external/np/loi/011598.htm [Accessed: 28 February 2000].

The IMF's mandate, Suharto's ability to tap into the Javanese conception of power to hold onto the presidency despite numerous difficulties during his reign, and the nature of Indonesia's financial crisis, are all critical factors in determining whether or not the IMF took appropriate measures to construct a social safety net to help the poor avoid the hardship of the financial crisis of 1997/98. A historical narrative, using constructivism as the theoretical framework, will be used to examine these factors in determining whether or not social safety net construction was a critical priority for the IMF in Indonesia.

A brief clarification is needed to explain my intended goal and how it is more than a replication of work done by others criticizing the Fund for not protecting the poor from the effects of a financial crisis. IMF conditionality has had severe adverse effects on the poor of the developing countries that have borrowed money from the IMF. The IMF, in its own literature, has acknowledged that the result of its conditionality measures can be harmful to the poor, saying, "Experience suggests that failure to adjust to serious macroeconomic imbalances has high social costs in various forms, including through implicit loss in agricultural income, loss from rising inflation, and cuts in social expenditures."[7] In addition, attempts have been made to address social concerns through programs like the Heavily Indebted Poor Country (HIPC) debt relief program and the Poverty Reduction and Growth Facility (PRGF), which targets structural adjustments intended to reduce poverty. While these changes have been made, and the HIPC and PRGF have been created, social safety net construction is a different issue. SSN construction must take place as soon as the first Letter of Intent is signed between a borrowing country and the IMF, in the first several months of a crisis. This begs the question of whether

[7] "Social Dimensions of the IMF's Policy Dialogue." International Monetary Fund. Pg. 1 [Internet, WWW]. ADDRESS:http://www.imf.org/external/pubs/ft/pam/pam47/pam4703.htm [Accessed: 16 December 1998].

the IMF has really taken on the construction of the social safety net as a real priority, or is the rhetoric regarding the IMF's work on social issues the only thing that has changed? Is the change in their public stance reflected in their priorities. The first step to answering this question is to examine the Fund's actions in the early months of the Indonesian financial crisis of October 1997 to May 1998.

Significance of the Study

As part of the Bretton Woods agreement of 1944, the International Monetary Fund and the World Bank were set up as the twin pillars of the international monetary system. While the IMF has stayed in the center of the international monetary system, it has been forced to change a great deal since the original agreement. The elimination of the gold standard by Richard Nixon in 1971 marked the beginning of a new economic world order. This new order introduced floating exchange rates and brought about the end of the United States as the undisputed leader in international monetary affairs. This profound change in the international system forced the IMF to change, primarily in its lending practices. In the 1950's and 1960's the IMF dealt mainly with industrial countries, and its advice focused mainly on macroeconomic policies. However, from the 1970's to the present, greater emphasis has been placed on lending to developing countries and managing the financial crises that have taken place. Such crises have included the recession that hit many countries, industrial and developing alike, in the early 1980's, the Mexican peso crisis of 1994, and the region-wide East Asian financial crisis of 1997 and 1998. The IMF played an integral part in settling the confusion that accompanied all of these situations through its role as the lender of last resort.

My research question concerning the IMF and its success in addressing the goal of constructing effective social safety nets is significant now because in East Asia in 1997 and 1998, the IMF faced its biggest test. During the East Asian financial crisis, the IMF needed to prevent the crisis from spreading into a region-wide depression, get the economies of the "four Asian tigers" back on the road to recovery, and prevent the problems the region faced from turning into a global crisis. The Fund dealt with the economies of Thailand, Indonesia, and South Korea, all of which are based on economic principles that advocated a pro-market economy, accompanied by a great deal of government intervention, anathema to the Fund's pro-market philosophy. In addition to these difficulties, the IMF stated that social concerns were going to be addressed in a meaningful and effective way.

Contrary to the IMF's public statements, and despite attempts to address social issues, sponsoring the construction of a social safety net was not a primary priority for the IMF in its dealings with Indonesia in 1997 and 1998. Several problems such as a drought, forest fires, and a political crisis hindered the Fund's efforts, but the primary reason for the Fund's neglect concerning social safety net construction is the focus of its attention on its political priorities, the decentralization of Indonesia's political and economic structures. Social issues such as poverty alleviation and access to food by the poor suffered from the neglect of the crisis' principal actors, the IMF and Suharto.

When the IMF began negotiating with Indonesia in 1997, decentralization was their primary objective. The Fund's agenda of decentralization was focused on the political structure of Indonesia. Suharto and his New Order ruled Indonesia with ever-increasing centralized control for 32 years. As will be explained in chapter 4, Suharto's authoritarian regime could rightfully take credit for much of Indonesia's economic growth in the past thirty years. Unfortunately for Indonesia there was a darker side to the economic growth of Suharto's New Order, known as crony capitalism. The Suharto regime is described in the World Bank's annual report, issued on 30 May 1997. Under governance issues, the report points to conditions that "favor the well-connected over the efficient…inflate costs…engender cynicism and perceptions of unfairness…[and] make it difficult to do legitimate business."[8] Knowing this, the IMF pressed for political reform to ensure the system in Indonesia would eventually allow market forces to right the economy. The Fund's decision to break up the monopoly of Bulog, the Indonesian food supply agency demonstrated the Fund's primary priority as decentralization. Early in the crisis, the Fund lacked the political power to dismantle the clove and car monopolies run by Suharto's son, Tommy.[9] Therefore, the Fund went after Bulog, a monopoly not run by a member of the first family or one of Suharto's cronies. By dismantling Bulog, the Fund demonstrated that food distribution to the poor was of secondary importance when compared to the decentralization of Indonesia's political and economic structures.

Research Design

This study will focus on the actions of the IMF and their attempts to sponsor the construction of a social safety net in Indonesia from October 1997 until May 1998. The historical narrative is used to outline the relationship between the principal actors, the IMF and Suharto, and the effect that relationship had on social safety net construction in Indonesia. The second chapter will explain how constructivism will be used as the theoretical framework for examining Fund

---

[8] Emmerson, Donald K. Ed. 1999. Pg. 326 "Indonesia Beyond Suharto." New York: M.E. Sharpe.
[9] Emmerson, Donald K. 1999. Pg. 327.

actions. Chapter three addresses how the mandate of the IMF directs the Fund's approach to dealing with social issues, and the change in policy that began in the late 1980's that forced the Fund to address social issues. The fourth chapter examines the near absolute control President Suharto held over Indonesia for 30 years, and the implications that control had for the IMF's attempts to construct a social safety net during the crisis. Chapter 5 examines the effect the IMF's approach to social issues and Suharto's absolute control over Indonesia had on the IMF's attempts to construct a social safety net in 1997 and 1998.

Indonesia was selected as the crucial case study for several reasons. Indonesia is the fourth most populous country in the world with over 200,000,000 citizens. Also as one of the Asian Tigers, it has a prominent role in East Asia as a symbol of the possibility of the successful development of capitalism while simultaneously maintaining the traditional Asian value of the community.

The currency crisis Indonesia experienced beginning in 1997 went beyond economic and financial issues. The financial crisis revealed to the world (the problems were already known to those who followed Indonesia closely) profound problems in the legal, political, and civil sectors of Indonesian society. Making an adequate recovery will require the IMF to move beyond macroeconomic policy and work in concert with the World Bank, NGOs, the Indonesian government, and many other concerned parties to create an adequate social safety net.

A method I considered for examining the IMF's actions in Indonesia in 1997 and 1998 was the use of an interrupted time-series analysis to monitor four social indicators -- education, employment, health and nutrition, and poverty -- to measure the effects of the crisis. These four indicators would have served as the indicators of a comprehensive safety net. The four variables were chosen for several reasons. Taken together, their improvement, or their deterioration could serve as an indicator for the construction of a social safety net. Problems in these areas that go unattended would mean grave losses that could turn the effects of a temporary financial crisis into a permanent loss of human capital. The inclusion of other indicators would have been redundant. The interrupted time-series analysis was designed to trace the trends of each of the four variables from 1990 until 1999. By beginning in 1990, the analysis would have tracked the trends of the four social indicators. The interruption in this study was to be the IMF's involvement in Indonesia beginning in late 1997 and early 1998.

I rejected tracking the social indicators from 1990 to the present when it became clear that only predictive statistics for the four indicators of education, employment, health and nutrition, and poverty, were available to measure the impact of the crisis. The World Bank, IMF, International Labor Organization, and the World Health Organization have only predictive statistics available. Unfortunately there is nothing available that could be used to measure the effects of the crisis on Indonesia's poor. Within the next three to five years there will be enough reliable data, including those from the World Bank, the IMF, the International Labor Organization, and the World Health Organization and other independent sources, on the social impact of the 1997-1998 financial crisis to evaluate, through an examination of the direction of the social indicators and the resultant social patterns, whether or not the IMF protected the poor from the effects of the crisis by constructing a social safety net.

Likely Limitations of the Research

Two significant limitations to this research design should be addressed. The first is Indonesia as the single case. It has been explained why Indonesia was the only case chosen, and this is an appropriate approach to my stated research goals. The generalizability of any conclusions made will be limited because they may not translate exactly to IMF activity in another country. That limitation is outweighed by the specificity of the case study and how the study fits into stated long-term research goals, the examination of the IMF and its success in social safety net construction.

The second limitation is the drought induced by El Nino and the effect the drought had on health and nutrition, and food prices. The drought of 1997 and 1998 took place before the financial crisis but close enough to speed Indonesia's crash. The drought delayed the rainy season long enough for settlers, farmers, and agribusiness, to clear land using slash and burn tactics. In 1997, a total area larger than New Jersey (20,000 square kilometers) was cleared by fire. As a result of the fires a pall of smoke hung over Indonesia and seven other countries. The health of 20-50 million Indonesians was damaged by the pall of smoke or "haze" caused by the fires. There was also damage done to the growing seasons and food supply, forcing an increase in the price of food during 1997 and 1998. The effect of the drought on food prices, health, and nutrition makes it impossible to judge the precise effect the financial crisis had on health and nutrition because food prices were going to increase from the presence of natural causes.[10]

This research design did not take into account varying degrees with which the social impact would be felt in different regions, with significant differences between the impact of the crisis in urban and rural areas. In the Congressional Research Service Report for Congress, "Asian Financial Crisis and Recovery: Status and Implications for U.S. Interests,"[11] Richard Cronin, explains why the effects of the crisis were more severe in urban, rather than rural areas: "Because the value of many tropical cash crops are determined by world prices, the currency devaluations tended to raise the incomes of farmers relative to their urban counterparts."[12] The varying social impacts across geographical regions would also require a response from the IMF that targets certain parts of Indonesia. The Indonesian population of almost 180 million people is spread out over 13,000 different islands. Any research design that strives to address the social impacts of the Indonesian Financial crisis, and by extension the IMF's attempts to mitigate the adverse effects, should take into account the heterogeneous effects of the crisis, concentrating on the difference between rural and urban areas.[13]

Further Research

A World Bank report by Levinsohn, et al. explains the heterogeneous nature of the social impacts of the financial crisis. According to this report, "While the aggregate impact of the contraction on poverty is not as high as originally estimated, this does not mean that all sections of society are coping equally well. All survey sources show a very heterogeneous geographical

---

[10] This discussion of the effect of the drought on food prices and the health of Indonesians is a summary of the more complete discussion found in: Emmerson, Donald K. Ed. 1999. Pg. 318-319 "Indonesia Beyond Suharto." New York: M.E. Sharpe.

[11] Cronin, Richard. 6 April 2000. "Asian Financial Crisis and Recovery: Status and Implications for U.S. Interests" Congressional Research Service Report. Washington D.C.: The Library of Congress.

[12] Cronin, Richard. 6 April 2000. Pg. 3.

[13] Levinsohn, James, Steven Berry, and Jed Friedman. 22 April 1999. "Impacts of the Indonesian Economic Crisis: Household Evidence." Pg. 20 [Internet, WWW] ADDRESS: http://www.econ.lsa.umich.edu/~jamesl/indo.pdf [Accessed: 15 December 2000]

impact, with urban areas and Java hit harder than other parts of the country."[14] The report concludes, "When we ask if these price increases have impacted the cost-of-living of poor disproportionately hard, the answer is usually "Yes." Just how hard the poor have been hit, though, depends crucially on where the household lives, whether the household is in a rural or urban area."[15] By taking the conclusions of the World Bank report into account, a research project can be designed to evaluate the IMF's efforts to construct a social safety net to protect Indonesia's poor. The project could begin by asking the question, "Did the IMF target the most vulnerable groups in the most vulnerable areas?" This question could be answered by comparing the social indicators for the differences in the areas impacted by the financial crisis.

One other possibility is to go ahead and use the current research project as planned when the statistics become available. After a conclusion is made then other projects can be designed to further elaborate on the IMF's efforts to construct a social safety net in crisis stricken Indonesia. If the conclusion is that the IMF failed to construct an adequate social safety net then a further investigation could be made as to why the IMF failed. A possible project could investigate whether or not the IMF effectively targeted the appropriate areas, urban areas in the case of Indonesia, to protect the poor from the adverse effects of the crisis. Answering these questions would have implications for the IMF's approach to constructing social safety nets in the future.

[14] "Quarterly Update on Indonesia." World Bank. 20 March 2000. [Internet, WWW] ADDRESS: http://wbln0018.worldbank.org/eap/eap.nsf/Attachments/EAP+Quarterly+Update+-+March+2000+-+Indonesia/$File/indonesia320.pdf [Accessed, September 7, 2000]

[15] Levinsohn, et. al. 22 April 2000. Pg. 20.

Chapter 2. Using Constructivism to Study the IMF and Social Issues

This chapter will address the theoretical issues involved in IMF's adoption of the view that social issues are integral to fostering long-term growth and macroeconomic stability.[16] Constructivism will provide the framework for the analysis. There will be a brief description of the main theoretical tenets of constructivism and then an explanation of how it relates to the IMF and the construction of adequate social safety nets in a borrowing country such as Indonesia. This explanation will emphasize the issues of mutual constitution and constitutive rules. Mutual constitution is the process by which agents and structures constitute each other simultaneously in a socially constructed world, an ongoing process. Constitutive rules tell actors what to do. Constitutive rules are constructed as mutual constitution takes place between agents and structures. The Constructivist viewpoint will explain how moral issues can play an important role in the conceptualization of perceived long-term material interests. The moral issue of poverty alleviation was accepted by the IMF to be integral in sustaining long-term high quality growth.

By focusing on mutual constitution and rules, rather than the exogenous material interests so critical to neo-realists such as military and economic power, a Constructivist approach is able to analyze the change towards a greater social awareness in an international organization such as the IMF. The Fund's position on the issue of poverty alleviation has gone from neutrality to a public acknowledgement that IMF sponsored reforms cannot be successful without at least some measure of poverty relief.

Constructivism

Constructivist theory abandons the naturalistic interpretation of the social sciences and seeks to examine, characterize, and interpret the fields of intersubjective development as constituted in culture, language, and symbols. Constructivism moves beyond the prototypical division of realists and idealists and broadens the scope of International Relations by contending that reality is constructed by the human mind interacting in social situations. In “Constructivism: A User’s Manual,” the central idea of Constructivism is given by Nicholas Onuf:

> In other words, social relations *make* or construct people-ourselves-into the kind of beings that we are. Conversely, we *make* the world what it is, from the raw materials that nature provides, by doing what we do with each other and saying what we say to each other. Indeed, saying is doing: talking is undoubtedly the most important way that we go about making the world what it is.[17]

Because the foundation of constructivism is based on the premise that the world is socially constructed, we can theorize on matters beyond those afforded scholars of international relations from the neo-liberal and neo-realist schools. Constructivism makes it possible to move beyond exogenous material interests and striving for ethical ideals, while not ignoring them completely. Constructivism is less an alternative to neo-realism and neo-liberalism, than it is a bridge between them. The IMF and poverty alleviation is an example of the need for such a bridge. The IMF has attempted to achieve the ethical ideal of poverty alleviation as part of an approach towards the material goal of establishing high-quality, long-term growth in a borrowing country. A Constructivist account would explain the IMF’s attempts to combine material interests and

---

[16] These concerns, and the change that heightened the Fund’s awareness and prompted action on social issues will be discussed in Chapter 3, “The International Monetary Fund: Creation , Mission, and Change.”

[17] The description of Constructivism found under the headings Constructivism, Mutual Constitution, Constitutive Rules is a summary of the description of Constructivism found in Onuf, Nicholas. 1998. Ed. Vendulka Kubalkova, Nicholas Onuf, Paul Kowert. “International Relations in a Constructed World.” New York: M.E. Sharpe.

ethical ideals through the creation and support of social safety nets as part of the Fund's conditionality packages with Indonesia.

The International Monetary Fund

This case study will focus on the practical problem of constructivism that Onuf addressed in "Constructivism: A User's Manual." It would be impossible to travel in two directions at once and analyze the IMF and Indonesia simultaneously. Onuf's solution to the agent↔structure -- Mutual constitution -- problem is "to start with rules and show how rules make agents and institutions what they are in relation to each other. Then we can show how rules make rule, and being ruled, a universal social experience."[18] For this case study the rules will be what the IMF sees as its responsibilities in constructing social safety nets for borrowing countries. This will illuminate the relationship between the IMF and Indonesia and the Fund's attempt to build a social safety net in the wake of the Indonesia's financial crisis.

Mutual Constitution

Embedded in constructivist theory is the notion of a continuous, two-way process of mutual constitution that exists between agents and structures. Agents constitute structures, and structures simultaneously constitute agents. One way to understand this process is to visualize the relationship between people and society. From a constructivist perspective, since people and society are continuously creating each other and changing forms, one must start from a middle

---

[18] Onuf, Nicholas. 1998. Page 63. "Constructivism: A User's Manuel." Ed. Vendulka Kubalkova, Nicholas Onuf, Paul Kowert. "International Relations in a Constructed World." New York: M.E. Sharpe.

standpoint.[19] This empowers the critical element of *constitutive rules* to emerge. It is these *rules* that connect the other two elements together. To ensure that one does not get caught in the trap of trying to examine both agents and structures at the same time, this study begins analysis of mutual constitution in the middle of agents and structure by examining rules -- a statement that tells us *what* we *should* do. The ways in which people deal with rules, choosing to obey, break, or ignore them are referred to as *practices*. *Conventions* are related to rules by telling agents what they have always done. If a convention prompts agents to think that they should do something that they have always done, then the convention can also be considered a rule. Constitutive rules involve the creation of categories and the construction of typifications, such as processes in which people and society constitute each other and are reciprocal. Such processes are then applied to ideas, to events, and to actors.

An example of mutual constitution is the relationship between the IMF and Indonesia and the conditionality agreements the two parties made to try to stabilize the Indonesian economy. When the IMF works with member countries it has a stronger bargaining position. However, there is a complex interaction that takes place. The two players, in this case Indonesia and the IMF, continually mutually constitute one another in that particular situation. The IMF holds great sway over a country borrowing money but it must also take into account the economic, financial, political, and cultural contexts in which Indonesia exists. If it fails to do so, the conditionality package could be unnecessarily disruptive, leading to a conditionality package that does more harm than good. These needs include economic issues such as banking and political reform, but they also include social issues. Indonesia cannot have school enrollments decline because a

[19] Onuf, Nicholas. 1998. "Constructivism: A User's Manual." Ed. Vendulka Kubalkova, Nicholas Onuf, Paul Kowert. "International Relations in a Constructed World." New York: M.E. Sharpte.

generation will leave school and will be unlikely to return, representing a significant loss in human capital.[20] A loss of human capital in the area of education would disrupt the social progress made during the Suharto regime.

Constitutive Rules

Constitutive rules establish actors and roles; in the case of the IMF, the increased emphasis on social issues indicated by social safety nets has become a constitutive rule. A constitutive rule is created when socially constructed actors (agents) seek to define what they see as their interests. It is argued in neo-realist and neo-liberal literature that individualist or materialist goals are expected to dominate rather than actors pursuing idealistic or collective interests. According to neo-realists and neo-liberals, collective interests and idealistic pursuits are not "natural" and cannot be treated as exogenous. Instead, such interests are recognized in varying institutional context's and require further explanation.

Conversely, the constructivist viewpoint insists that mutuality of social life be created by categories of actors, both individually and collectively and by their associated ways of acting. Therefore, the constructivist framework stresses the importance of social identities (who we are and what type of action makes sense for us in a given situation). As Checkel (1998) points out, constructivists perceive norms as collective understandings that make behavioral claims on

[20] Education in Indonesia: Impact of the Crisis." 2000. Pg. 1 [Internet, WWW]. ADDRESS: http://www.worldbank.org/poverty/countries/indon/educ2.htm. [Accessed: 25 February 1999].

actors. Their effects constitute actor identities and interests and do not simply regulate behavior.[21]

The IMF and its increased emphasis on social issues is an example of the formation of a constitutive rule. According to constructivism, rules are constitutive and regulatory (a rule that formalizes behavior). The effort to construct social safety nets is a constitutive and not a regulatory rule because the IMF is not a democratic institution, in that no significant democratic controls are exercised over the Fund. This makes the adoption of social issues as a priority all the more surprisinga. What is the impetus for the IMF to adopt social issues as a priority? And more importantly, are there any penalties for the Fund it fails to construct adequate social safety nets for borrowing countries? In its discourse (e.g., press releases, policy statements, annual reports), it appears the IMF has come to the realization that conditionality agreements for structural adjustments and reforms that do not provide some measure of protection for the poor are unlikely to foster long-term, high-quality growth. The strains widespread poverty puts on a society are too great and will impede economic development.

A major issue in discussing the development in international organizations like the IMF is what Robert Keohane refers to as the "democratic deficit."[22] The global regulation that stems from the globalization of the world economy and the increasing amount of power given to international institutions is not democratic. International institutions are laying down rules and guidelines for

[21] Checkel, Jeffrey. 1998. "The Constructivist Turn in International Relations Theory." Johns Hopkins University Press [Internet, WWW] ADDRESS: http://muse.jhu.edu/journals/world_politics/v050/50.2er_finnemore.html [Accessed: 12 September 1998]
[22] The discussion of the undemocratic nature of international organizations is taken from Keohane, Robert O. 1998. International Institutions: Can Interdependence Work. Journal of International Organizations. MIT Press. Cambridge, Massachusetts.

states to follow; yet they do not answer to anybody in a democratic way. This “democratic deficit” raises the question: Did the IMF really change its practices regarding social safety nets. There is little evidence that the increased attention the IMF has given to social safety nets has had positive substantive effects for the poor in a borrowing country such as Indonesia. As Keohane argues, there is no governing body overseeing the IMF. It is up to the technocrats and elites that run the Fund to decide just how high a priority the construction of social safety nets is to helping a borrowing country deal with a financial crisis. This is why this thesis is important and seeks to answer the question: Can the obligation the IMF has adopted to assist in poverty relief during attempts to stabilize a country’s economy translate into the construction of an adequate social safety net in Indonesia during the IMF’s involvement in 1997 and 1998? In constructivist terms, has the IMF’s *constitutive rule* of constructing adequate social safety nets that provide substantive protection for the poor in a crisis, become a *convention*?

Chapter 3. The International Monetary Fund: Creation, Mission, and Change

The International Monetary Fund was created at the Bretton Woods conference of 1944. Also created at the conference was the Fund's sister institution, the International Bank for Reconstruction and Development (IBRD), also known as the World Bank. The delegates at the conference, notably John Maynard Keynes, set out to establish a clear direction for the world financial order. They wished to encourage members to establish the convertibility of their currencies into other currencies and subscribe to the principles of free trade.

The need for an institution with the IMF's mission and responsibilities arose during the great depression of the 1930's. Protectionist policies by industrial nations and the subsequent financial and diplomatic isolation made the problems caused by the stock market crash of 1929 appear intractable. The industrial countries were unable to find shared interests in opening their economies and cooperating and working to revive their economies. The Second World War forced the industrial nations out of their isolationism and helped forge a unity among many members of the global economic community. When the defeat of the Axis powers became imminent, the Allies decided to hold the Bretton Woods conference. There, 29 countries evaluated and decided upon the economic relationships between them and the rest of the world following the war. The delegates saw the need for a financial institution, an honest broker to take on the responsibilities of coordination, stability, and openness among countries. To fulfill that need, the delegates created the International Monetary Fund.[23]

The IMF's objectives are laid out in the Articles of Agreement. The articles state the Fund objectives are:

(i) To promote international monetary cooperation

(ii) To facilitate the expansion of balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income.

(iii) To promote exchange stability and to maintain orderly exchange arrangements among members.

(iv) To assist in the establishment of a multilateral payments system.

(v) To give confidence to members by providing temporary financial resources to help them correct balance of payment disequilibria.[24]

The IMF was given the task to maintain the proper conditions for the international monetary system. The IMF was to prevent the protectionist policies and isolation that were part of the interwar years. The Fund's primary mission included maintaining fixed exchange rates, which were fixed on the U.S. dollar which in turn was fixed to a set amount of gold. Despite the effort to keep currencies stable, differences in inflation caused countries to change the value of their currencies, disrupting the efforts of the IMF.[25]

For the first 25 years, the Fund primarily saw its mission -- in regard to borrowing and conditionality -- to help industrialized and developing countries deal with short-term balance of payments difficulties. In the 1950's and 1960's the IMF dealt mainly with industrial countries, and its advice focused mainly on macroeconomic policies. In the first two decades of the Fund's

[23] "What Is the International Monetary Fund? Pg. 1. [Internet, WWW]. ADDRESS: http://www.imf.org/external/pubs/ft/exrp/what.htm#origins [Accessed: February 10, 2002]

[24] "Social Dimensions of IMF's Policy Dialogue: IMF Involvement in Social Issues" pg. 1 [Internet, WWW]. ADDRESS: http://www.imf.org/external/pubs/ft/pam/pam47/pam4701/htm [Accessed: 16 December 1998].

[25] Feldstein, Martin. Foreign Affairs Journal. March/April 1998. Pg. 1 "Refocusing the IMF." [Internet, WWW]: ADDRESS: http://www.foreignaffairs.org/feature.html [Accessed: 15 March 2000]

existence the most highly industrialized countries borrowed over half of the Fund's resources. Changes in the global economic order and within the IMF itself took place as a result of the elimination of the gold standard by President Richard Nixon in 1971. These changes marked the beginning of post-war floating exchange rates.

The IMF became more concerned with the connection between macroeconomic policies and structural reforms with the formulation of policies in a medium term context when its resources were directed primarily towards developing countries.[26] When availability of credit rose in the world's capital markets, industrial countries ceased to have a need for the Fund's resources. Beginning in the mid 1970's and increasing after the debt crisis of 1982, many developing countries – the new primary users -- have used the IMF as their primary source of balance-of-payments credit.[27]

The Fund's shift toward lending to developing countries in the 1970's and economies in transition in the 1980's has led to increased attention and in turn criticism of the effects the IMF's macroeconomic policies and structural changes have on the poor. The increased suffering of a country's poor is one standard consequence of a financial crisis. This occurs for a variety of reasons, many of which center around the fact that the poor are the least capable of insulating themselves from the effects of an economic crisis. Many of the poor live and work in rural areas, which are acutely affected by shocks in a country's economy.

---

[26] "Social Dimensions of IMF's Policy Dialogue: IMF Involvement in Social Issues" International Monetary Fund. Pg. 1 [Internet, WWW]. ADDRESS: http://www.imf.org/external/pubs/ft/pam/pam47/pam4701/htm [Accessed: 16 December 1998].
[27] Polak, Jacques J. September 1991 "The Changing Nature of IMF Conditionality."

For most of its existence the IMF denied being responsible for the social welfare of a country borrowing money from the Fund. The Fund's first concern was to maintain macroeconomic stability and structural adjustments[28] that would foster quality long-term growth, not development issues. Officials at the Fund were supported by the articles of agreement, which do not state explicitly that it is the IMF's responsibility to deal with social issues, such as poverty reduction or improving the poor's access to health care. Unfortunately for the IMF, the articles of agreement could not protect the Fund them from mounting international criticism that began to gain strength during the 1970's and the 1980's. Speaking at a Kairos Europa hearing in 1994, economist Marcos Arruda made a sweeping condemnation of neoliberal adjustment policies in Latin America. Arruda asserted that the neoliberal adjustment policies common to International Financial Organizations (IFO) are responsible for the decline in the quality of life in Latin America.

> In the whole of Latin America, neoliberal adjustment policies have achieved meagre economic results at enormous social and environmental costs. After 12 years of adjustment and almost generalized recession, inflation in Latin American countries was still 197% in 1992, as compared to an average 59% in the period 1975-84. The increase in poverty levels was particularly dramatic in Guyana (41.6%), Nicaragua (38.2%), Trinidad-Tobago (31.8%), Peru (28.3%), Bolivia (22.4%), Haiti (22.3%) and Argentina (20.3%). The real urban wage was reduced from 100 in 1980 to 56.2 in Brazil, 52.4 in Uruguay, 49.3 in Argentina, 41.6 in Mexico, 21.4 in Ecuador, 16.3 in Peru (cf. CEPAL). Social investment programmes are conceived as compensatory measures, disconnected from economy, so as to allow business to continue as usual.[29]

The IMF was not created to address such problems as poverty or unemployment but the harm done to the people in the lowest socioeconomic classes in countries that the Fund had lent money

---

Essays in International Finance, Princeton University, No. 184.

[28] An example of a structural adjustment program, the Poverty Reduction and Growth Facility, will be explained later in the chapter.

[29] Arruda, Marcos. 1994. Pg. 1 "Kairos Hearing 1994. Witnesses/experts introduce questions and proposals." [Internet, WWW] ADDRESS: http://www.c3.hu/^bocs/khear94/hear05a.htm [Accessed: 10 April 2000]

to in areas such as Latin America began to damage the IMF's public image. A common result of balance-of-payment difficulty is inflation, which leads to increased prices on basic commodities and a devaluation in a country's currency which then leads to falling wages, and fewer employment opportunities. A country's exchange rate also suffers making it difficult for a country to import goods it needs but cannot produce at home. Indonesia imports 60 to 80 percent of its pharmaceuticals and the collapse of the rupiah in 1997 and 1998 caused the price of imported pharmaceuticals to increase by 200 to 300 percent between November 1997 and March 1998.[30]

The erosion of support for the Fund led to an erosion of confidence in their ability to help countries improve their balance of payments disequilibria and caused problems by making the reforms countries undertook as a condition to secure loans less likely to succeed. The IMF has tried to address the social problems associated with balance-of-payment disequilibria, with or without a full-blown financial crisis, and its subsequent lending and conditionality. One of the first steps the Fund took in dealing with social issues was the creation of new programs that favored structural reforms taking place in a medium term context: the extended Fund facility in 1974, and two concessional lending facilities—the structural adjustment facility (SAF) in 1986, and the enhanced structural adjustment facility (ESAF) in 1987—for the benefit of low income countries.[31]

---

[30] "Health and Nutrition in Indonesia." World Bank. 1998. Pg. 1 [Internet, WWW] ADDRESS: http://www.worldbank.org/eapsocial/countries/indon/health1.htm. [Accessed: 12/30/00]

[31] "Social Dimensions of IMF's Policy Dialogue: IMF Involvement in Social Issues" pg. 2 [Internet, WWW]. ADDRESS: http://www.imf.org/external/pubs/ft/pam/pam47/pam4701/htm [Accessed: 16 December 1998].

IMF policy regarding social issues can be classified into two categories: surveillance and program support. The IMF provides policy recommendations to member countries within the context of its surveillance of the country's economic policies and financial support for their adjustment programs. Through surveillance, the Fund tries to advise countries on appropriate policies that will prevent severe balance-of-payment imbalances before they occur. In surveillance programs such as the cross-country surveillance-the Fund's half yearly World Economic Outlook exercise—the IMF has emphasized the need to deal with such issues as expanding social security arrangements, reducing unemployment, addressing labor market issues in industrial countries, reducing unproductive expenditures, and making human capital investment in developing countries.[32]

The constitutive rule that determines the IMF's approach dealing with social issues as a matter of policy comes through what it calls the "policy mix." The Fund attempts to "mix" the achievement of macroeconomic stability with a concern for social issues. Various mixes and phasing of policies can be consistent with macroeconomic objectives but have different effects on the poor. Programs have increasingly given attention to the issues of using the "mix" approach to minimizing the adverse effects on the poor. There are six primary areas where social issues are important components of the policy mix. The six areas are explained in a statement on the IMF's social policy. The areas and the priorities within them for dealing with social issues are:

1) Fiscal policy: reducing consumer and public enterprise subsidies and tax reform that enlarges the revenue base and attempts to spread the tax burden more equitably across different income groups.

[32] "Social Dimensions of IMF's Policy Dialogue: IMF Involvement in Social Issues" pg. 2 [Internet, WWW]. ADDRESS: http://www.imf.org/external/pubs/ft/pam/pam47/pam4701/htm [Accessed: 16 December 1998].

2) Public Sector Reform: Civil service reforms directed at streamlining bureaucracy and introducing the managers in public enterprise to market principles through restructuring and privatization. As both of these approaches normally lead to layoffs of public sector employees, programs, operating within their macroeconomic constraints, seek to provide severance pay and promote alternative job opportunities through the presumably more flexible labor market.

3) Exchange rate policy: programs that emphasize the improvement of the relationship between agricultural producer prices and consumer prices.[33] The IMF works towards realistic exchange rates accompanied by tight macroeconomic and income policies, to improve real output, income, and employment in rural areas.

4) Trade liberalization: this is emphasized in every IMF-supported program and it entails eliminating trade distortions stemming from quotas, excessive export and import tariffs, complex administrative procedures, and foreign exchange rationing. Trade liberalization seeks to make a countries economy more flexible and in turn more competitive. The removal of such restrictions is associated with employment losses in previously protected sectors. To minimize this problem, the IMF tries to gradually remove trade restrictions and reduce tariffs over several years.

5) Financial sector reform: Better channeling of rural savings to productive uses such as the restructuring agricultural credit banks and setting up new institutions that can provide adequate access to credit for farmers. The hope is that credit will be made available at market-determined interest rates rather than at informal credit markets with higher interest rates.

6) Labor market policy: revision of labor codes to allow for greater flexibility in labor movement and employment. In Senegal for example, IMF-sponsored programs included the elimination of state-run labor placement and hiring monopolies, which frequently curtailed employment.[34]

If attempts to mix policy are unable to adequately protect the poor against the harmful effects of reform, then the Fund would encourage the construction of a social safety net.

---

[33] An example is in Sub-Saharan Africa where more than 80 percent of the poor live in rural areas and make a living through agriculture. They spend a majority of their income on domestic goods. More realistic exchange rates if coupled with tight macroeconomic and income policies can improve real output, income and employment in rural areas, laying the basis for increased education for the poor.

[34] "Social Dimensions of IMF's Policy Dialogue: IMF Involvement in Social Issues" pg. 2-4. [Internet, WWW]. ADDRESS: http://www.imf.org/external/pubs/ft/pam/pam47/pam4701/htm
[Accessed: 16 December 1998].

Social safety nets are primarily short-term measures enacted to protect the poor from economic shocks stemming from balance-of-payments difficulties and the reforms sponsored by the IMF to correct the balance-of-payment disequilibria. A possible area that may not be protected through the policy mix approach is an exchange rate devaluation that causes the real income of domestic consumers, especially the poor, to decline in the short term unless protected. The construction of a social safety net is difficult to generalize because different reforms are needed for different countries. However, some general measures for social safety nets include increased spending for social issues, creation of temporary employment opportunities through various public works programs, measures to control inflation and targeting poor areas for assistance.

The IMF's long-term solution to global poverty focuses on attempts to create sustained broad-based economic growth. Social safety nets are short-term measures and of little utility if sustained economic growth does not follow. An example of long-term growth measures emphasizing relief for the poor is the situation in Uganda. Beginning in 1987, a series of IMF-supported structural adjustment programs helped Uganda rebuild its infrastructure and agricultural sector, and through structural reform, liberalize foreign trade. The results are:

- More than 40,000 ghost workers have been eliminated from public payrolls.
- Public sector reorganization, combined with a system of mainly donor-financed severance payments, allowed the retrenchment of more than 66,000 temporary public empoyees and 14,000 civil servants.
- More than 23,000 soldiers have been reintegrated into civilian life through the provision of a support package including a six-month subsistence allowance, construction materials and agricultural inputs, labor-intensive public works, and training programs. These measures have also assisted in reducing military

> expenditures. The resources freed up by this peace dividend have been channeled into increased spending on health care and education.[35]

The IMF sees its mission as fostering long-term economic growth with a concern for social issues. However, the Fund requires the assistance and cooperation of other agencies, NGOs, member governments, and other international financial organizations such as the World Bank. The IMF collaborates with these various organizations and governments and draws on their expertise to design adjustment programs and monitor the programs' success or failure. The goal of the collaboration between the IMF and the organizations is primarily the integration of social policies into a suitable macroeconomic framework. In the realm of social matters the IMF's comparative advantage is in advising member governments on the macroeconomic and budgetary implications of policy options, specifically, the financial viability of certain options.

The IMF collaborates with its sister institution, the World Bank, during the design and implementation of an IMF-sponsored program, such as a structural adjustment program. When a low-income country receives Fund and World Bank assistance, the cooperation between each International Financial Organization is formalized and articulated in a policy framework paper (PFP). A PFP sets out macroeconomic and structural adjustment policies of countries in the medium-term.[36] A PFP by definition examines the social impacts of an adjustment program and often describes human resource developments. Policy framework papers are distributed to the participants of consultative group meetings, and they contribute to a consistent emphasis on social issues at these meetings. This helps to make consistent policy advice and financing with

---

[35] "Social Dimensions of IMF's Policy Dialogue: IMF Involvement in Social Issues." pg. 9-10. [Internet, WWW]. ADDRESS: http://www.imf.org/external/pubs/ft/pam/pam47/pam4701/htm [Accessed: 16 December 1998].

bilateral and multilateral donors on all aspects of structural adjustment policies, including social impact.[37]

The IMF works with the World Bank because their mandates and areas of expertise complement each other when dealing with social issues. The portion of IMF-supported structural adjustment programs that deal with social safety nets depends heavily on the expertise and resources of the World Bank. The division of labor between the two institutions is described in pamphlet number 47 of "The IMF and Social Issues" and is consistent with their overarching objectives. The pamphlet says:

> Except in the selected cases where the IMF has provided its own technical advice, the IMF staff concentrates on macroeconomic and budgetary developments, including social spending developments In tandem, the World Bank monitors social policy and project implementation, often by means of on-site inspections and social indicators.[38]

The nature of the IMF's concern for social issues was articulated by IMF Managing Director Michel Camdessus in a 1999 interview. Mr. Camdessus explained the connection between sound monetary and macroeconomic policies and public support in a country borrowing money from the IMF in this way: "For the discipline of a strong monetary policy to be maintained long enough to eradicate inflation and contribute to sustainable growth, it must be implemented in a context in which government policies include three objectives: the fight against poverty, the adoption of appropriate safety nets, and a recognized effort to reduce severe inequalities in

---

[36] "Social Dimensions of IMF Policy Dialogue: Collaboration with Other Institutions in Program Design and Monitoring." Pg. 1. [Internet, WWW]. ADDRESS: http://www.imf.org/external/pubs/ft/pam/pam47/pam4705.htm [Accessed: 15 April 2000].

[37] "Social Dimensions of IMF Policy Dialogue: Collaboration with Other Institutions in Program Design and Monitoring." Pg. 1.

[38] "Social Dimensions of IMF Policy Dialogue: Collaboration with Other Institutions in Program Design and Monitoring." Pg. 1.

income distribution over time."[39] The Fund's view that it did not need to be concerned with the social problems their conditionality caused in borrowing countries broke down as two things happened. First, the connection between social problems and IMF-sponsored programs was established. Second, the Fund accepted the view that helping everyone in a society, including the poor, increased the chances that an aid package would lead to long-term quality growth.

However, any significant change has come through the filter of its number one priority, to maintain stability in the international monetary system. This priority does not allow the Fund to address concerns about social issues in the way that a development institution like the World Bank could. Thus the Fund works closely with the Bank, and through their combined efforts they attempt to construct adequate social safety nets in countries suffering through balance-of-payments disequilibria. The next section will address two of the policy mechanisms through which the IMF deals with social issues.

Heavily Indebted Poor Country Debt Initiative and the Poverty Reduction and Growth Facility

The origins of the Heavily Indebted Poor Country (HIPC) debt initiative and the Poverty Reduction and Growth Facility (PRGF) can be found in the IMF's acceptance of the link between sustained broad-based economic growth and social issues. The HIPC initiative and PRGF are both policy initiatives meant to deal more effectively with social issues. These programs mark a departure from the IMF's focus on macroeconomic policy and structural adjustment as the means of solving a country's short- and medium-term balance of payments

[39] Camdessus, Michel. 10 December 1999, interview in IMF Survey, *Camdessus discusses prospects for globalization, need to fight "patent injustice" of world poverty*. Washington, D.C.: IMF Publications.

problems. The programs are an attempt to redefine the way the IMF and member countries view the concept of growth. Michel Camdessus recommends that all governments should believe in "growth centered on human development"[40] when managing their economies. However, it is appropriate to note that a concern for social issues does not translate to a high level of success in alleviating the problems of the poor.

The HIPC debt initiative is an example of the IMF's attempt to address social issues such as poverty reduction. The Fund sees this initiative as an effective way to provide debt relief for poorer countries. According to Managing Director Camdessus, "Another element in this new focus on social objectives at the heart of our programs is the deeper, faster, and broader debt relief that is being provided by the enhanced initiative for the Heavily Indebted Poor Countries (HIPC). A stronger framework has been established that makes HIPC debt relief an integral part of broader efforts to reduce poverty, which are articulated in a country's Poverty Reduction Strategy Paper or PRSP."[41] This initiative is a joint venture with the World Bank, designed to assist countries in escaping the cyclical trap of external debt. Without debt relief of this kind and the technical assistance that goes along with it, the countries carrying the burden of external debt would maintain these burdens for the foreseeable future.

The Poverty Reduction and Growth Facility or PRGF was created out of the Enhanced Structural Adjustment Facility. Like the ESAF the PRGF is a concessional lending facility for low-income countries and the mechanism through which the Fund participates in the HIPC debt initiative. In an Overview Paper on transforming the ESAF and the debt initiative for the HIPC, the difference

---

[40] Camdessus, Michel. Interview in IMF Survey. 10 December 1999. Pg. 386 "Camdessus discusses prospects for globalization, need to fight "patent injustice of world poverty." Washington, D.C.: IMF Publications.

between the ESAF and the PRGF, is "…the complementarity of macroeconomic, structural, and social policies will be given greater recognition."[42] Officials at the Fund see the PRGF as a way to stimulate economic growth through channeling foreign assistance to every socioeconomic level in a country. Several of the goals of the PRGF are:

- generating higher savings, reducing inflation, accelerating key structural reforms, and shifting public expenditures to health and education from unproductive uses.
- improving ownership of programs by the countries themselves.
- better protecting the poor from any short-term negative effects of economic adjustment and reform.
- better assisting the ability of countries to implement the programs.
- improving the monitoring of program implementation.[43]

The IMF has reached the conclusion that their policies will be more successful if they have a program like the PRGF that allows them to involve a larger portion of developing countries populations in the economy.

While the IMF has given greater attention to social concerns it has done so by still maintaining its classical liberal, free-market principles. The HIPC initiative is designed to continue to lead countries to sound economic policies such as encouraging growth in the private sector and increasingly open markets, with debt relief as a benefit of the pursuit of sound policies.

Conclusion

---

[41] Camdessus, Michel. Interview in IMF Survey. 10 December 1999. Pg. 386.

[42] "Overview: Transforming the Enhanced Structural Adjustment Facility (ESAF) and the Debt Initiative for the Heavily Indebted Poor Countries (HIPCs)." 9 February 2000. Pg. 2 [Internet, WWW] ADDRESS: http://www.imf.org/external/np/esafhipc/1999/index.htm [Accessed: 3 April 2000]

[43] "Overview: Transforming the Enhanced Structural Adjustment Facility (ESAF) and the Debt Initiative for the Heavily Indebted Poor Countries (HIPCs)." 9 February 2000. Pg. 2.

The IMF has changed since its creation in 1944 in several key areas. The first is its increased emphasis on maintaining investor confidence through helping countries in the developing world maintain balance-of-payment equilibria. The second is the Fund's acknowledgement of the connection between economic growth and the reduction of poverty. The Fund confirmed this policy linkage through the HIPC debt initiative and by converting the Enhanced Structural Adjustment Facility into the Poverty Reduction and Growth Facility. Both programs were created to allow the IMF to work with countries to promote sound economic policies, encourage high-quality growth, and reduce poverty.

The IMF has sought to alleviate poverty within the confines of its Articles of Agreement, the implementation of which rests upon the foundation of classical liberal economic principles of free trade, open borders, and a flexible economy through minimizing regulation. The maintenance of these principles combined with a concern for social issues is vital to understanding the role of the Fund in its dealings with Indonesia. In Indonesia, the IMF sought to create a social safety net while demanding reforms certain to send shockwaves through Indonesia's economic system. It is this combination of liberal economic principles and a concern for social issues that marks the change, albeit gradual, that took place in the IMF by the late 1990's. The next chapter turns to President Suharto and the state of the Indonesian economy at the time of the financial crisis of 1997 and 1998.

Chapter 4. Power, Economic Development, and Suharto

To analyze the actions of the IMF during the East Asian financial crisis and the adequacy of social safety net construction in post-crisis Indonesia, two related topics must first be discussed. Both are used to describe the political and economic conditions in Indonesia at the onset of the financial crisis, which began with a run on the rupiah in August of 1997 and culminated with the currency's collapse in February 1998. The first topic is the traditional Javanese conception of power. From 1968 to 1998, Suharto held absolute power over the Indonesian state. Due to the absence of a system of checks and balances that could constrain his power, Suharto was in complete control of the military, the government, and the economy throughout his reign. The traditional Javanese conception of power made the concentration of near absolute power in one man possible.

The second topic is the role economic development played in Suharto's reign. Indonesia's successful development during Suharto's rule was a primary reason his presidency lasted for more than 30 years. The domination of the Indonesian economy by Suharto, his close associates, and family members was primarily responsible for the capital flight during the Indonesian crisis. Suharto's unwillingness or inability to limit the influence of his children only exacerbated the crisis and its effects on the poor and created a state of affairs that the IMF would be forced to sort out. This chapter will discuss both of these topics and how they influenced the state of the Indonesian economy in 1997 and 1998.

The Javanese Conception of Power and Suharto's Presidency

Before looking at Suharto's rise to power and his 32-year reign as president, we must take a look at the Javanese concept of power. President Suharto was the center of the Indonesian state. In *The Politics of Indonesia*, Damien Kingsbury explains the office of the president in Indonesia:

> The office of the monarch was exemplified by the person of the Monarch, thus making the person of the monarch the centre and source of power, authority, and legitimacy. Similarly, the office of President is at the center of Indonesia's administrative structure, with authority, legitimacy, and at least nominal power being held by the person of the President.[44]

As president, Suharto controlled the administrative structure of the Indonesian government, while simultaneously serving as the ultimate symbol of power throughout Indonesia. This dual role was very similar to a traditional Javanese King in total control of the Kingdom. The symbolic value of the Javanese tradition of power benefited Suharto throughout his reign. Suharto used the image of the solemn, contemplative, monarch who did not reveal his emotions to build the image of a traditional Javanese King.[45] [46]

In "Language and Power: Exploring Political Cultures in Indonesia," Benedict Anderson lists four premises that provide a basis for understanding the Javanese concept of power. The premises are: power is concrete, power is homogenous, the quantum of power in the universe is constant, and power does not raise the question of legitimacy.

[44] Damien Kingsbury, 1998, *The Politics of Indonesia*. Melbourne, Australia: Oxford University Press. Pg. 27.

[45] A description of Indonesian history prior to Suharto's reign is not germane to this project and will not be addressed.

[46] For a more complete discussion of the concept of power in Javanese culture see Anderson, Benedict R. O'G. 1990. "Language and Power. Exploring Political Cultures in Indonesia." Cornell University Press, Ithaca. New York.

The first premise of Javanese political thought is the belief that power is concrete. While power exists in a tangible sense, it is also divine energy that is present in every component of the universe. Power, as a creative energy, unites the entire cosmos. From this premise, it follows that the political leader who possesses this concrete force and creative energy in a greater quantity than anyone else is perceived by the people to occupy the central position of leadership in the country, in Suharto's case, the Presidency.

A belief in the homogeneity of power follows from the premise that all power is of the same type and source. The nature of power is not altered when power is transferred from one individual to another. The homogeneity precludes the distinction being made of power in one person's or group's hands, with the possession of power by another person or group. Power transcends the person or group possessing it; thus their identity is secondary to the fact that they possess power. In 1968, when Suharto became president with the power the office included, it was no more or less legitimate than when Sukarno was president.

The belief that the sum of power in the universe is constant has strong implications for the political philosophy of Indonesia. This premise means that the quest for power is a zero sum endeavor. The amount of power will not change but its distribution might. As Suharto was perceived as accumulating more power, his opponents in the Indonesian army appeared weaker.

The idea that power does not raise the question of legitimacy is important to understanding Suharto's rule. Because all power derives from a single source, it antecedes questions of good and evil. Power based on wealth is no more legitimate or illegitimate than power based on guns.

Power simply is. The belief in the amoral nature of power allowed Suharto to hold on to his power at almost any price. Many times over the course of his presidency, Suharto's exercise of power took the form of violent repression of pro-democracy elements, those critical of the new order, or a secessionist movement such as that in East Timor.

This conception of power, as explained by Anderson, played an integral part in allowing Suharto to remain president for more than 30 years despite the numerous problems different factions, such as the army or members of opposition political parties, had with his leadership. Java is the traditional cultural capital of Indonesia so the Javanese conception of power is extremely influential in modern Indonesian politics. Suharto could use repression as an effective political tool to discourage popular political participation and criticism of his policies, because Suharto's power did not explicitly derive from the support of the Indonesian people.[47]

Suharto did use such methods as violent repression to maintain his hold on power, but there were positive methods he used to solidify his power base as well. Successfully raising the economic status of a majority of Indonesians greatly benefited Suharto's position as President and the central leader of all of Indonesia. Immediately after he became President in 1968, his hold on power was tenuous. There were other factions, the strongest of which were in the army, competing for the position of President. Vatikiotis speculates that three other generals had anticipated a four person rotation in the office of President with Suharto being the first of the four. Once Suharto became President, however, he had no intention of letting go of the reins of power. The rise in oil prices in the early 1970's and the gains the economy made as a result of this rise in prices, ensured that Suharto would remain president at least temporarily. He remained president because the prosperity from the oil revenues was transformed into long-term growth. Economic development was consistent and the benefits of the growth diffused throughout much of Indonesia's population. Suharto reinforced his position as the center of power in the country as he took more and more credit for bringing economic prosperity to Indonesia.[48]

The role of fortune worked to Suharto's advantage both in his procurement and maintenance of power. Suharto's personal history is unremarkable in a Javanese and ABRI officer corps context. Before coming to power Suharto had been a rather unremarkable man. He was not seen as particularly intelligent, charismatic, or blessed with any leadership qualities different from his fellow officers.[49] Suharto did not appear to be influenced by a unique experience that gave him a sense of purpose that would elevate his thirst for power or desire to lead the country above those of his fellow officers. Suharto's biographer, O.G. Roeder, says:

> Suharto did not rise to the highest rank by an ardent zeal to save the nation and mankind. He was not obsessed by a sacred mission from boyhood and he did not formulate or develop a doctrinal ideology… his rise to leadership was mainly the result of prevailing conditions and events.[50]

He came from humble origins in rural Java. After his parents separated Suharto lived as an *orang ngenger*, or foster child, in several different homes of family members. Some speculate that Suharto felt resentment at not being treated as well as the children of these family members. But, it is believed by one of Suharto's close associates that Suharto gained a profound respect for "family values" as a result of his own bad experiences as a child. According to a close

---

47 Kingsbury, 1998, p. 24.
48 Vatikiotis, Michael R.J, 1993. *Indonesian Politics Under Suharto*. London: Routledge. Pg. 9.
49 The information regarding details on Suharto's origins are taken from Vatikiotis

associate of Suharto, "Many people speak of Suharto's belief in Javanese values. But in his value system, the misery of his family background takes predominance. This explains the attitude towards his own children. Nothing is more important to him than this. He is serious about this."[51]

Suharto was a part of a group of generals who helped secure the country from the Dutch in the 1940s. Suharto's bland past goes a long way in explaining his presidency and the (in some ways) simple nature of his style of rule. He had the army, the appearance of a traditional Javanese King, and a steadily improving economy with which to maintain his popularity and control over Indonesia. Suharto could not rely on the perception of himself or any special charisma to maintain his hold on the presidency. He used other methods like repressive force and appealing to the people's respect for firmly entrenched leaders.

The use of violence to maintain stability in building his New Order government has its origins in the way Suharto achieved power.[52] He seized power out of the chaotic fighting between the Indonesian Communist party (PKI-Partai Kommunis Indonesia) and the Indonesian Army (ABRI-Angkatan Bersenjata Republik Indonesia). After an attempted coup in 1965, allegedly carried out by members of the PKI, five generals were killed, giving ABRI a reason to crush the PKI, a party ABRI saw as a threat to its power. After the PKI was destroyed, President Sukarno was ousted from the presidency in 1967, and Suharto became president in 1968. Suharto came to power in the wake of a purge of the PKI, in which 300,000 to 400,000 members, suspected

---

[50] Vatikiotis, Michael R.J. 1993. Pg. 9.
[51] Vatikiotis, 1993, p. 9.
[52] Kingsbury, 1998, p. 57.

sympathisers, and victims of long-standing feuds were killed. Suharto must have realized early on that violence was one useful tool he could use to hold on to the presidency.

Throughout his 30 years as president Suharto maintained control over every significant sphere of the Indonesian state -- political, military, and economic. Through political maneuvering, Suharto had made himself the center of Indonesian politics. He had effective control over Golkar, the state controlled political party, which in turn tightly controlled the bureaucracy and was able to deliver a large and consistent number of votes. The only challenger to Suharto's power in the pro-democracy opposition was Megawati Sukarnoputri, daughter of the late President Sukarno whose impact was largely marginalized.

By the 1990's, Suharto had managed to exert almost complete control over the military. As supreme commander of ABRI, Suharto had appointed his most trusted officers to senior positions, while simultaneously shuffling off other officers, especially senior ones he did not trust, to retirement or less powerful posts. According to Laksamana Sukardi, an economist and consultant for Suharto's opposition, "He is the highest military commander. He decides the promotions and appointments in the army. He appoints the central bank governor, the boards of directors of state-owned companies; he decides who will be the chairman of the securities and exchange commission; he appoints the judges, the members of parliament. Under normal circumstances, nobody has any chance to challenge Suharto."[53] The shuffling kept high ranking officers away from the center of power in Jakarta, and it also ensured that officers did not stay at

[53] Richburg, Keith B. 23 February 1998, "Suharto's Ace: He's the Only Game in Town." Washington Post Foreign Service. [Internet, WWW] ADDRESS: http://www.washingtonpost.com/wp-srv/busi…ngterm/asiaecon/stories/suharto022398.htm [Accessed: 17 April 2000]

any place long enough to build and solidify a power base that could be used against Suharto later.

Throughout his reign, Suharto, his family, and close associates controlled the Indonesian economy practically by themselves. Suharto was personally wealthy enough to be able to direct a large portion of the Indonesia's economy, a situation that was reinforced by the holdings of his children and other family members. Through the funding of projects and businesses, Suharto maintained enormous gravity in both the formal and informal political processes.

Indonesian Economic Growth During Suharto's Presidency

President Suharto's economic success solidified his position as the president of Indonesia. While the performance of the economy provided Suharto with prestige and power, an economic downturn that Suharto was unable to remedy would signal to the people that Suharto was vulnerable and no longer in control. As Suharto's presidency continued, problems with his leadership mounted. Despite questions about Suharto's age and competence, pressure from ABRI, members of the press, and political opposition both in and out of the government, were not enough to bring him down. Prior to the financial crisis of 1997 and 1998, it was widely accepted that an economic downturn would be the only crisis that would unite opposition against Suharto and begin a chain of events that would lead to the end of Suharto's presidency.

The economic expansion of Indonesia from 1968 until 1997 was the result of a consistent state directed plan.[54] Indonesia was widely regarded as one of the key success stories of international economic development. Issues such as rice self-sufficiency, population control, and a reduction in the poverty rate had been addressed and solved.

For much of Suharto's reign, Indonesia experienced one of the world's strongest and steadiest growth rates. In his paper "Indonesia: Long Road to Recovery," economist Steven Radalet lists the four pillars of Indonesia's economic success:

> 1. Proper management of natural resources such as oil and gas, copper, tin, gold, rubber, and palm oil. The profits from these exports helped to finance widespread construction of roads and ports, primary schools, and other infrastructure.
>
> 2. Agricultural output was supported by the government through remunerative and relatively stable prices to rice farmers rather than through subsidies to customers. The government also invested heavily in irrigation and other agricultural infrastructure.
>
> 3. The government promoted a switch towards labor-intensive manufactured exports such as textiles, clothing, footwear, toys, furniture and many others. This provided thousands of jobs and established a conduit for the introduction of new technologies. Another important policy was the removal or reduction of barriers to foreign investment in many sectors in the late 1980s and 1990s. Indonesian firms became more integrated with globalized production networks.
>
> 4. The last pillar of success was sound macroeconomic management that kept inflation low, exports competitive, and the current account deficit at reasonable levels. The effectiveness of Indonesia's macroeconomic management steered it through the steep oil price hikes and declines in the 1970s and 1980s.[55]

---

[54] This portion of the thesis pertaining to the details of Indonesia's economic development during the reign of Suharto is based primarily on: Radelet, Steven. March 1999. "Indonesia: Long Road to Recovery." Harvard Institute for International Development, Development Discussion Paper No. 722 [Internet, WWW] ADDRESS: http://www.hiid.harvard.edu/pub/ddps/722abs.html [Accessed: 26 January 2000]

[55] Radelet, 1999, p. 1-2.

The state acted as both the director and engine for economic growth. The state, under the firm control of Suharto, directed the development of the economy from 1965 until the financial crisis and the end of Suharto's presidency. From 1970 to 1996 the Indonesian economy grew by an average of 7.2% per year. This led to an annual increase of 5.1% in per capita income. In 1996 the real annual income for the average Indonesian was just under four times what is was in 1970.

As a result of this rapid economic growth Indonesia experienced the largest reduction in poverty recorded in the world between 1970 and 1996. In 1970, over 60% of the population was living in poverty. By 1996, that number had declined to 11%.[56] The number of Indonesians living on $1 dollar a day (in 1985 dollars) dropped from 87.2 million in 1990 to 21.9 million in 1995.[57]

Employment was one area Suharto successfully dealt with during his reign. During the 1990s the Indonesian government relied on high growth rates to keep the unemployment level low and handle new entrants to the work force. A report from the International Labor Organization from 1999 describes the pre-crisis labor situation:

> Indonesia had a highly estimable and enviable economic record in the 1990s. Growth was characterized by a high absorption of the working age population in employment, low and stable unemployment, both of educated and less educated labor, shifts from agricultural to non-agricultural employment, declining underemployment, rising productivity and rising real wages…The benefits of broad-based growth appear to have been distributed across the country, and all provinces displayed increased income, consumption and employment and a secular decline in poverty.[58]

---

[56] "Some analysts dispute the precise magnitude of these numbers but no one disputes the notion that Indonesia experienced a dramatic decline in poverty over the 26 years." Radelet. 1999. Pg. 2.
[57] "Social Crisis in East Asia: Indonesia and Poverty." World Bank, 3 February 1999. [INTERNET, WWW] ADDRESS: http://www.worldbank.org/poverty/eacrisis/countries/indon/pov1.htm
[Accessed: 25 February 1999].
[58] "Understanding the Indonesian Economic Crisis." 19 July 1999. Pg. 1. International Labor Organization ILO Office in Jakarta-Indonesia. [INTERNET, WWW] ADDRESS:
http://www.ilo.org/public/english/region/asro/jakarta/chap1.htm [Accessed 20 February 2000]

While there were weaknesses in the Indonesian economy and in labor, the favorable picture of the state of Indonesian labor before the crisis and its roots in the strong economic growth of the Indonesian economy were widely accepted.

The level of education of the Indonesian population increased during the Suharto regime. School enrollments increased steadily from 1971 to 1996. In the beginning of the 1970s, 74% of the Indonesian population had less than a primary education. By 1999, that number was down to 34 %.[59] While there were significant problems with the education system, such as a decline in school quality and the inability of the poor to afford the basic nine years of schooling, the Indonesia model was widely regarded as a success story throughout the international community.

Improvements were made in the field of health and nutrition during Suharto's New Order. From 1967 to 1994, life expectancy at birth increased from 49 years to 65 years. In 1967, the infant mortality rate was 124 per 1000 live births. By 1996, the infant mortality rate was down to 49 per 1000 live births. The successful development of Indonesia's health care came primarily as a result of the government's initiatives. Between 1969 and 1994, the government of Indonesia expanded the access to health care through publicly-provided health care facilities.

Cronies

From the beginning of Suharto's presidency in 1968, until his resignation in May 1998, Suharto relied on the support of business associates loyal to him personally. In return for their loyalty,

[59] Social Policy and Governance in the East Asia and Pacific Region "Education in Indonesia" Last updated, 8 November 1999 [Internet, WWW] ADDRESS: http://www.worldbank.org/eapsocial/countries/indon/educ1.htm [Accessed 25 May, 2000]

Suharto rewarded them with generous loans to starta businesses, government subsidies to keep the businesses viable, and bail outs if the businesses failed.

Suharto's ethnic Chinese business associates have played an important part in Indonesia's economic development. The role of the ethnic Chinese in Indonesia's economy and their relationship to Suharto are complicated and contradictory. The paradoxical relationship is described by Vatikiotis: "The ferocity of criticism directed at the country's larger business interests seemed at odds with their evident contribution to national GDP. Liem Sioe Long's Salim Group, for example, accounts for roughly 5 percent of Indonesia's GDP. The group's turnover in 1990 totaled around $US8 billion."[60] General perceptions of the involvement of ethnic Chinese in the Indonesian economy fell along these lines. "The larger and mainly Indonesian Chinese-owned conglomerates were held up as symbols of greed and rapacity, widely seen as feeding off the people and ploughing their profits overseas. Interviewed in March 1990, Indonesia's most powerful ethnic Chinese tycoon, Liem Sioe Long (alias Sudono Salim), was reluctant even to divulge the number of companies owned by his group: 'it might cause a public outcry,' he said."[61]

Two of Suharto's most influential cronies, Liem Sioe Liong and Bob Hasan, have been Suharto's associates since Suharto's time in the army as far back as the 1950s.[62] Liem Sioe Liong runs the Salim Group, a financial empire that has been linked to Suharto since the 1950s. In the 1990s,

[60] Vatikiotis, 1993, p. 178
[61] Vatikiotis, 1993, p. 178
[62] A quick sampling note. There are other cronies, or business associates of Suharto's that could be mentioned but Hasan and Long are two of the most prominent. Sudjono Hurmurdani is an important figure but his influence was through the army rather than in the economy. The army is a political/martial entity that is beyond the scope of my project.

the Salim Group was making approximately $8 to $9 billion a year. Liem held positions in industries such as chemical, automobiles, other manufacturing, processed food, and real estate.

Hasan ran his own business and was responsible for taking care of the political face of the Suharto financial empire.[63] Hasan's business was called Apkindo, and it gave him control over Indonesia's export associations in the rattan and timber industries. To avoid the anti-Chinese sentiment, Hasan ran Apkindo and managed to conceal his connections to the Suharto family through hiding the connection between Sino-Indonesian business entities and family foundations and individual shares of the family members.

The role of Long's and Hasan's Chinese descent is another characteristic that bound both men to Suharto. The fact that they are not native Indonesians would have automatically excluded them from traditional Indonesian politics. With Suharto's patronage both men achieved more power than most cabinet ministers. An example of the influence Bob Hasan possessed as an associate of Suharto is demonstrated by his actions in the 1980s in the plywood and rattan industries. Hasan was able to write government legislation favorable to his rattan and plywood industries.[64] Hasan imposed restrictions on exports of raw rattan and levied crippling taxes on sawn timber exports. These actions took place despite protests from the cabinet, and it ensured that many smaller companies in the rattan and timber industry fell to his group of companies.

[63] Aditjondro, Geroge J. 25 January 1998. "Suharto & Sons (And Daughters, In-Laws & Cronies)." The Washington Post. [Internet, WWW] ADDRESS: http://washingtonpost.com/wp-srv/business/longterm/asiaecon/stories/sons012598.htm [Accessed: 5 May 2000]
[64] Vatikiotis, 1993, p. 14

While the relationship between Suharto and business associates like Hasan and Long did contribute to the New Order's economic and development successes, their lack of accountability for failure and open exploitation of the legislative process to benefit their interests had detrimental effects on the economy as well. Cronyism's effect on the Indonesia economy is summarized by Vatikiotis:

> The combination of the culture of family privilege and cronyism and Suharto's occupation of the undisputed center of Indonesian politics prevented both political and institutional development consistent with Indonesia's economic development. Suharto's embodiment of Javanese Culture, with its emphasis on respect for individuals who hold power, hindered the development of modern executive and bureaucratic branches of government answerable to elected representatives as broadly envisaged by the Constitution. The personalization of power Suharto achieved at the expense of institutionalized checks and balances, or any formal separation of powers, made the process of transferring that power to another individual an uncertain and risky prospect.[65]

The personalization of power around Suharto, and the absence of meaningful checks and balances on Suharto's power made the excesses of crony capitalism possible. While cronies like Bob Hasan and Liem Sioe Liong played a major role in the New Order, they are only a part of the Indonesian economic miracle. Suharto's family was the other group that benefited from Suharto's patronage.

Indonesia in the 1990s

Understanding the trends that developed in the Indonesian economy in the 1990s is critical to understanding the Indonesian economy before the crisis and the actions of the IMF that followed. The time frame has been selected because of the trends that were seen as weaknesses in the economy became exacerbated in the early 1990s and came to a head in 1997. The main issue that will be discussed in this section is an issue unique to the 1990s and played a large part in the financial crisis: the ever-increasing role of Suharto's children in the Indonesian economy. The brand of crony capitalism Suharto had developed since 1968 was becoming increasingly more corrupt and irrational as the decade progressed.

While the Indonesian economy experienced a high growth rate and raised the standard of living for many of Indonesia's citizens, there were underlying weaknesses as well. Many of the problems stemmed from flaws in the economic structures that had been responsible for much of Indonesia's success. Four main areas of weakness in the Indonesian economy led to the financial crisis. [66]

> 1. Large capital inflows, a large portion of which were on a short-term basis. By mid 1997, Indonesia's total debt outstanding to foreign commercial banks totaled $59 billion. While much of this money went to investment projects of value, a great deal also went to less financially sound projects overseen by Suharto, his family and associates. These shaky projects received funding for two reasons. First, many investors did not believe the Indonesian government would allow them to fail, and second, many believed Indonesia's steady growth would continue.
>
> The maturity structure of the $59 billion outstanding was short-term. This meant that in mid-1997, $35 billion was due within one year. At this time foreign exchange reserves were only $20 billion; thus short-term debts owed to foreign commercial banks were approximately 1.75 times the size of Indonesia's foreign exchange reserves. This system would be able to work until Indonesian firms were unable to roll over the loans when they fell due, as was the case during the crisis.
>
> Indonesia's exchange rate system made short-term debt more appealing than other countries. In the 1980's Indonesia adopted a crawling peg in which the rupiah depreciated between 3-5% per year. This predictable exchange rate made short-term losses less risky and more attractive. An effect of this predictability was that firms were less inclined to hedge against the possible shocks of an exchange rate movement.

[65] Vatikiotis. 1993. Pg. 147.

[66] The economic information included in the description of the four pillars is not the emphasis of this thesis. The emphasis in Radelet's four points is on the chaotic and corrupt economic situation that existed in Indonesia during the 1990s.

2. Overvalued exchange rate growth and slowing export growth: the overvaluation was modest as was the reduction of export growth. Growth in non-oil exports decreased from an annual average of 26% in 1991-92 to 14% between 1993-95 to just 10% in 1996. The overvaluation and export slowdown pointed to the need for moderate adjustments to improve the international competitiveness of Indonesian firms.

3. A weak banking system: As a part of Indonesia's attempts to reform its banking system in the late 1980s private banks were allowed to compete directly with large state-owned banks that in the past had controlled financial activities. The government reduced its role in lending and allowed private banks more freedom in making lending decisions. A large push for bank deregulation was made that included the removal of many restrictions on equity, bond, insurance and other financial activities. Financial deregulation brought many benefits to the Indonesian economy such as reducing the role of the state in allocating credit, providing Indonesians with more choices in financial services, and reducing the costs of financial intermediation.

Unfortunately, the Indonesian government did not pair deregulation with the creation or even modest development of the proper supervisory and regulatory capacity needed to monitor the expanded financial system. Some banks, especially state banks were allowed to violate regulations without penalty. The state-owned banks in particular had large exposures to firms controlled by the Suharto's and their associates and the loans were rarely fully serviced. Attempts to reduce non-performing loans and increase the strength of banks were made during the 1990s and in many respects these reforms were successful. The number of non-performing loans in private banks was down to 5% in 1996 from 11% in 1992.

The Indonesian government did place limits on offshore borrowing by commercial banks, the government and state owned enterprises. The government did not place restrictions on foreign borrowing by private companies. When the crisis hit, private companies debts were difficult to restructure because of the large number of them and their diffuse nature.

4. The last main weakness in the Indonesian economy was the increasing influence of the business interests of Suharto's close business associates and his children. This cronyism that now involved Suharto's children represented a change.

The crony capitalist approach to economics did lead to rather remarkable economic development but it was not matched by corresponding development in legal and regulatory institutions. This lack of development in the legal and regulatory sphere allowed Suharto, his associates, and his children, free reign.

> This often led to failed business decisions that Indonesian taxpayers picked up the tab for.[67]

These weaknesses contributed to Indonesia's susceptibility to a loss of confidence and subsequent capital flight in 1997 and 1998. The first three points were all policies that Suharto approved and were part of the economy that Suharto tightly controlled. In controlling the economy, every significant business decision traveled through Suharto's office.

The 1990's were different from previous decades primarily in the level of involvement that Suharto's family achieved in the Indonesian economy. The Suharto family assumed a more active role in several industries, and they enjoyed a level of privilege, protection, and funding from the government beyond anything Suharto's cronies had enjoyed. As the family's influence grew, problems arose. Suharto refused to curb his children excesses, or hold them accountable for their mistakes. It is likely that Suharto's strong sense of family prevented him from reining in his children.

Problems with the Indonesian economy, such as the large capital inflows, overvalued exchange rate, slowing export growth, and a weak banking system were difficult if not impossible to fix because of the relationships among Suharto, his close business associates, his family, and the Indonesian economy. While cronyism and corruption had long been prominent features of the Indonesian economy, the depth to which cronies and family members enjoyed privileges increased in the 1990's. Suharto's children began to play a more active role in businesses such as the shipping of oil and gas, production of petrochemicals, clove marketing, hotels, and toll

[67] Radelet. 1999. Pg. 3-5.

roads, among others.[68] The businesses run by Suharto's friends and families were lent money by foreign creditors, less for reasons concerning the Indonesian businesses' financial viability than out of the belief by the foreign creditors that the Indonesian government would not allow the businesses to default on the loans.

As the 1990s progressed, the wealth of Suharto's children and their influence steadily increased. Unfortunately for Suharto, their influence was inversely proportional to Suharto's popularity. The children's and associates' success, and at times excesses, led to resentment and a declining popularity for Suharto, even when the economy was performing relatively well. This situation essentially created a slim margin of error for the Suharto family and associates.

Understanding the role of the Suharto children and the cronies is essential to understanding the IMF's priorities in dealing with the financial crisis. To see how their position in the Indonesian economy affected Indonesia's dealings with the IMF, are must first look at the power and position of Suharto's children's prior to the financial crisis.

Suharto has six children, three girls and three boys. Siti Hardiyanti Rukmana, or Tutut, is Suharto's oldest daughter. Born in 1949, she amassed a considerable stake in the Indonesian economy. She was involved in over 100 companies dealing with such areas as for-profit toll roads, contracting, broadcasting, telecommunications, manufacturing, and banking. In 1997, her net value was estimated to be at least $2 billion, although the true extent of her assets is

[68] Unless otherwise specified with a direct quote, the information on Suharto's children during the 1990s is taken from Kingsbury, 1998, p. 198-218.

unknown. Tutut served on the board of a cab company that defaulted on a $250 million loan. This default helped cause the fall of a Hong Kong investment house.

Sigit Harjojudanto is the oldest son and second oldest child. He has been involved in about 20 companies and in mid-1997 was worth about $450 million.

Bambang Trihatmodjo was born in 1953 and is the third oldest child. He has had interests in over 140 companies. He was involved in electronics, telecommunications, broadcasting, car production, property, construction, and shipping. An example of the incestuous connection between one of Suharto's children and the government is the Satelindo company of which Bambang owned 60%. Satelindo took control of Indonesia's state-owned satellite service in 1993 at *no cost* (emphasis added). The arrangement continued unabated even though it was costing the Indonesian government $100 million a year in lost revenues.

Siti Hediati Herjadi, or Titiek, was born in 1959. Titiek has had interests in about 80 companies. She was a partner in Jakarta's Plaza Senayan shopping development with brother-in-law Hashim Djojohadikusomo. Titiek was given the approval to construct a bridge between Sumatra and the Malay Penninsula. The project made little sense and seemed to be done more for reasons of national pride than satisfying a transportation need between the two landmasses. The project brought many questions from the international community. Bridge construction was abandoned due to the financial crisis. In 1997, Titiek's personal wealth was estimated at $200 million.

Siti Hutami is the child with the smallest role in the Indonesian economy. She is the poorest as well. In 1997 she had a net value of about $100 million.

The child who is regarded as Suharto's favorite is Hutomo Mandala Putra, also known as Tommy. Tommy's business dealings in cigarettes, an airline (Sempati Air), importing liquefied natural gas, toll roads, wood manufacturing, fertilizer production, construction, advertising, the media, gas exploration, timber, sugar and palm oil plantations, clove concessions, and car importing have received a lot of public attention. The business interest that has attracted the most attention is the failed attempt to create an Indonesian produced car. It was to be called the Timor and the hope was that it would elevate Indonesia's standing in the international economy to have a domestic car manufacturing plant. The car project was criticized by many as a plan that was driven by vanity rather than sound economic principles. One billion dollars of funding for the project was cancelled at the request of the IMF. Another example of Tommy's preferential treatment as a member of the Suharto family was his dealing with his private airline, Sempati Air. The Indonesian press has reported that Tommy owes the government back rent on hangars and offices.[69]

Suharto's preferential treatment of his children is also seen in Tommy's attempt to run the clove business. This was a public failure that demonstrated the nepotism of the Suharto regime and the burdens it placed on Indonesian farmers. In 1990 Tommy obtained a monopoly over the Indonesian clove market. By 1992, loans totaling $350 million from a state-owned bank were not enough to keep *kretek* cigarettes (a cigarette consisting of a blend of cloves and tobacco) in

[69] Aditjonkro, Geroge J. "Suharto and Sons." The Washington Post [Internet, WWW] ADDRESS: http://www.stern.nyu.edu/~nroubini/asia/AsiaHomepage.html [Accessed 4 April 2000]

business. By the end of 1992 it was clear that the business had failed. In addition to costing the state-owned bank $350 million, farmers were forced bear the brunt of the decreasing value of the cloves they grew, while Tommy's monopoly maintained it original selling price. The farmers paid for the difference and this difference went to pay for Tommy's debt for the failed business.

Despite his failure in the clove market, Tommy was given the opportunity to head the Timor car project, one of the most important business projects in recent history in terms of cost and potential international standing. The Timor project had little support from international investors. Many, including ABRI, domestic businesses, international investors, and some of Tommy's siblings, were outraged by the project. To many it was another example that Suharto could not control his children and also had little commitment to free and fair trade. This alarmed investors and indicated that Indonesia was not headed towards economic liberalization and the cronyism that had been the hallmark of his 30 years of rule showed no signs of abating. Thus, the Timor car project played an important role in the run on the rupiah in 1997.[70]

Conclusion

It is impossible to evaluate the Indonesian financial crisis of 1997-98 without taking into account the dominant role Suharto played – and which contributed to his successful presidency – in the economic development of the country. Suharto's domination of the Indonesian military, government, and economic institutions, is the key element in Indonesia's economic success, and its precipitous failure.

[70] Kingsbury, 1998 p. 209-218

Suharto's central position, combined with the success of the economy, determined the position of power the government of Indonesia had during its negotiations with the IMF. A regime with such prominent corruption and cronyism was unacceptable to the IMF. The Indonesian economy, while in many ways successful for three decades, needed serious change and that need, rather than social safety nets, was the IMF's priority. The Indonesian government was responsive to the needs of the people in the areas of labor reform, reduction of poverty, health care, and education. Suharto's New Order showed significant gains, and most Indonesians became substantially healthier, safer, and were presented with greater economic opportunities. Unfortunately, when the bubble burst, the average Indonesian who made gains under the New Order stood to lose everything when the IMF chose to focus on Suharto at the expense of protecting them through a social safety net.

Chapter 5. The Financial Crisis of 1997 and 1998: The Effects of the IMF's Actions on the Poor of Indonesia

Just as Suharto, his cronies, and his family achieved almost complete control of the Indonesian economy, the financial crisis that would eventually lead to Suharto's resignation, struck the Indonesian archipelago. The crisis cut deeply into many of the economic and developmental gains Indonesia had made over the past 30 years. The strength of the rupiah was cut in half in a matter of months and food prices skyrocketed, leading to food riots throughout the country.[71]

When the IMF entered the picture to attempt to solve the crisis, it had to deal with a poor population in dire need of a formal safety net to protect them from the effects of the crisis, and an economy in need of major reforms. The primary obstacle to the IMF's attempts at reform was President Suharto. Suharto wanted to institute the minimum amount of pro-market reforms necessary to receive funds from the IMF to stabilize the economy, while holding onto the presidency. The centralized power Suharto possessed and his use of that power to resist the IMF led to a showdown with devastating consequences for the poor of Indonesia. The IMF's attempts to enact pro-market reforms, for example with the food collective Bulog, occupied its attention while the task of constructing a social safety net was largely ignored.

When a currency crisis strikes a developing country, restoration of the value of the currency requires a restoration of the public and financial community's confidence. Unfortunately for the poor of Indonesia, mistakes made by the IMF and the GOI delayed a restoration of confidence and a successful stabilization of the rupiah. By 8 April 1998, when the third letter of intent was signed, the Indonesian economy was contracting and the currency was depreciating.[72] Both the IMF and GOI wanted to stabilize the Indonesian economy, which meant stopping the decline of value of the rupiah (depreciation). Hoping to prevent further capital flight, both sides wished to restore international confidence in the Indonesian economy. The IMF saw the key to stabilizing the economy in a fundamental restructuring of the Indonesian economy. This included strengthening the weak legal and financial regulatory system, and this would require reducing the power of the Suharto family monopolies that had dominated the economy since the early 1990's.

Suharto had quite a different vision for the stabilization of the Indonesian economy. Throughout the crisis Suharto was working to hold onto the presidency. Integral to this strategy and consistent with the Javanese conception of power, Suharto could not be seen acquiescing to the demands of anyone, especially a foreign organization like the IMF. Thus, Suharto, on 10 March 1998, announced that the IMF reforms were not going to be agreed to because they contravened Indonesian law. This indicated that Indonesia's economy would not adopt a legal and regulatory system that would curtail the power he, his family, and his cronies enjoyed throughout his reign. The conflict between the IMF, which held the keys to Indonesia's recovery, and Suharto, who had controlled Indonesia for over 30 years, had disastrous consequences for the construction of a social safety net in the early months of the crisis.

---

[71] Emmerson, Donald K. 1999. Pg. 328. "Exit and Aftermath: The Crisis of 1997-98." Indonesia Beyond Suharto. Ed. Donald Emmerson. New York: M.E. Sharpe.
[72] Emmerson, Donald K. 1999. Pg. 328.

The IMF's Intentions Regarding Social Safety Net Construction

Suharto made every attempt to protect the privileged position of his cronies, his children, and his presidency. The challenge to the Fund was to work within the framework of these factors to follow through on their goals of protecting the poor and foster what Camdessus described as "growth centered on human development."[73] The first step in evaluating the IMF's actions for constructing a social safety net in Indonesia is to examine a statement of the IMF's intentions on social safety net construction. In "Mitigating the Social Costs of the Asian Crisis,"[74] an IMF staff paper, published by the department of Finance and Development in September 1998, the Fund outlined the approach it intended to take regarding the sponsorship of social safety net construction. The report outlines the social safety net measures in Taiwan, Korea, and Indonesia that existed before the crisis. It then summarizes the efforts to construct a social safety net or in the words of the report, "social protection, in IMF-supported programs in Indonesia."[75] Lastly, it outlined measures to be taken if the financial crisis were to worsen and the Indonesian economy did not show signs of recovery. The IMF believed that two possible signs of recovery would be an increase in the value of the rupiah and increased economic growth.

"Mitigating the Social Costs of the Asian Crisis" describes what IMF did regarding the construction of a social safety net in Indonesia. More detail is given in this report about the construction of a social safety net than in the various letters of intent. This report includes a

[73] Camdessus, Michel. Interview in IMF Survey. 10 December 1999. Pg. 386 "Camdessus discusses prospects for globalization, need to fight "patent injustice of world poverty." Washington, D.C.: IMF Publications.
[74] "Mitigating the Social Costs of the Asian Crisis." International Monetary Fund: Finance and Development, Volume 35, Number 3. September 1998 [Internet, WWW] ADDRESS: http://www.imf.org/external/pubs/ft/fandd/1998/09/imfstaf2.htm [Accessed: 18 April 1998]
[75] "Mitigating the Social Costs of the Asian Crisis." 1998. Pg. 4.

comprehensive list of measures to be enacted to provide some measure of protection for the poor in Indonesia.[76] The IMF's plan for constructing a social safety net in Indonesia was ambitious because it addressed the four social indicators of health and nutrition, education, employment, and poverty simultaneously. This report portrays the IMF as taking a proactive, but cautious approach towards social protection. The IMF was aware that its institutional bias towards caution was the appropriate way to proceed. The Fund did not want to create a disincentive for people to work, and they wanted to discourage moral hazard in the future. Of Taiwan, Korea, and Indonesia, the report says:

> The challenge in the three countries has been to establish cost-effective and fiscally sustainable safety nets that do not create the types of large labor market disincentives (such as overly generous unemployment benefits) seen in some of the countries belonging to the Organization of Economic Cooperation and Development and that do not discourage job creation in promising sectors."[77]

It is appropriate to summarize the measures the IMF recommended the GOI adopt in order to promote improvement in each of the four social indicators:

> **Employment**:
> Expansion of employment-generating public works programs targeted at poor households.
>
> Expansion of the amount of credit it makes available to people in rural areas and to small and medium-sized enterprises.

---

[76] "Mitigating the Social Costs of the Asian Crisis." 1998. Pg. 4.
The report says: In Indonesia, government spending on social safety nets is programmed to amount to 7.5 percent of GDP in fiscal year 1998/99. Across-the-board subsidies on food, fuel, electricity, medicine, and other essential items are estimated to amount to 6 percent of GDP. These subsidies help to contain increase in the cost of living for all households, including the poor and vulnerable. In addition, the World Bank, the Asian Development Bank, and bilateral donors are supporting the expansion of employment-generating public works programs targeted to poor households. The United Nations World Food Program is establishing food-for-work programs, especially in drought stricken areas. The Indonesian government plans to increase spending on health care for vulnerable groups, village health centers, and immunization; budget allocations for school lunch programs, scholarships, and block grants to schools are also being increased. In addition, the government is expanding the amount of credit it makes available to people in rural areas and to small and medium-sized enterprises.

[77] "Mitigating the Social Costs of the Asian Crisis." 1998. Pg. 4.

Establishment of food-for-work programs, especially in drought stricken areas.

Health and Nutrition:
Increased spending on health care for vulnerable groups, village health centers, and immunization.

Education
Increased spending on budget allocations for school lunch programs, scholarships, and block grants to schools.

Poverty
Across-the-board subsidies on food, fuel, electricity, m*edicine, and other essential items.*

In this case, measures to combat poverty are identical to the measures meant to increase employment.[78]

While this appears to be a comprehensive plan, the report goes on to explain that additional measures could be taken to strengthen social protection if the crisis continued on longer than expected. The report states:

> In Indonesia, it is essential to target subsidies more effectively to reduce government expenditures while continuing to protect the living standards of the poor. Richer households now consume a significantly greater share of most subsidized products than low-income households. Therefore, the government could consider subsidizing lower-quality commodities predominately consumed by the poor (for example, coarser varieties of rice). It is also critical that the government maintain an effective system of food distribution, either on its own or with the assistance of the private sector and nongovernmental organizations. In addition, community-based public works programs could be expanded while the administrative capacity to implement these program is strengthened. Finally, the government could consider subsidizing public transportation, rather than fuel consumption.[79]

The report reflects the tension between the primary objective of the IMF – correcting balance-of-payments disequilibria – and dispersing funds for social safety net construction. The report

[78] "Mitigating the Social Costs of the Asian Crisis." 1998. Pg. 4
[79] "Mitigating the Social Costs of the Asian Crisis." 1998. Pg. 5.

continues: "In Indonesia, it is essential to target subsidies more effectively to *reduce government expenditures while continuing to protect the living standards of the poor"* (emphasis added).[80]

This report addresses several issues. First, the IMF took seriously the dire predictions of their own analysts, analysts at the World Bank, and those of humanitarian organizations. The poor were going to suffer as a result of the financial crisis. The Fund actively supported measures to protect the poor from the effects of the financial crisis and the adjustment program. The IMF continued its public stance that social protection and social safety net construction was an important priority in Indonesia. However, one cannot ignore or understate the conflict of helping the poor while simultaneously reducing government expenditures, the IMF's primary objective in returning macroeconomic health to the Indonesian economy. The emphasis on reducing government spending and dismantling Bulog, raised doubts about the Fund's sincerity in dealing with social issues. As mentioned earlier, the IMF's concern for macroeconomic stability and legal, economic, and political reform had dire consequences for Indonesia's economic stability in the short term.

Social Safety Net Construction in Indonesia
31 October 1997-21 May 1998

The IMF intended to encourage the construction of a social safety net as long as such construction did not interfere with the reforms the Fund believed Indonesia needed to implement in order to, first, stabilize the economy, and second, make a full and lasting recovery. From the very beginning, it appeared that the IMF and Suharto would be working at cross-purposes.

[80] Mitigating the Social Costs of the Asian Crisis." 1998. Pg. 5.

Suharto wished to maintain his hold on power and preserve the privileged position his family and cronies occupied in Indonesia's political economy.

The crisis[81] that would eventually expose the weaknesses of crony capitalism in Indonesia began in Thailand on 2 July 1997. The Bank of Thailand abandoned the peg that linked the value of the Thai baht to the U.S. dollar. In relation to the dollar, the baht quickly lost almost a fifth of its value. Nine days later, the next domino fell. The Philippine peso began a decline that would cost it ten percent against the U.S. dollar. Next, the central bank of Malaysia halted its efforts to defend the ringgit, which quickly dropped to a 33 month low. In just 12 days the currencies of three East Asian countries began to spiral downward quickly enough to alarm the global financial community.

The fourth country to suffer from a decline in the value of its currency was Indonesia. On 14 August 1997, the Bank of Indonesia abandoned its efforts maintain a slow and controlled depreciation of the rupiah. Soon thereafter, the rupiah fell by 6 percent against the dollar. On 30 June the rupiah's value was about 2,449 to the U.S. dollar. By late October the rupiah had plummeted in value to somewhere between 3,600 and 3,800 to the dollar, a decline of about 50% in overseas buying power, and it was going to get worse.[82]

[81] For a complete discussion of the sequence of events of the East Asian financial crisis see: Emmerson, Donald K "Exit and Aftermath: The Crisis of 1997-98." The chapter covers the entire crisis but for a close look at the sequence of events refer to pages 320-340.

[82] At this point in this study it would seem logical to address the argument on the issue of whether foreign or domestic factors, or a combination, were responsible for the decline in the value of the rupiah, and in turn, the loss of public and financial confidence in Indonesia. However, that is an argument that is too long and complex to address in this study. I believe the state of Indonesia's economy in 1997 made it susceptible to disruption by a crisis that began elsewhere. It is my view that the argument that a single factor, internal or external, was the cause is a false one. Indonesia likely could have weathered an economic crisis plaguing other East Asian countries if it had had its own house in order. The foreign debt, weak supervisory and regulatory framework, and crony capitalism, all contributed to make Indonesia incapable of defending its currency.

The first agreement between the IMF and GOI came on 8 October 1997 and gave Indonesia access to $43 billion in loans from three multilateral agencies and five countries. This agreement was conditioned on Indonesia's efforts to enact specified reforms. A second agreement was made on 15 January 1998 because of Indonesia's perceived reluctance to enact the reforms outlined in the first agreement. The IMF and the GOI came to a third agreement on 10 April 1998 because the IMF did not believe Indonesia had begun to enact the reforms agreed upon in the second letter of intent. The third agreement listed 117 actions that the GOI would have to complete in order maintain access to the $43 billion. After five months of negotiation, and three agreements three billion dollars, just seven percent of the original amount, had been disbursed.

Constructing a social safety net was necessary in the early months of the crisis because the informal safety nets that normally protected the poor disintegrated as soon as the crisis began. The most basic force in the market, supply and demand, made its presence felt with a vengeance. As money became scarce, food prices increased and the assistance neighbors and family members could give declined dramatically. A succinct description of Indonesia's method of social protection comes from the World Bank's 1999 Annual Report: "The crisis broke down part of East Asia's implicit social contract, in which the state provided investments in health and education, while growth and family ties provided a safety net."[83] This description of the social contracts of East Asia was especially relevant to Indonesia. While the GOI provided nine years of schooling for children, social protection during Suharto's reign was largely informal. Since

[83] "Annual Report 1998, East Asia and the Pacific, Introduction," World Bank. [Internet, WWW] ADDRESS: http://worldbank.org/html/extpb/annrep98/east.htm

the early 1970's, the net growth of Indonesia's economy and the subsequent increase in the number of available jobs led to a steady reduction in poverty by absorption of all but the chronically unemployed into the workforce. There was also informal social assistance at the village level that targeted the poor and other disadvantaged groups.[84]

The predominance of informal social safety nets in Indonesia would make the IMF's intention of protecting the poor from the social impacts of the crisis especially difficult. In Korea, providing social protection as a part of a conditionality package was relatively easy. Korea had formal unemployment insurance, public assistance programs, such as means tested subsidies for health care, insurance, and social welfare programs. Indonesia's lack of an administrative welfare system would make any attempt at social protection difficult, thus making it vital that measures for social protection receive greater attention than they did in Korea. Resources needed to be brought to bear to construct a social safety net as soon as the crisis began.

The first step to reform through an austerity plan began with the first Letter of Intent[85] negotiated by the GOI and the IMF, sent by the GOI to the IMF on 8 October, 1997. This officially established, as part of the conditionality package, the intent of IMF and GOI concerning measures for social safety net construction. Paragraph 45 of the Letter of Intent says:

> Indonesia has made significant progress in alleviating poverty over the past 30 years. Yet large number of poor still remain, and *it is imperative that the adjustment program does not result in a worsening of their economic and social conditions* (emphasis added). The depreciation should benefit the rural poor by

---

[Accessed: 6 March 1998]

[84] "Mitigating the Social Costs of the Asian Crisis." September 1998. Pg. 4.

[85] Letters of Intent are prepared by the member country. They describe the policies that a country intends to implement in the context of its request for financial support from the IMF. These documents are being made available on the IMF website by agreement with the member country as a service to users of the IMF website. Source IMF Website http://www.imf.org/external/cntpst/aboutcontent.asp#LOI

> raising output prices in the export-oriented agricultural sector. Measures necessary to achieve fiscal targets will protect expenditures on health and education. In addition, efforts to target assistance to the poor will be intensified, including by expanding the program for the least developed villages, initiated in 1994, which has proved to be cost effective in creating rural infrastructure and expanding employment opportunities for the poor. Moreover, poverty eradication and more equal income distribution are to be major themes of the next five-year development plan, which begins in 1999. In particular, budgetary allocations for social spending will be increased, so as to ensure that all Indonesians receive at least nine years of education and better basic medical services. [86]

This paragraph represents the sole reference in the letter of intent to a social safety net. In this paragraph the IMF makes clear its goal to protect the poor from the devastating effects of the crisis. It outlines the standard by which the IMF has chosen to measure its actions. The phrase, "it is imperative that the adjustment program does not result in a worsening of their economic and social conditions"[87] provides the justification for the stringent standard I have employed to evaluate the IMF's efforts of constructing a social safety net in Indonesia to protect the poor from not only the crisis, but the adjustment program as well. If the social conditions of the poor in Indonesia worsened as a result of the IMF's adjustment program, then the Fund will have failed to accomplish what, it sought to accomplish: protection of Indonesia's poor.

The IMF had plans for social safety net construction and implementation but was willing to put them on hold in order that Suharto agree to other conditionality measures. The negotiations resulted in a delay of three to four months, during the first five months of the crisis in the implementation of policy measures meant to build a safety net.

---

[86] "Letter of Intent." International Monetary Fund. 31 October 1997. (d) Social Safety Net [Internet, WWW] ADDRESS: http://www.imf.org/external/np/loi/103197.htm [Accessed: 28 February 2000]
[87] "Letter of Intent" (d) Social Safety Net. October 31, 1997

The way in which the IMF's actions hurt the Indonesian poor is explained in Shalendra D. Sharma's article, "Bitter Medicine for Sick Tigers." Sharma, a specialist in the politics and political economies of South and Southeast Asia and the international relations of the Pacific Rim, asserts that the "game of brinksmanship" between the two sides trying to protect their own interests hurt the poor during the crisis. The October 1997 Letter of Intent sent by Indonesia to the IMF outlined the conditions to which the GOI would have to agree in order to secure the $47 billion aid package from the IMF, other multilateral organizations, and donor countries. As was mentioned before, for each party this meant two very different things. For the IMF, stabilizing the economy and fostering long-term growth meant reducing the widespread and accepted forms of corruption and cronyism that had been an integral part of Suharto's reign. Further, Sharma declares that**:**

> Indonesia was required to adopt measures to strengthen the legal and regulatory environment and to establish a strong enforcement mechanism and clear exit policy. The latter included implementing a broad range of structural reforms such as the liberalization of foreign trade and investment, dismantling inefficient domestic monopolies, expanding deregulation and privatization and allowing greater private sector participation in the provision of infrastructure.[88]

These are measures that many of Suharto's critics, both inside and outside the country, had been demanding for years. However, Suharto held tight control over the economic, political, and military structures within Indonesia, and was not about to relinquish it. These reforms, if enacted, would have reduced Suharto's hold on power by decentralizing the economy, opening it to market forces beyond his control. The pro-market reforms sponsored by the IMF were

[88] Sharma, Shalendra D. April 1998, "Bitter Medicine for Sick Tigers: The IMF and Asia's Financial Crisis. Pacific Rim Report No. 8." [Internet, WWW] ADDRESS: http://www.pacificrim.usfca.edu/research/pacrimreport/pacrimreport8.html [Accessed: 3 February 2000]

intended to decentralize the economy of a borrowing-country. The IMF's attempts at economic decentralization were direct attacks on Suharto's absolute control over Indonesia. The beneficiaries of the decentralized economy -- small business owners of businesses that would take on responsibilities once the purview of the government, such as importing food -- would not depend on patronage from Suharto.

The damage to Indonesia's economy during the crisis was so severe that in the end, Suharto could not resist the IMF's demands for reform. Suharto was unable to fix the economy, and he encountered the only problem that observers of Indonesia thought would lead to his downfall, a deep, although not necessarily prolonged, financial crisis he was unable to make go away. The financial crisis and the crippling effect it had on the Indonesian economy were opportunities for the IMF to force these reforms on a reluctant Suharto:

> Convinced that Suharto and his newly appointed cabinet, aptly
>
> dubbed the 3K's for korupsi, kolusi, and keluarga (or corruption, collusion and family connection), was not serious about implementing economic reforms, the IMF and key donor governments responded by withholding its $3 billion aid tranche and postponing the review of the aid package until mid-April[89]

The negotiations between the IMF and GOI continued while the value of the rupiah declined and the economy continued to contract.

The attention paid to the negotiations between Suharto and the IMF is relevant to the IMF's attempt to construct a social safety net because the withholding of funds by the IMF proved to be devastating to the poor of Indonesia. Within the first five months of the crisis only seven percent of the funds had been released. Indonesia's economy continued to deteriorate. The global

[89] Sharma, Shalendra D. April 1998

economic community did not receive the reassurances aid to Indonesia would have signified. As Shalendra explains:

> Caught in this debilitating game of brinkmanship, the rupiah fell past the 10,000 to the dollar level, and total foreign debts climbed to over $166 billion with severe reverberations in the economy. For example, the cost of living has increased at an annualized rate of over 200 percent. The price of essential foodstuffs such as rice rose by 25 percent in February 1998 (leading to food riots in East Java), and the price of baby formula and powdered milk has risen by 400 percent since the crisis began. The World Bank projects that the sharp increases in unemployment will increase poverty levels — almost doubling the number of poor from 23 to 40 million. It soon became clear that the consummate dalang (master puppeteer) had sadly lost his Midas touch. Reluctant to challenge the privileges of his family, cronies and the powerful traditional constituencies (such as the military establishment), Suharto further jeopardized the future of his vast and ethnically varied archipelago empire.[90]

The events that follow an acute financial crisis - food shortages and civil and social unrest - appeared in Indonesia. Student protests occurred in Jakarta in the summer of 1998. They were widely acknowledged by observers of the Indonesian situation, particularly journalists and academics, as factors that contributed to Suharto's decision to step down as president.

The food shortages became food riots, precipitated by the IMF's decision to deregulate Bulog, the Food Supply Agency. Bulog was a monopoly that assured stable prices for basic necessities such as rice, sugar, soybeans, wheat flour and cooking oil.[91] In the first few months of the crisis, Bulog was the only monopoly the IMF made an effort to dismantle. Bulog was chosen by the IMF as the first test case on 20 August 1997, because Bulog was not connected to the first family to the extent that other candidates for dismantling were, such as the automobile and clove conglomerates run by Suharto's son Tommy.

---

[90] Sharma, Shalendra D. April 1998

The Fund's actions regarding the food cooperative Bulog demonstrates the primacy of the Fund's goal of decentralizing the Indonesian political and economic structure. The IMF chose to dismantle the Bulog monopoly at a time when Indonesians needed the agency's services the most. The El Nino-induced drought, and the subsequent fires were going to raise food prices. With the addition of currency depreciation, the poor in Indonesia were going to require assistance to stabilize and then reduce the prices for food. The arguments against deregulating Bulog in the early months of the crisis are compelling. First, Bulog was not responsible for the problems with the economy. Second, athough Bulog was a monopoly, it had a history of keeping necessities within the reach of most Indonesians, especially the poor. Third, if the crisis spread, it would likely lower the buying power of millions of ordinary citizens. When this happened, Bulog's services would be needed to keep the poor fed and to prevent unrest.[92]

The deregulation of Bulog failed to prevent an increase in food prices. Deregulation failed to make Bulog more competitive (at least temporarily) and the attempt at reform hurt the capacity of the GOI to help the poor in the early months of the crisis. In November 1997, food prices increased by 17.3 percent. The year on year average increase of the overall consumer price index (CPI) during the first quarter of 1998 rose by 29.7 percent, compared with an average annual increase in the CPI of merely 8.8 percent from the period of 1990-96.[93] The price riots, looting of ethnic-Chinese shopkeepers suspected of hoarding, fatalities, and panic buying and stockpiling all began in early 1998. The events a social safety net is designed to prevent took place across Indonesia.

---

[91] Emmerson, Donald K. 1999. Pg. 327-328. "Exit and Aftermath: The Crisis of 1997-98." Indonesia Beyond Suharto. Ed. Donald Emmerson. New York: M.E. Sharpe.
[92] Emmerson, Donald K. Pg. 327. 1999.
[93] Emmerson, Donald K. Pg. 328. 1999.

The two parties fighting to control how to repair the Indonesian economy were, according to Emmerson, the replenishers and the reformers. The replenishers- Suharto, his family and associates - wished to make necessities widely available and affordable. It should be noted that to provide protection to the poor and limit the cathartic reforms through deregulation, the replenishers stood the best chance of preserving their power base. The reformers, a camp to which the World Bank and the IMF belonged, wanted to deregulate the Indonesian economy and introduce the corrective powers of the marketplace. The debate between replenishers and reformers is a complex one, and I will not address it here. However, it is important to note that a very serious debate took place and the IMF was not on the side of those whose priorities included making necessities available to all Indonesians at a reasonable price. The IMF risked the distribution of basic necessities to the poor when there were no viable alternatives to Bulog. Emmerson frames the debate between the IMF and Suharto through the debate over the deregulation of Bulog, asking: "If the crisis had become a danger to the livelihoods of millions of Indonesians, if the most urgent priority therefore was on making necessities widely available and affordable to reduce mass suffering, and if Bulog's track record in this regard was at least adequate, one could ask: Why revamp the agency precisely when its services were most badly required?" [94] According to Emmerson, "above all, the IMF saw the crisis as an opportunity to unshackle Indonesian markets from collusion, corruption, and nepotism (KKN)." [95] Decentralization, not social issues was the Fund's priority during Indonesia's financial crisis of 1997-1998.

[94] Emmerson, Donald K. Pg. 328. 1999.
[95] Emmerson, Donald K. Pg. 328. 1999.

Conclusion

In the game of “brinksmanship” between the IMF and Suharto, from the beginning of the crisis in July 1997 until Suharto relinquished the presidency in May 1998, sponsoring social safety net construction was not the IMF’s first priority. The push for decentralization was the Fund’s primary priority. The IMF’s macroeconomic mandate as outlined in its Articles of Agreement,[96] and the reform through austerity approach the Fund has used since it began dealing with developing countries in the 1970s, led to the decision to demand harsh reforms in Indonesia. The IMF had economic and political considerations in Indonesia, ensuring that monopolies were dismantled and structural reforms took place, before it worried about other concerns such as the construction of a social safety net.

The dismantling of Bulog through deregulation demonstrates that the IMF was not only focused on structural reforms, but that it would place the GOI’s ability to keep food prices low - to assure a stable and available food supply for the poorest Indonesians - in serious jeopardy. After the IMF’s attempts at harsh reforms, Suharto and the IMF began a game of brinksmanship that delayed progress in stabilizing the economy. The disagreements between the Fund and Suharto, and the resulting delays in releasing funds to stabilize the economy, had, according to Shalendra Sharma and Donald Emmerson, detrimental effects on the living conditions of the poor, in the form of soaring food costs, and an increase in the incidence of those falling below the poverty line.

[96] See Chapter 3

Chapter 6. Conclusions, Reservations, and Further Study

Conclusions

This thesis has described the actions of the IMF in dealing with Indonesia during the 1997-1998 financial crisis. The project attempted to answer the following question: Was protecting the poor from the effects of the financial crisis through the sponsorship of the construction of a social safety net a primary priority for the IMF when it negotiated a conditionality package with Suharto. Through a Constructivist perspective, we are examining whether the IMF's *constitutive rule* of constructing adequate social safety nets that provide substantive protection for the poor in a crisis, become a *convention*? The answer to the question is no. Constructing a strong social safety net during a financial crisis is not a convention. The Fund's focused on decentralization required them to take risks with what few tools, such as Bulog, the GOI had to provide basic social services to its citizens.

This topic was selected because the IMF has been criticized in the past for forcing changes in a borrowing country's economy that had a detrimental impact on the poor. In the future, the negative impact of an IMF conditionality package might be studied through examining four social indicators -- education, employment, health and nutrition, and poverty -- but an examination of these indicators was not possible at the time this project was undertaken.

This work is relevant to the scholarship on the IMF because it is important to judge the effectiveness of the IMF's priorities when they are assisting a borrowing country maintain balance-of-payments equilibrium. In Constructivist terms, has the IMF overcome what Keohane refers to as "the democratic deficit" found in many International Organizations, to set itself on course to make the constitutive rule of social safety net construction become a convention?

The mandate of the IMF, maintaining the stability of the international financial system, makes studying the Fund's actions regarding constructing social safety net in Indonesia a complicated matter. Issues that make the relationships between the actors so complex are first, the questions about the ability of an international financial organization, such as the IMF, to address social issues. In the case of Indonesia, it is not clear that the IMF has the ability to build a social safety net to protect the poor from the short-term effects of the financial crisis. A second issue in this thesis is the nature of the Indonesian political system. Within this political system is the common way power is conceptualized in Java, the traditional capital of Indonesia. This conception of power and Suharto's presidency are relevant because the high degree of central control Suharto exerted over the Indonesian political system played a role in prolonging the crisis and delaying the assistance to the Indonesian poor. The third issue I discussed in chapter five, is the approach the IMF took in trying stabilize the Indonesian economy. The Fund opted to enact harsh reforms that, along with a drought and forest fires, contributed to price increases, and endangered access to food. The IMF failed to make food affordable to the poor and food riots, a common result of IMF conditionality packages, occurred in 1998 in Jakarta.

Sponsoring the construction of a social safety net was not a primary priority for the IMF. The Fund's priorities were political in nature. The most important political objective the Fund had was to encourage decentralization of the Indonesian political and economic structures. Essential to the effort of decentralization was putting an end to the Suharto's regime of authoritarian rule and crony capitalism. When faced with a financial crisis that could have eviscerated the progress in social issues made in the previous 35 years, the Fund chose to focus on decentralization, despite the cost in social issues that would inevitably follow from such a drastic restructuring, such as an increase in the poverty rate and increased scarcity of affordable food for the poor.

Reservations

This thesis did not include an in-depth analysis of the distribution of funds from the Fund to Indonesia. In addition, it did not explain the coordination of activities between the IMF and the World Bank, NGOs, and other organizations involved in constructing a social safety net. While they were not vital to this project, one could argue that these efforts are integral parts of the process of constructing a social safety net during a financial crisis when the IMF is involved and should have been included.

Another reservation to consider is Indonesia's political crisis that resulted in the end of Suharto's rule after 32 years of his New Order. It is normal for a financial or monetary crisis requiring assistance from the IMF to bring about political change, but in Indonesia the crisis of 1997 and 1998 caused an upheaval that altered the very nature of the Indonesian political system and economy. With the unraveling of the Suharto and family - centered New Order political system; the focus by protestors, the media, and the international community on the question of presidential succession; and a lack of a welfare infrastructure, the question remains: could the IMF have constructed a social safety net before these other problems were solved. If a strong internal structure for distributing aid to the poor was in place, then perhaps problems with Suharto, and the question of succession could have been bypassed; however, the uncertainty surrounding Suharto and the future of Indonesia ensured that most if not all eyes, would be focused on Jakarta, Suharto, and later, B.J. Habibie.

Further Study

International institutions, notably the IMF and the World Bank, are significant actors in the world of international relations. Whether or not the IMF can successfully address social issues and be seen as an organization that increases the overall quality of life for those in borrowing countries will have profound implications for the Fund's future. If IMF policies continue to hurt the poor, then support for the Fund's policies will decrease and make it difficult for them to operate successfully in countries that are suffering through balance of payments disequilibria. At present, and for much of the period it has dealt with developing countries, the IMF has come to be seen by many, such as Jeffrey Sachs, Mahathir Mohammid, and Shalendra Sharma, as a symbol of the pains and hardship the cause of the plight of the poor who are left unprotected when a developing country enacts pro-free market reforms in order to borrow money from the IMF. The perception of the ability of the IMF and the World Bank, the two pillars of the Bretton Woods system, to successfully deal with poverty in the developing world is, at the time of this writing, in serious jeopardy. Constructing adequate social safety nets to protect the poor from the shock of a currency crises and the structural adjustments that follow with the disbursement of funds from the IMF, like the one that took place in Indonesia, would indicate that protecting the poor from the adverse effects of a crisis has become a convention. Will social safety net construction someday become what the IMF simply does, and does effectively, when lending money to a country?

Finding new ways to evaluate the IMF's performance on social issues in general, and social safety nets in particular are critical to protecting the poor of a country suffering through a financial crisis. A historical narrative was useful for analyzing the actions of the actors, the IMF and Suharto examining their histories, constitutive rules, and conventions. In time, when social statistics from the time of the crisis become available, an indicator, set of indicators, or a perhaps a formula, one that includes evaluating the improvement or deterioration of social indicators, could be used to complement the approach of the historical narrative in analyzing the IMF's efforts in building a social safety net.

Bibliography

Aditjondro, Geroge J. 25 January 1998. "Suharto & Sons (And Daughters, In-Laws & Cronies)." The Washington Post. [Internet, WWW] ADDRESS: http://washingtonpost.com/wp-srv/business/longterm/asiaecon/stories/sons012598.htm [Accessed: 5 May 2000]

Anderson, Benedict R. O'G. 1990. *Language and Power*. Ithaca: Cornell University Press.

"Annual Report 1998, East Asia and the Pacific, Introduction," World Bank. [Internet, WWW] ADDRESS: http://worldbank.org/html/extpb/annrep98/east.htm [Accessed: 6 March 1998]

Cahn, Jonothan. Spring 1993. "Challenging the New Imperial Authority: The World Bank and the Democritization of Development," *Harvard Human Rights Journal* Vol. 6, p. 159-194.

Camdessus, Michel. 10 December 1999, interview in IMF Survey, *Camdessus discusses prospects for globalization, need to fight "patent injustice" of world poverty*. Washington, D.C.: IMF Publications.

Camdessus, Michel, 10 January 2000, interview in IMF Survey. *Camdessus reviewsmain priorities for future of international monetary, financial system.* Washington, D.C. : IMF Publications.

Chandler, Clay. 8 April 8, 2000. "A Turning Point for Indonesia?" The Washington Post, pp. E1, E8.

Cline, William R. "International Debt Reexamined." Washington, D.C.: Institute for International Economics.

"Concluding Remarks by the Chairman of the IMF's Executive Board. Review of Social Issues and Policies in IMF-Supported Programs; HIPC Initiative—Strengthening the Link Between Debt Relief and Poverty Reduction; and Transforming the ESAF." 13 September 1999 [Internet, WWW]. ADDRESS: http://www.imf.org/external/np/esafhipc/1999/99123.htm [Accessed: 20 March 2000]

"Debt Initiative for the Heavily Indebted Poor Countries (HIPCs)." 5 September 1999 [Internet, WWW] ADDRESS: http://www.imf.org/external/np/hipc.htm [Accessed: 25 February 1999]

"Debt Relief for Sustainable Development" World Bank. September 1998 [Internet, WWW] ADDRESS: http://www.worldbank.org/html/extdr/hipc/hipcbr.htm[Accessed: 25 February 1999]

"Education in Indonesia: Impact of the Crisis." Pg. 1 [Internet, WWW] ADDRESS: http://www.worldbank.org/poverty/countries/indon/educ2.htm. [Accessed: 25 February 1999]

Eldridge, Philip J. 1995. *Non-Government Organizations and Democratic Participation in Indonesia*. Kuala Lumpur, Malaysia: Oxford University Press.

Emmerson, Donald K. Ed. 1999. "Indonesia Beyond Suharto." New York: M.E. Sharpe.

Feldstein, Martin. Foreign Affairs Journal. March/April 1998. "Refocusing the IMF." [Internet, WWW]: ADDRESS: http://www.foreignaffairs.org/feature.html [Accessed: 15 March 2000]

Fischer, Stanley. 17 June 1999. "The Asian Crisis: the Return of Growth." Outline of Statements prepared for delivery at a dinner of the Asia Society, Hong Kong, June 17. [Internet, WWW] ADDRESS: http://imf.org/external/np/speeches/1999/061799.htm [Accessed: 22 February 2000]

Gold, Joseph. 1969. *The Reform of the Fund*. Washington, D.C.: International Monetary Fund.

"Health and Nutrition in Indonesia." World Bank. [Internet, WWW] ADDRESS: http://www.worldbank.org/eapsocial/countries/indon/health1.htm. [Accessed: 12/30/00]

"Heavily Indebted Poor Countries (HIPC) Initiative: Progress Report by the Managing Director of the IMF and the President of the World Bank." 22 April 1999 [Internet, WWW] ADDRESS: http://imf.org/external/np/hipc/prog2/0499.htm [Accessed: 24 September 1999]

"HIPC Initiative: The IMF's Response to Critics." International Monetary Fund. September 1998 [Internet, WWW] ADDRESS: http://www.imf.org/external/np/hipc/res.htm [Accessed: 20 March 2000]

"IMF Concessional Financing through ESAF." International Monetary Fund.
5 September 1999 [Internet, WWW] ADDRESS: http://imf.org/external/np/exr/facts/asia.htm [Accessed: 12 April 2000]

"The IMF's Response to the Asian Crisis." International Monetary Fund. 17 January 1999 [Internet, WWW] ADDRESS: http://www.imf.org/external/np/exr/facts/asia.htm. [Accessed: 8 February 1999]

"The Impact of the Crisis: The Anecdotal Country Facts." The World Bank [Internet, WWW] ADDRESS: http://www.worlbank.org/eapsocial/sector/employ/regemp3p2.htm [Accessed: 8 February 1999]

"Indonesia-Memorandum of Economic and Fiscal Policies." International Monetary

Fund. 15 January 1998 [Internet, WWW] ADDRESS: http://www.imf.org/external/np/loi/011598.htm [Accessed: 28 February 2000]

"Indonesia-Supplementary Memorandum of Economic and Financial Policies." International Monetary Fund. 10 April 1998 [Internet, WWW] ADDRESS: http://www.imf.org/external/np/loi/041098.htm [Accessed: 3 May 1998]

Johnson, Gale D. "The IMF Conditionality and Agriculture in the Developing Countries." The Political Morality of the International Monetary Fund. Ed. Robert J Myers. New York: Transaction Books, 1987.

Kahn, Joseph. 16 April 1998. "Thai Business Dynasty Humbled by Asian Financial Woes," [Internet, WWW] ADDRESS: http://www.nytimes.com/library/financial/041698thai-biz-family.html. [Accessed: 15 February 1999]

Keohane, Robert. Spring 1998. "International Institutions: Can Interdependence Work?" Foreign Policy. Washington D.C: The Carnegie Endowment for International Peace.

"Key Events of the Indonesian Crisis." World Bank. 28 October 1998 [Internet, WWW] ADDRESS: http://www.worldbank.org/html/extdr/offrep/eap/invents.htm [Accessed: 17 April 2000]

Kingsbury, Damien. 1998, *The Politics of Indonesia*. Melbourne, Oxford University Press.

Kristoff, Nicholas D. 17 January 1998. "Crisis Pushing Asian Capitalism Closer to U.S. Style Free Market." [Internet, WWW] ADDRESS: http://www.nytimes.com/library/financial/011798asia-capitalism.html [Accessed: 15 February 1999]

Krugman, Paul. January 1998. "What Happened to Asia?" [Internet, WWW] ADDRESS: http://web.mit.edu/krugman/www/DISINTER.html [Accessed: 17 April 2000]

Landler, Mark. 23 September 1998. "Indonesia's Troubles Swamp Even Well-Run Banks." [Internet, WWW] ADDRESS: http://www.nytimes.com/library/financial/092398indo-econ.html [Accessed: 15 February 1999]

"Le Monde Sans Michel." November 13, 1999. *The Economist* , p. 77-78.

"Letter of Intent." International Monetary Fund. 31 October 1997. [Internet, WWW] ADDRESS: http://www.imf.org/external/np/loi/103197.htm [Accessed: 28 February 2000]

"Letter of Intent." International Monetary Fund. 14 May 1999 [Internet, WWW ADDRESS: http://www.imf.org/external/np/loi/1999/051499.htm [Accessed: 22 February 2000]

"Letter of Intent." International Monetary Fund. 20 January 2000 [Internet, WWW]

ADDRESS: http://www.imf.org/external/np/loi/1999/051499.htm [Accessed: 21 February 2000]

Levinsohn, James, Steven Berry, and Jed Friedman. 22 April 1999. "Impacts of the Indonesian Economic Crisis: Household Evidence." [Internet, WWW] ADDRESS: http://www.econ.lsa.umich.edu/~jamesl/indo.pdf [Accessed: 15 December 2000]

"Mitigating the Social Costs of the Asian Crisis." International Monetary Fund: Finance and Development, Volume 35, Number 3. September 1998 [Internet, WWW] ADDRESS: http://www.imf.org/external/pubs/ft/fandd/1998/09/imfstaf2.htm [Accessed: 18 April 1998]

Nowzad, Bahram. December 1981, "The IMF and its Critics," Essays in International Finance. Princeton University, No. 146. Princeton, N.J.: International Finance Section, Dept. of Economics, Princeton University.

Polak, Jacques J. September 1991, "The Changing Nature of IMF Conditionality," Essays in International Finance , Princeton University, No. 184. Princeton, N.J.: International Finance Section, Dept. of Economics, Princeton University.

"Overview: Transforming the Enhanced Structural Adjustment Facility (ESAF) and the Debt Initiative for the Heavily Indebted Poor Countries (HIPCs)." 9 February 2000. [Internet, WWW] ADDRESS: http://www.imf.org/external/np/esafhipc/1999/index.htm [Accessed: 3 April 2000]

"Poverty Reduction and Growth Facility (PRGF)—Operational Issues." 13 December 1999. [Internet, WWW] ADDRESS: http://www.imf.org/external/np/pdr/prsp/poverty2.htm [Accessed: 20 March 2000]

Radelet, Steven. March 1999. "Indonesia: Long Road to Recovery." Harvard Institute For International Development, Development Discussion Paper No. 722 [Internet, WWW] ADDRESS: http://www.hiid.harvard.edu/pub/ddps/722abs.html [Accessed: 26 January 2000]

"Review of Social Issues and Policies in IMF-Supported Program." International Monetary Fund, Prepared by the Fiscal Affairs and Policy Development and Review Departments. 27 August 1999. [Internet, WWW] ADDRESS: http://www.imf.org/external/np/esafhipc/1999/social.pdf [Accessed: 10 March 2000]

Sachs, Jeffrey. 11 December 1997. "The IMF Is a Power Unto Itself." *The Financial Times* [Internet, WWW] ADDRESS: http://www.globalpolicy.org/socecon/bwi-wto/power.htm [Accessed: 27 February 1998]

Shalendra, Sharma, D. April 1998. "Bitter Medicine for Sick Tigers." University of San Francisco Center for the Pacific Rim [Internet, WWW] ADDRESS:

http://www.pacificrim.usfca.edu/research/pacrimreport/pacrimreport8.html [Accessed: 3 February 2000]

Social Dimensions of the IMF's Policy Dialogue. [Internet, WWW] ADDRESS:http://www.imf.org/external/pubs/ft/pam/pam47/pam4703.htm [Accessed: 24 December 1998]

"Social Dimensions of the IMF's Policy Dialogue." August 1998. [Internet, WWW] ADDRESS: http://www.imf.org/external/np/exr/facts/social.htm [Accessed: 13 February 1999]

"Social Dimensions of the IMF's Policy Dialogue." 6 March 1995. [Internet, WWW] ADDRESS: http://www.imf.org/external/pubs/ft/pam/pam47/pam47con.htm [Accessed: 3 March 1999]

"Social Policy and Governance: Indonesia and Social Indicators." 8 November 1999 World Bank [Internet, WWW] ADDRESS: http://www.worldbank.org/eapsocial/countries/indon/insonsi1.htm [Accessed: 26 January 2000]

Spero, Joan E. and Jeffrey A. Hart. 1997. *The Politics of International Economic Relations*. New York: St. Martin's Press.

Spindler, Andrew J. 1984. "The Politics of International Credit." Washington D.C.: Brookings Institution.

"Update on Indonesia." 17 February 1999. World Bank [Internet, WWW], ADDRESS: http://www.worldbank.org/html/extdr/offrep/eap/jmsboard/inannx.htm [Accessed: 18 March 1998]

Vatikiotis, Michael R.J, 1993. *Indonesian Politics Under Suharto*. London: Routledge.

Weisbrot, Mark, 1999. "Globalization for Whom?" Cornell International Law Journal Symposium Issue Vol. 31 (3), [Internet, WWW], ADDRESS: http://www.preamble.org/Globalization.html [Accessed: 27 February 1998]

Yellen, Janet, 15 April 1998. "Lessons from the Asian Crisis." Presentation at the Council on Foreign Relations. New York, New York. [Internet, WWW]. ADDRESS: http://www1.whitehouse.gov/WH/EOP/CEA/html/19980415.html [Accessed: 17 April 2000]

Vita

Eric W. Young

I was born in Abilene, Texas, September 10, 1975. I graduated in 1993 from Mt. Vernon High School, Alexandria, Virginia, and attended Colorado State University for the academic year 1993-94. I transferred to Virginia Polytechnic Institute and State University and began taking classes in the 1994-95 academic year as a biology major. Switching my major to English in the spring semester of 1996, I received my BA in English in 1998. I began my graduate work in the Political Science department at Virginia Tech in the 1998-99 school year, and finished classes in the Spring semester of 2000. While in graduate school I was a teaching assistant for three semesters for Dr. Luke, Dr. Taylor, and Dr. Brians.