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Widodo Finance Chief Options Show Indonesia University Clout

By Brian Leonal, Novrida Manurung and Sharon Chen July 25, 2014

Indonesian President-elect Joko Widodo's options for finance minister include a group dominated by alumni from the University of Indonesia, whose graduates have helped shape the nation's economic policy for decades.

Current Finance Minister Chatib Basri and a deputy, Bambang Brodjonegoro, were among the three most mentioned potential candidates for the finance job, according to a Bloomberg survey of 11 Indonesian analysts and academics. Both studied at the Jakarta-based university's economics faculty, while the third, Sri Adiningsih, is a Gadjah Mada University graduate.

The cabinet assembled by Widodo, known as Jokowi, will help define his policies as the incoming leader targets a growth pace Indonesia hasn't seen since before the 1990s Asian financial crisis. Past administrations have relied on many technocrats produced by the University of Indonesia's economics faculty, which gained prominence when some of its earliest graduates, boosted by stints in U.S. universities, became known as the Berkeley Mafia of advisers to former dictator Suharto.

"It will be a balance between professionals and political pressures," said Fauzi Ichsan, a finance and banking adviser to Jokowi's party. "Basri's reputation and track record are well regarded by markets. He may be seen to be too familiar" with the country's current leadership, Ichsan said yesterday.

He sees Basri, Brodjonegoro, current investment chief Mahendra Siregar and tax director-general Fuad Rahmany as possible candidates.

Current Ministers

Jokowi himself hasn't indicated who will form his cabinet to help deliver his promises to boost growth, spur investment and cut fuel subsidies that have crimped infrastructure development and hurt the current account. He said July 21 that he is open to current ministers joining.

Current central bank Governor Agus Martowardojo, Faisal Basri, an economics lecturer at the University of Indonesia, financial services authority chief Muliaman Hadad, Arif Budimanta, a member of Jokowi's economic team, Siregar and Rahmany were other alumni of the University of Indonesia who were cited as potential candidates in the Bloomberg survey. Another possible contender who studied at Gadjah Mada, also Jokowi's alma mater, was Tony Prasetyantono, an associate economics professor at the university.

"They can advance because they are better than others," said Ari Kuncoro, the dean of the economics faculty at the University of Indonesia. "The fact that we have many graduates in the cabinet is a bonus. I am indeed happy, in a sense that we can see how the knowledge we teach here

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Chatib Basri, Indonesia's finance minister. Photographer: Dimas Ardian/Bloomberg

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Berkeley Mafia

The University of Indonesia’s influence on the country’s development began in the 1950s, when it benefited from Ford Foundation financial aid that established its links with the University of California at Berkeley. That allowed Indonesians to be sent to U.S. institutions like Berkeley, Cornell University and the Massachusetts Institute of Technology while Berkeley instructors came to teach in the Indonesian university.

Driving that collaboration was internationally-educated economist and two-time finance minister, Sumitro Djojohadikusumo, whose son Prabowo Subianto lost to Jokowi in the July 9 vote.

The University of Indonesia’s earliest instructors who became the Berkeley Mafia were influenced by Keynesian ideas popular in the U.S., said Kuncoro, the economics dean, referring to theories that economic growth and stability can be achieved through government intervention.

“In practice, UI people do not practice Keynesian anymore, now Indonesia is more developed,” though subsidies on oil, seeds, and fertilizers started during the Keynesian era remain, he said.

Suharto Policies

Suharto’s economic team reinstated bank reserve requirements, raised interest rates, stopped automatic central bank credits to state enterprises, ended subsidies for key consumer goods, abolished quantitative restrictions on imports and devalued the rupiah to stabilize the economy, authors including Wing Thye Woo wrote in the book “Macroeconomic Policies, Crises, and Long-term Growth in Indonesia, 1965-90.”

“The developmentalist ideology promoted by the Berkeley Mafia is not as strong as in the 1980s,” said Eric Alexander Sugandi, a Jakarta-based economist at Standard Chartered Plc who has a master’s degree from the University of Indonesia. “If we look at the lecturers in UI’s faculty of economics, you will see more diverse schools of thought.”

Basri, who oversaw a fuel-price increase shortly after taking the finance minister job last year, said in June he was delaying a decision on a second cut to subsidies so that he could discuss it with the next president. Kuncoro describes him as Neo-Keynesian, citing his preference to pull subsidies and give compensation instead.

Different Ideas

“There’s a big difference between the current government and my father’s ideas,” Hashim Djojohadikusumo, son of the former finance minister Djojohadikusumo and brother of Prabowo, said in an interview in Jakarta today. “They want to have the private sector take on the role and basically to reduce the role of the state. I think that’s a dream.”

Jokowi, who is setting up a transitional office for his government, said in a July 21 interview he’s “willing to take the professional, the technocrat and only the best,” for his cabinet. One of his first priorities is to talk to current ministers and examine the state of the economy and the budget deficit, he said.

Track Record

He may have to look beyond some of the officials in the current administration if he wants to achieve breakthroughs, said Emrus Sihombing, a political communications lecturer at Universitas Pelita Harapan, speaking before the election results this week.

“Basri and Brodjonegoro can be considered, but out of these two people, who has the concept of mental revolution?” Sihombing said, referring to a campaign pledge by Jokowi to carry out a “mental revolution” to spur the country forward. “They have not made any breakthroughs in terms of mental revolution in their ministries. I think Jokowi will have to look at people beyond these people.”

During 10 years in power, President Susilo Bambang Yudhoyono has struggled to fix the supply bottlenecks and infrastructure gaps that keep prices elevated and hamper investment in Southeast Asia’s biggest economy, even as foreign investment rose to a record.

‘Old Elites’

Jokowi has pledged to gradually curb fuel subsidies that have sapped funds needed for infrastructure, and to rein in corruption, in part by moving to an online tax system. Indonesia’s rupiah jumped and stocks advanced after his victory was confirmed on July 22, an indication of investors’ preference for his economic platform, seen as more market-friendly than Prabowo’s.

“The real challenge for president-elect Widodo is to prove that his government can carry out much-needed fiscal and structural reforms without relying on the old elites,” said Nicholas Spiro, managing director of Spiro Sovereign Strategy in London. “This means new faces and competent and reform-minded ministers. Mr Widodo wasn’t elected in order to perpetuate the dominance of the ‘Berkeley Mafia’ -- quite the opposite.”

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Jokowi finance chief options show Indonesian university's clout

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"It will be a balance between professionals and political pressures," said Fauzi Ichsan, a finance and banking adviser to Jokowi's party. "Basri's reputation and track record are well regarded by markets. He may be seen to be too familiar" with the country's current leadership, Ichsan said on Thursday. He sees Basri, Brodjonegoro, current investment chief Mahendra Siregar and tax director-general Fuad Rahmany as possible candidates.

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Fuel Prices

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WIDODO FINANCE CHIEF OPTIONS SHOW INDONESIA UNIVERSITY CLOUT

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Courtesy of the Associated Press

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_ Chen reported from Singapore. Neil Chatterjee contributed from Jakarta.

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