

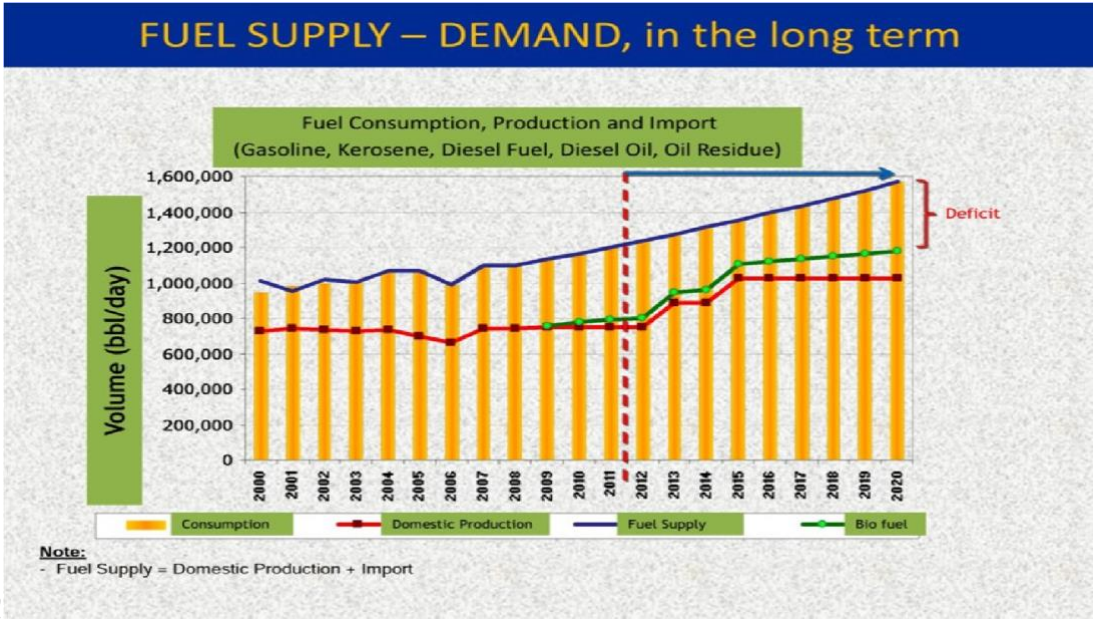
Technocrats versus Politicians: The Controversy Surrounding Oil Subsidy Policy in Indonesia

By: Budi Kurniawan

Lecturer in Government Studies, University of Lampung

Introduction

Even though Indonesia is one of the largest oil producers, the domestic productions do not meet the domestic oil demanded. Data from the ministry of finance show the deficit while the domestic production is less than domestic oil demanded. The data below show that since 2000, Indonesia has become a net importer country (Ministry of Finances, 2011). In addition, after 2012, this condition also will become the same, even though bio fuel will became more significant in the future.



In order to solve the crisis of energy security problem, President Yudhoyono in April 2012, based on the advices from technocrats both in the government and universities has promoted the reform policy in energy by reducing oil subsidy policy proposal in the short term, and removing oil subsidy in the long term. However, there are some significance governance challenges in this policy.

The most significant come from politicians. The other challenges also come from media owned by politicians and civil society. There are strong tensions in this issue between the scientific logic of economist (technocrats) and the political interest of the politicians to build an image as pro-poor politicians. On the other hand, the context of government in this policy issue is an exceedingly weak government with the lack of trust from the public due to corruption scandals. This paper will describe the controversy surrounding this policy. Furthermore, this paper also will discuss possible governance option under the President Yudhoyono era.

The key Actors

There are four dominant actors in this policy circumstances. They are technocrats (in the other term epistemic circle), politicians, media, and civil society. There is also another international actor in this policy such as World Bank and IMF. However, their role is not significant due to the success of Indonesian government to recover the economy crisis.

A taxonomy of Actors in the Removal Oil subsidy Policy

Actors	Political Position
Technocrats	pro- reforms but number of actors is limited
Politicians	rejected because this policy jeopardise their parties' interest for making a good image as pro poor Party
Media	swayed by political interest and views of owners
Civil society	depending on the ideologies

!

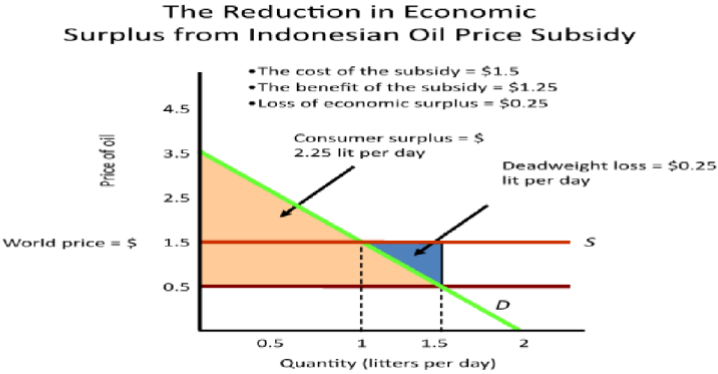
The technocrat refers to the term for the economists group in Indonesia with western educational background. Structuralism-Marxist scholars call technocrats as neo-liberal economists. They have a significant role as think tank groups behind the liberal economic policy in the beginning of Suharto era. After the oil bomb era in the mid of 70s, their role was shifted by the nationalist economy who support the centralist economy and pro-state intervention economy. Mallarangeng (2000) names them as an epistemic circle in Indonesian economy policy. The prominent name for this group in Indonesia is Berkeley Mafia, a name refers to University of California Berkeley because most of the founders of this group graduated from this university. Most of them are lecturers from Gadjah Mada University and the University of Indonesia. Some of them also work in the Ministry of Finances. They also have some positions in the cabinet as ministers Most of them are lecturers from Gadjah Mada University and the University of Indonesia. Some of them also work in the Ministry of Finances. They also have positions in the cabinet as ministers The vice President of Indonesia, Boediono, is categorized as the senior member of this group. The other prominent name is Sri Mulyani, the Indonesian former Finance Minister

who currently works as the managing director of World Bank. Under the Yudhoyono's administration, the roles of this group become more powerful again as long as the emerging role of politicians in Indonesia after the Suharto era. However, the number of actors is limited.

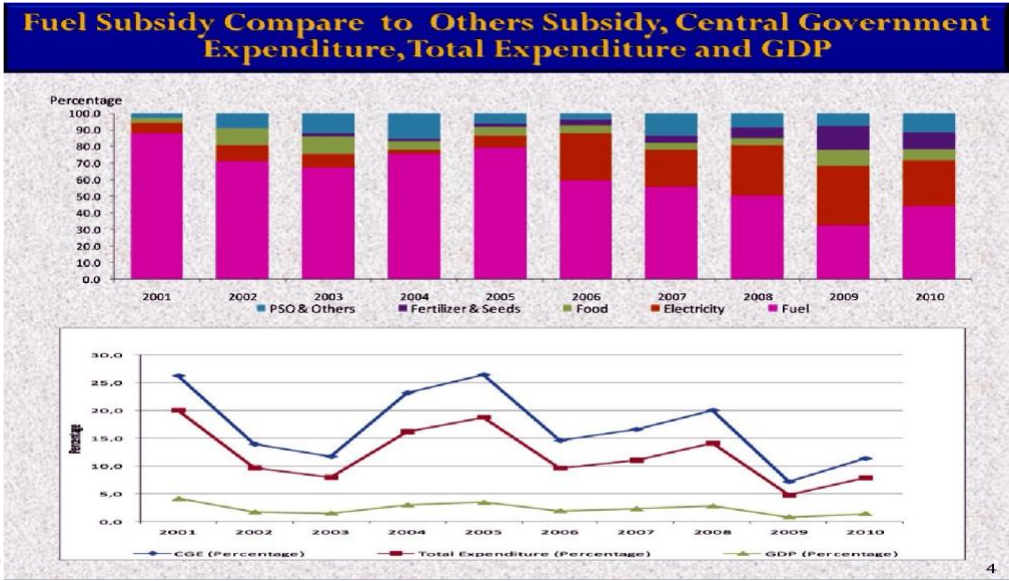
Analysis

There are two contested knowledges in framing the energy crisis in Indonesia; pro-reforms and anti-reforms. The pro-reforms policy is promoted by the technocrats and neutral media, international organization and minority politicians from government's coalition members. In contrast, majority of politicians in parliament and media reject this proposal.

The basic assumption of technocrats in this issue is based on the micro economic theory of deadweight loss. They argue that the uses of the price oil subsidy policy as a popular policy instrument for manage the inflation is not efficient due to deadweight loss. The picture below show the theory model of deadweight loss in case of Indonesian oil prices subsidy.



The other reason is the huge of opportunity cost in this policy. It has been creating a huge opportunity cost because this policy reduces the opportunity to subsidize the most important sector such as infrastructure in the poor area of eastern Indonesia, education, research and development, and health. Again the official data from the Ministry of finance show how the oil subsidy as the biggest subsidy in Indonesia in comparing to the other sector (Ministry of Finances, 2011).



The picture above shows the energy subsidy including electricity is the biggest subsidy in Indonesia from 2001 to 2010. The last data from detik.com (27th of September 2012), a prominent news portal in Indonesia, the Indonesian Finances Minister, Agus Martowardojo, states that 25 percent of Indonesian budget is used for subsidized the oil price.

On the other hand, they also argue that oil subsidy policy implementation is estimated about 70 percent of the subsidy are received by 40 percent of the top income household

(Coordinating Ministry of Economic Affairs, 2008, cited in Pradiptyo and Sahadewo, 2012, p. 1). It is very irony while the biggest subsidy recipient in Indonesia is the rich family rather than poor people.

However, majority politicians in government argue that if the government reduces the subsidy it means the price of fuel will increase. As a result, there is a domino effect. The price of other sectors such as food also will increase. Moreover, it also will cause inflation. The long run effect is the increase of the poverty number in Indonesia. Some politicians argue that the removal oil subsidy is unconstitutional. They think that it is the neo-liberal agenda in Indonesia. Moreover, this policy reforms are also promoted by the IMF and World Bank that have a bad image in Indonesia after the 1997 Asian Crisis. Since the Asian Economic Crisis in 1997, IMF has a significant role in Indonesian energy policy as a part of Structural Adjustment Program (SAP) from IMF.

In order to challenges the issue of inflation and the increasing the poverty number, technocrats promote the short run cash transfer policy for the poor as a compensation for the increase of oil price and the side effect to the economy. They contend that this is the fair compensation because the majority of oil price subsidy is only used by the rich people as the free rider rather than the poor. The mechanism of cash transfer is the best policy choice to access the poor rather than price subsidy.

The key question remained is with the rational argument behind this policy proposal, why the politicians are still confirmed to keep oil price subsidy policy? However, the argument of politicians is just political jargon. There are no scientific reasons from the politician

why they rejected this policy. They also do not care about the reality that 70 percent of the subsidy are received by 40 percent of the top income household.

Politicians have become significant in Indonesian policy process after the era of the authoritarian regime. Under the hegemonic party system of new order era, Indonesian political parties were just a political symbol under the hegemony of Suharto.

After Suharto, Indonesia has multi parties system, with there is no dominant party in Parliament. Political parties suddenly become more influential than before along with the reemerging liberal technocrat in Indonesia policy making process. Ambardi (2008) argues that the political system in Indonesia as political cartel. A condition while a government is formed by a coalition based on the political interest rather than the close relationship in ideology. Sharing of power in the cabinet is the main purposes of political parties rather than the competition in ideologies and plat form. There are no clear economic ideology positions in Indonesia political parties system. Each party claims that each of them is pro-poor, pro-growth and pro-environment. However, there are no clear “ways” how to achieve that; with market liberalism or state-socialism (Liddle, 2012). As a result, even though the coalition has majority seat in parliament, the coalition is very fragile.

The fragile of the coalition is remarkably clear while the reducing subsidy proposal is discussed in parliament. The party coalition members are not solid to support the government proposal. There are six member parties in the coalition that have majority seats in parliament. However, only two parties are consistent to support this proposal. The other coalition members reject this proposal. The pictures below show the original

coalition and the political constellation in parliament about the oil subsidy reforms proposal.

Pro and contra in Oil Subsidy Reforms in Parliament

Pro-reforms	Contra-reforms
Democrat Party: 148 seats	PDIP: 94 seats
PKB : 28 seats	Gerindra: 26 seats
	Hanura : 18 seats
	Golkar: 106 seats
	PKS: 57 seats
	Pan: 45 seats
	PPP: 38 seats
Total: 176 seats	Total: 384 seats

The original coalition and opposition in Indonesian Parliament

Parties Coalition	Parties Oposition
Democrat Party: 148 seats	PDIP: 94 seats
Golkar: 106 seats	Gerindra: 26 seats
PKS: 57 seats	Hanura: 18 seats
PAN: 45 seats	
PPP: 38 seats	
PKB: 28 seats	
Total: 422 seats	Total: 138 seats

Political parties also use media to frame this issue. Because the majority of media are owned by the politicians, the information of this policy is controlled by the politician interest. Media is swayed by political interest and views of owners. In spite of there are

independent media, they are limited. Moreover, the number scandals of corruption in the government that are blow up by the media; create the lower trust of the society to the government. Framing effect of media makes this policy is rejected by the most of people and civil society in Indonesia. These pictures below show the position of media and their relationship to the political parties in this policy.

TV and Political Parties in the issue of removal oil price subsidy

TV	
TV One, (news TV) and ANTV (entertainment tv)	owned by Aburizal Bakrie, 2014 President candidate and The General Chairman of Golkar : anti-reforms
Metro TV, (news TV)	owned by Surya Paloh, the Patron chairman of Nasdem Party: Anti-reforms
MNC networks (entertainment tv)	owned by Harry Tanosudibyo, the king of media and the expert chairman of Nasdem Party : anti-reforms
TVRI, (government TV)	owned by the government: neutral

Newspapers and Political Parties in the Issue of Removal Oil Price Subsidy

Newspapers	
Kompas	Independent, owned by Jacob Oetama, senior journalist: pro reforms
Tempo	independent, owned by Bambang, graduated from Harvard Kennedy School: pro-reforms
Seputar Indonesia	Partisan, owned by Harry Tanosudibyo, the chairman of Nasdem Party : anti-reforms
Media Indonesi	partisan, owned by Surya Paloh, the Patron chairman of Nasdem Party: Anti-reforms

Media in Indonesia is unique. Media industry in Indonesia is occupied by the politicians. Indonesia media can be divided into two groups; partisan media and neutral media. Kompas and Tempo are two biggest newspaper with the pro reforms in energy policy. Kompas and Tempo are owned by the independent journalist and owner. On the other hand, Metro TV, MNC TV Seputar Indonesia and Media Indonesia daily newspaper are owned by the National Democratic Party (Nasdem Party) leaders, Surya Paloh and Harry Tanoesudibyo. In addition, Nasdem is a new party with opposition frame to government. The other significant TV station is TV one, a news TV branding, is owned by Aburizal Bakrie – the Golkar Party General Chairman, the President candidate for 2014 election, a former cabinet minister and the Indonesian most powerful businessman.

However, there are still neutral media that are not owned by the politicians. Kompas, Tempo, Seputar Indonesia and Media Indonesia are the largest newspapers media in Indonesia. Metro TV, MNC Groups and TV One are the largest news TV in Indonesia. Kompas and Tempo are the only biggest media that are independent and pro reforms in this policy. Kompas (17 October 2012) for instances, in his headline, argues that government should reduce the subsidy and shift the enormous subsidy in oil price to infrastructure sector. Kompas estimates that government can build 10.000 KM road in the remote area of Indonesia with this subsidy.

Indonesian civil society is extremely plural in ideology. However, the most influential civil society in Indonesia is student organizations in universities. There are also some environmental NGO such as WALHI, WWF and Greenpeace. Islamic organization is the biggest civil society in Indonesia. They also have a significant role in Indonesian policy

making. There are two organizations from Indonesian Muslim community, NU (traditional Muslim organization) and Muhammadiyah (modern Muslim organization).

However, it is not only media are influenced by the political parties, civil society in Indonesia also part of political parties connection. The biggest Muslim university student organization, KAMMI, has a similar ideology (Muslim brotherhood) with Justice and Welfare Party (PKS) in Parliament. In addition, formal student organization in some biggest universities in Indonesia is occupied by the Muslim Brotherhood Students. In this issue, they also reject this proposal along with the PKS decision in Parliament. In contrast with the university students, some organizations such as environmental NGOs accept this proposal. They argue that the oil price subsidy just increases the gas emission and the number of cars and motor cycles.

The most significant Challenges

The most significant Challenges come from politicians. The issue or removal subsidy in oil price in Indonesia is not populist issue. As a result, Political parties reject this proposal because this policy jeopardizes their parties' interest for making a good image as pro poor Party. For a long time Indonesian government keep the inexpensive price of oil due to the largest production of oil. Oil is the easiest mechanism to control inflation. As a result, the increase of oil price is not good for political image. As a consequence, political parties are more concerned to their political interest itself for building the good image to interact the voter rather than what is the best policy option.

The conflicts between technocrats and politicians in cabinet reach a peak when the highly respected Finances Minister, Sri Mulyani Indrawari, lost her post in 2010 cabinet

reshuffle. Sri Mulyani resigned to become managing director of World Bank. Many political analysts have connected Indrawati's resignation to the tension between Indrawati and Aburizal Bakrie. In Asian Wall Street Journal in December 2009, Indrawati say that the tension between she and Aburizal Bakrie arose when she opposed an extension to the closure of the Jakarta Stock Exchange ordered by Bakrie in 2008 amidst a run on Bakrie's companies (Wright, 2009). After the Indrawati resignation, in 2011, the other technocrat, Mari Pangestu, lost her job as trade minister. Some speculate that this was because she struggled too hard for trade liberalization (Basri, 2012, pp.

44.45). Nowadays, practice only two ministers that have strategic position in the cabinet; the vice President, Boediono and the State Ministers of Development Planning, Armida Alisyahbana. As a result, the policy reform in removal oil price subsidy is still facing the great wall of politicians.

Governance Options

Increase the public trust is the possible government key challenges to implement this policy successfully. Trust is the main reason why the government is hard to implement a good policy in the low trust society circumstances. In the same time, there are two cases of reducing oil subsidy in Iran and Nigeria due to the Increase of international oil price. In Nigeria, the decision of Nigerian government to increase the oil price and reduce the subsidy ends with the violence. On the other hand, the decision of Ahmadinejad to increase the oil price in Iran is accepted by the Iranian. In contrast with Indonesia and Nigeria, Iran is success to implement the reduce of oil subsidy policy. The main reason is because the trust of Iranian people to the humble and clean government. In contrast, in

Indonesia, the issue of the corruption scandals is the daily headline in newspapers. It is the main reason why in Indonesia the trust to the government is very weak.

Indonesian prominent economist from Gadjah Mada University, Tony Prasetyantono (2012), argues that whatever good a policy, whatever scientific a policy, whatever objective a policy option in the frame of economists and public policy experts, if the government has weak trust in society, the policy proposal will be refused by the public.

Indonesian government is very weak in challenging media attack and political parties maneuver. In this situation, policy instrument with authority mechanism such as regulation is extremely hard to implement. In order to build trust, the government should develop more transparent and accountable system and institution. The government should promote the new understanding of power sharing among the stakeholders in particularly political parties (Chhotary and Stoker, 2011, p. 225). It is the key challenges for Yudhoyono's administration.

References

Basri, C, 2012, Indonesian Update 2012: Economic Section. ANU, Canberra, Unpublished

Ministry of Finances, 2011, Fuel Subsidy policy in Indonesia, Fiscal Policy office,
Ministry of Finance, Republic of Indonesia

Mallarangeng, R 2000, "Liberalizing New Order Indonesia: Ideas, epistemic community,
and economic policy change, 1986--1992" Ohio State University Ph.D Thesis, columbus

Pradiptyo, R & Sahadewo, G.A, 2012, "A Growing Pain: an Experimental Approach to
Discover the Most Acceptable Strategy for Lifting Fuel Subsidy Scheme in Indonesia"
SSRN Journal, viewed 11 October 2012, <<http://ssrn.com/abstract=2015279>>

Liddle, R.W 2012, "Ekonomi Kerakyataan (pro people economy), kompas, 20 october
2012