

Islam, Social Justice and Economic Development: A Study
of the Works of Sjafruddin Prawiranegara

Pipip Achmad Rifa'i Hasan

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Signature page

Professor Frederick Bird
Supervisor

Dr. Linda Clarke
Committee Member

Dr. Richard Foltz
Committee Member

Professor Joseph Smucker
Concordia External Examiner

Professor Frederick Denny
External Examiner

ABSTRACT

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Pipip Achmad Rifa'i Hasan, Ph.D.

Department of Religion, Concordia University, 2012

This dissertation is intended to answer the question of whether it is possible for a developing nation to achieve economic prosperity without compromising equality and liberty. Theories of socio-economic development must often deal with conflicting demands of economic efficiency, political freedom, and socio-economic equality, as well as the frequently-contradictory aims of material prosperity and spiritual happiness. I argue that an analysis of the political, economic, and religious thought of Sjafruddin Prawiranegara, a leader of the Masyumi Islamic political party in Indonesia and a neglected liberal-modernist Muslim thinker, allows us to explore how these seemingly conflicting demands may be harmonized into an integrated concept of development. An examination of Sjafruddin's works—reports, books, articles, speeches, and interviews from 1946 to 1983, as well as other scholars' observations, judgments and reports—reveals a prescription for Indonesian economic problems based on two key guiding principles of development: social justice and human development. The basis of Sjafruddin's economic rationality is the prioritization of human development before capital. This ensures sustainable economic development and nurtures a spiritually and morally-oriented population to withstand the consumption practices and lifestyles of modern capitalism. This study also suggests that economic development will be most successful if it occurs within the framework of a modern conception of social justice predicated on a democratic political system with a system of checks and balances between executive, legislative and judicative branches of government, equal opportunities,

human rights, and universal political participation. In the context of the Muslim world, this concept of development requires the re-interpretation of Islamic teachings. The present study seeks to contribute to the field of religious studies by highlighting the systematic thought of an independently-minded Muslim modernist thinker whose contributions are underappreciated in academic circles even in Indonesia. Sjafruddin's unique historical involvement during the 1950s as a politician who was directly involved in the conception and implementation of economic policies, as well as his career as a well-respected public intellectual, provide insight into both the promises and the realities of development and social justice in a context where religion plays a major role in the lives of the people.

RESUME

Islam, justice sociale, et développement économique: Une étude de l'œuvre de Sjafruddin Prawiranegara

Pipip Achmad Rifa'i Hasan, Ph.D.

Département de religion, l'Université Concordia, 2012

Cette thèse vise à répondre à la question suivante : une nation en développement peut-elle réaliser la prospérité économique sans toutefois compromettre l'égalité et la liberté? Les théories de développement socio-économique doivent souvent prendre en compte les demandes conflictuelles de l'efficacité économique, la liberté politique et l'égalité socio-économique, en plus des aspirations fréquemment contradictoires de la prospérité matérielle et du bonheur spirituel. Je soutiendrai qu'une analyse de la pensée politique, économique, et religieuse de Sjafruddin Prawiranegara, leader du parti politique islamique Masyumi en Indonésie et penseur musulman libéral-moderniste peu étudié, nous permettra d'explorer la manière par laquelle ces demandes, bien qu'elles puissent sembler en conflit, pourraient être harmonisées à fin de créer un concept de développement intégré. L'examen des œuvres de Sjafruddin, dont les rapports, articles, discours et entrevues des années 1946 à 1983, ainsi que les observations et les avis d'autres érudits, révèle une prescription pour les problèmes économiques indonésiens. Le raisonnement économique de Sjafruddin fait primer le développement humain sur l'avancement du capital. Cette approche s'assure que le développement économique soit durable, tout en incitant la population à résister aux habitudes de consommation du capitalisme moderne en la nourrissant aux plans spirituels, éthiques, et moraux. Cette étude laisse aussi entendre que le développement

économique serait le plus réussi s'il prenait place dans le cadre d'une conception moderne de la justice sociale, établie sur un système politique démocratique qui favorise l'équilibre entre les branches exécutive, législative, et judiciaire du gouvernement ; l'égalité des opportunités ; les droits de l'homme ; et la souveraineté populaire. Dans un contexte islamique, ce concept du développement exige une réinterprétation des enseignements religieux. La présente étude vise à contribuer au domaine des études religieuses en mettant en lumière la pensée systématique d'un penseur moderniste musulman d'esprit indépendant dont les contributions restent sous-estimées dans des cercles académiques, et cela même en Indonésie. La participation de Sjafruddin à la conception et à la mise en application d'une politique économique, autant que sa carrière d'intellectuel très reconnu, nous donnent une idée des promesses ainsi que des réalités du développement et de la justice sociale dans un contexte religieux.

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to be a lifelong passion. Their compassion, prayers, and words have been a constant source of strength which gave me the endurance to complete my studies. My late father, who passed away during the final month of writing this dissertation (May 26, 2012), has taught me how to sacrifice for education. I also remember my late mother-in-law whose prayers and attention for me and my family provided much needed support throughout the years. I regret that I will not have the opportunity to see them when I return to Indonesia. I would like to convey my deepest appreciation to my beloved wife, Nurlena, whose patience and support have lifted me through my studies. Through the ups and downs my children have been a great source of comfort and help in more ways than one. To my daughter Mira, your humor and lightness of heart made even the most stressful of times bearable. Special thanks go to my son, Fariduddin Attar ('Dudi'), and Chloe O'Connor, whose editing and suggestions to the final drafts were instrumental in the completion of this dissertation.

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NOTES ON SPELLING AND TRANSLITERATION

After 1972 Indonesian spelling was no longer based upon the rules of the Dutch language. The letters *ch*, *dj*, *j*, *nj*, *sj*, *tj*, and *oe* (old spelling) are now spelled respectively as *kh*, *j*, *y*, *ny*, *sy*, *c*, and *u*. So, for instance, “Masjumi” is now spelled “Masyumi”, and “Pantjasila” is now “Pancasila”. I use this new spelling for all Indonesian terms with the exception of most personal names.

As for the transliteration system for Arabic or Persian words, I use the Library of Congress system recommended by the Institute of Islamic Studies. However, I do not always use exact transliteration for words that have made it into the English language, such as Qur’an and Hadith, or for Anglicized personal names such as Fazlur Rahman or Khurshid Ahmad.

All translations, unless otherwise noted, are the author’s. Full translations for titles of non-English sources are found in the bibliography.

PART ONE: INTRODUCTION

In July 2011, twenty-two years after the death of Mr. Sjafruddin Prawiranegara, the government of Indonesia issued a Centennial Stamp commemorating his services to the country. On November 7 of the same year, the government conferred upon him the status of national hero. This move was initiated earlier that year, amidst much public support, by the Committee of the Centennial Commemoration of Mr. Sjafruddin Prawiranegara, which also proposed—more controversially—that Sjafruddin be recognized as the Second President of the Republic of Indonesia.¹ These two proposals were advanced with particular reference to his services in leading the Emergency Government of the Republic of Indonesia (PDRI) in Sumatra from 1948-1949, during which time the Dutch occupied Indonesian territories in Java and Sumatra and captured the leadership of the new Republic, including President Sukarno and Vice President Mohammad Hatta. The Sjafruddin-led Emergency Government managed to preserve the existence of Indonesia as a country with a functioning government by continuing to conduct guerrilla warfare and establishing communication with various civilian and military forces of the Republic government in Sumatra, Java, and abroad.²

This recognition is very significant with respect to the history and politics of Indonesia during the past fifty years. Both during the Guided Democracy period and

¹ Dr. (H. C.) A. M. Fatwa, *Sekilas Catatan Satu Abad Mr. Sjafruddin Prawiranegara, 1911-2011* (Jakarta: Panitia Peringatan Satu Abad Mr. Sjafruddin Prawiranegara: 1911-2011, 2011), 2-4; Akmal Nasery Basral, *Presiden Prawiranegara: Kisah 207 Hari Syafruddin Prawiranegara Memimpin Indonesia* [President Prawiranegara: A Story of 207 Days of Syafruddin Prawiranegara Leading Indonesia] (Bandung: Mizan, 2011); Iwan Satyanegara Kamah, "Sjafruddin Prawiranegara dan Dato Muda Assaat: Dua Presiden Indonesia yang Menjaga Proklamasi" [Sjafruddin Prawiranegara and Dato Muda Assaat: Two Indonesian Presidents Guarding Proclamation] in George McTurnan Kahin et al, *Sjafruddin Prawiranegara: Penyelamat Republik* [Sjafruddin Prawiranegara: Saviour of the Republic] (Jakarta: Yayasan Asrama dan Pendidikan Islam "YAPI" in cooperation with Panitia Peringatan Satu Abad Mr. Sjafruddin Prawiranegara, 1911-2011, 2011).

² Mestika Zed, *Pemerintah Darurat Republik Indonesia: Sebuah Mata Rantai Sejarah yang Terlupakan* [The Emergency Government of Republic of Indonesia: A Forgotten Chain of History] (Jakarta: Grafiti, 1997), 72-105.

no less during the New Order era, Sjafruddin's name was associated primarily with rebellion and, more regrettably, with Islamic fanaticism.³ The reasons for this were political. Sjafruddin was involved with and even became Prime Minister of the Pemerintah Revolusioner Republik Indonesia (PRRI), the Revolutionary Government of the Republic of Indonesia, a movement that demanded regional autonomy and held a staunchly anti-Communist bent (1958-1961). A powerful image of Sjafruddin as a rebel leader thus emerged in the public realm, while his services during the struggle of independence—especially his role in defending the existence of the Republic between 1948 and 1949—faded from public consciousness. Even during the New Order government, this image of Sjafruddin persisted.⁴ Though he and other political prisoners were released in 1966, the army-dominated New Order government denied him and other former leaders of Masyumi and the Indonesian Socialist Party (PSI) their full political rights as citizens.⁵

³ See, for example, Ward's analysis of the policy of the Suharto Government towards the leaders of the former (now dismantled) Masyumi Party and the Partai Muslimin Indonesia (Indonesian Muslim Party) in the late 1960s. K. E. Ward, *The Foundation of the Partai Muslimin Indonesia* (Ithaca, NY: Modern Indonesia Project Southeast Asia Program Cornell University, 1970), 24 and 57-63. For many who knew Sjafruddin closely or understood his character and thinking, such as the late Prof. George McTurnan Kahin of Cornell University, Dr. John O. Sutter, the Asia Foundation's Representative for Indonesia, 1982-1984, the late Canadian economist Dr. Benjamin Higgins, the late Prof. Herbert Feith, the late Professor Syed Hussein Alatas, Vice Chancellor of Malay University, Kuala Lumpur, the late Indonesian political scientist Prof. Deliar Noer, Sjafruddin's biographer Ajip Rosidi, and last but not least well-known Indonesian economist and social thinker Prof. M. Dawam Rahardjo, such an image is far from reality.

⁴ R. Z. Leirissa, *PRRI PERMESTA: Strategi Membangun Indonesia tanpa Komunis* (Jakarta: Grafiti, 1991/1997), 193.

⁵ Leirissa, *PRRI PERMESTA*, 207. In actuality, Suharto, then Acting President said on July 27, 1967: "Regarding those who were involved in the PRRI, and have received amnesty, the government wants to assert that as citizens they [have equal rights] as other citizens of Indonesia. Those who were previously exposed to legal action should be treated in accordance with civil service rules in agreement with the existing law, which upholds human rights." But worried about the influence of the former Masyumi and PSI leaders, the New Order government rejected the rehabilitation of the two parties. The regime also restricted their participation in political activities, banning them from taking part in aspects of political life such as assuming senior positions in central party leadership and moreover, in the case of former Masyumi members, depriving around 2.500.00 of them their right to vote in the general election of 1971. See also Ajip Rosidi, *Sjafruddin Prawiranegara: Lebih Takut kepada Allah SWT, Sebuah Biografi* (Jakarta: Inti Idayu Press, 1986), 242; Ward, *Foundation*, 57-59.

Consequently, his contributions were largely forgotten.⁶ Furthermore, on a larger scale, the PRRI-Permesta⁷ movement had not yet received a full and fair assessment by historians of the Republic. This was indeed a case where prevailing interpretations of “truth” and “history” belonged to the victors and reflected the viewpoint of those in power.

Broadly speaking, the purpose of this thesis is to bring into light two salient features of Sjafruddin’s political and intellectual career: his religious and socio-economic thought as these are integrated within his concept of social justice. These constitute his most important and relevant contributions to the Indonesian people but have been largely neglected.

In addition to the historical amnesia of the significance of Sjafruddin’s role in ensuring the survival of the Republic, no less regrettable is his neglect as an Islamic thinker. He was recognized as one of the prominent members of a progressive left-wing group within the Masyumi Party called the religious socialists that formed a formidable alliance with Sutan Sjahrir’s PSI and other progressive leaders, including Dr. Johannes Leimena from the Christian Party and I.J. Kasimo from the Catholic Party.⁸ Moreover, Sjafruddin was among former Masyumi leaders who continued—

⁶ Fatwa, *Sekilas Catatan*, 6-7. Many Indonesians who because of their status, job or position should be familiar with Sjafruddin instead know of him only vaguely or not at all. Among these are a high ranking government official, a PhD in political science, two students of a department of social sciences in a prestigious university in Indonesia, a former Indonesian ambassador to a country in the Middle East, and—most ironic—a former Secretary General of Ministry of Finance, in which Sjafruddin served three times as Minister.

⁷ Barbara S. Harvey, *Permesta: Half a Rebellion* (Ithaca, NY: Cornell Modern Indonesia Project, Southeast Asia Program, Cornell University, 1977), 1. PRRI was proclaimed at Bukit Tinggi, West Sumatra on February 15, 1958. Permesta (Perjuangan Semesta, Inclusive, Overall or Universal Struggle) was the name of a charter issued in Makassar, South Sulawesi on March 2, 1957. One of its demands was for provincial autonomy. Not all of its signatories, however, joined with the PRRI. Some, especially those who came from South Sulawesi, were persuaded or successfully neutralized by the central government. The name continued to be used by those who joined with the Sumatra-based movement in opposition to the central government. They came largely from Christian majority area of North Sulawesi.

⁸ The group included, among others, Mohammad Natsir, Mohammad Roem (Minister of Foreign Affairs 1950-1951), Prawoto Mangkusasmito (General Chairman of Masjumi 1959-1960 and Deputy Prime Minister 1952-1953), and Dr. Abu Hanifah (Minister of Education 1949-1950). Dr. Sukiman Wirjosandjojo (General Chairman of Masyumi 1945-1949 and Prime Minister 1951-

since the period of Independence and the 1950s through the 1980s—to write on Islam in the context of contemporary problems that arose in Indonesia. In his writings he commented on political, economic, social and international affairs of the nation and recommended courses of actions for Muslims and Indonesians.⁹ He also reflected on problems of religion and philosophy, especially while he was in prison (1961-1966).¹⁰ Through these writings, and his prior involvement in the revolution and subsequent republican governments, Sjafruddin became known as one of Indonesia's foremost public intellectuals and Muslim leaders. He had a reputation for level-headed and rational analysis of the issues, at times to the detriment of his own personal safety.¹¹ Sjafruddin not only addressed and criticized the New Order regime's policies but also argued critically for many innovative, progressive and controversial ideas among Muslims.¹² Despite this, however, it would seem that only

1952) and Jusuf Wibisono (Minister of Finance 1951-1952) represented a more "nationalistic" orientation but shared many similar views with the group. Other groups within Masyumi included its right wing, consisting of Nahḍat al-'Ulamā' (NU) and more conservative elements of the Muhammadiyah, as well as fundamentalist-reformist groups such as Persatuan Islam (Islamic Unity), which Kahin probably included in his classification of the right-wing. See George McTurnan Kahin, *Nationalism and Revolution in Indonesia*, Studies on Southeast Asia no. 35, ed. Benedict R. O'G. Anderson et al. (Ithaca: Cornell University Press, 1952; reprint, Ithaca: Cornell Southeast Asia Program, 2003), 157-158, 194, 309-311; Herbert Feith, *The Decline of Constitutional Democracy in Indonesia* (Ithaca: Cornell University Press, 1962; reprint, 1978), 45, 137 and 145. Allan Samson classified Masyumi into three factions: reformist, accommodationist, and fundamentalist. Although Samson did not mention Sjafruddin, it would seem from Samson's description that the latter would fall within the reformist faction. See Allan A. Samson, "Religious Belief and Political Action in Indonesian Islamic Modernism," in *Political Participation in Modern Indonesia*, Monograph Series No. 19, ed. R. William Liddle, (New Haven: Yale University Southeast Asia Studies, 1973), 118-120.

⁹ Sjafrudin Prawiranegara, *Islam Sebagai Pedoman Hidup*, vol. 1 of *Kumpulan Karangan Terpilih*, ed. Ajip Rosidi (Jakarta: Inti Idayu Press, 1986).

¹⁰ Rosidi, *Sjafruddin Prawiranegara*, 224-231.

¹¹ Sjafruddin Prawiranegara, "Pancasila as the Sole Foundation," *Indonesia* 38 (October 1984): 74-83; Sjafruddin Prawiranegara, *Human Development: Pola Pembangunan yang sesuai dengan Ajaran-ajaran Islam dan UUD '45* (Jakarta: Bulan Bintang, 1977), 14-17.

¹² See, for example, Sjafruddin's proposal to reconsider the existence of Ministry of Religious Affairs, due to his fear that it would become a means for the commercialization of religion for political gain or an instrument serving the interest of the government and Ministry officials. See Sjafruddin Prawiranegara, *Al-'Aqabah, Pendakian yang Tinggi: Beberapa Pikiran tentang Pembangunan* (Jakarta: Bulan Bintang, 1971), 10.

a few people today, first and foremost Mohammad Dawam Rahardjo, truly understand the liberal orientation of Sjafruddin's thinking.¹³

There are several factors that have contributed to the enormous lack of discussion of Sjafruddin's religious thinking within Islamic discourse in general, not to mention within liberal Islamic philosophy and the renewal of Islamic thought in Indonesia. Many have assumed that Sjafruddin's thinking on Islamic issues, especially Islam and politics in Indonesia in the New Order period, is synonymous with that of Mohammad Natsir, the most prominent and influential Masyumi leader. This assumption is not unfounded, given Sjafruddin's deep rapport with Natsir during his involvement with Masyumi and with the *Dewan Dawah Islamiyah Indonesia* (DDII), the Council of Indonesian Islamic Mission, an Islamic missionary organization established by Natsir and other former Masyumi leaders after the New Order regime rejected their attempt to rehabilitate Masyumi (banned by Sukarno) as a political party.¹⁴ Despite the close relationship between the two men, however, Sjafruddin should be considered a distinct thinker in his own right. This is reflected in Sjafruddin and Natsir's divergent attitudes towards the new political reality after the collapse of Sukarno's Guided Democracy regime and the emergence of the army-dominated New Order. The authoritarian and Machiavellian nature of these regimes alienated Natsir, Sjafruddin and other Masyumi leaders.¹⁵ In Natsir's case, he became less creative in dealing with various issues and began to lose his grasp of the dynamics of this new development. Although his ideas were still moderate, many

¹³ M. Dawam Rahardjo, *Perspektif Deklarasi Makkah: Menuju Ekonomi Islam* (Bandung: Mizan, 1987/1989), 19-22.

¹⁴ Robert W. Hefner, *Civil Islam: Muslims and Democratization in Indonesia* (Princeton: Princeton University Press, 2000), 107. For a more detailed description of the activities of DDII in education, call/mission, health, and agriculture, see Mohammed Kamal Hassan, "Contemporary Muslim Religio-Political Thought in Indonesia: The Response to 'New Order Modernization'" (Ph.D. diss., Columbia University, 1975), 105-108.

¹⁵ Hefner, *Civil Islam*, 111-113; Robert Cribb and Colin Brown, *Modern Indonesia: A History since 1945* (London: Longman, 1995), 127-128.

people perceived them as less inspiring and refreshing than they had been from the 1930s until the 1950s.¹⁶ The harsh policies of these regimes, especially the New Order government, had driven Natsir toward conservatism.¹⁷ However, this was not the case with Sjafruddin. Despite his own disappointments he was able to provide a more positive, though still critical, response to the policies of the New Order regime, maintaining the vigour and energy necessary to engage dynamically with the problems and challenges posed by the new reality. This attitude was reflected in his ability to respond fairly and reasonably to an issue or problem. As we shall see, he did not take an intrinsically critical stance against the authoritarian regime. When he agreed with a government policy, his support was unaffected by the concern that his views might be construed as favourable to the regime and contrary to Muslim popular opinion.

Despite the neglect of Sjafruddin's role in the national struggle and Islamic thought in Indonesia, he has nonetheless received broad appreciation and attention among foreign scholars and observers of the Indonesian economy. Sjafruddin's economic development ideas and policies were considered to be the most open to foreign direct investment, friendly to the role of private companies, sober with regard to nationalization, prudent on spending, and pragmatic in other economic policies.¹⁸ His economic ideas had a noticeable impact on the economic policy of the New Order government.¹⁹

¹⁶ Hefner, *Civil Islam*, 103. Natsir's indirect criticisms of Nurcholish Madjid's ideas for renewal revealed this tendency. See Fachry Ali and Bahtiar Effendy, *Merambah Jalan Baru Islam: Rekonstruksi Pemikiran Islam Indonesia di Masa Orde Baru* (Bandung: Mizan, 1990), 141-142. Natsir seemed to be preoccupied by "the unity of the Ummah" (Muslim community), an idealistic concept or situation which almost has never occurred in Indonesia, even in the 1950s when Masyumi constituted an influential and dominant Islamic party. Cf. Samson, "Religious Belief," 130.

¹⁷Hefner, *Civil Islam*, 101.

¹⁸ See for example, Bruce Glassburner, "Economic Policy-Making in Indonesia, 1950-1957," in *The Economy of Indonesia: Selected Readings*, ed. Bruce Glassburner (Ithaca: Cornell University Press, 1971), 70-98; John O. Sutter, *Indonesianisasi, Politics in a Changing Economy, 1940-1955*, Data Paper no. 36 (Ithaca, New York: Department of Far Eastern Studies, Southeast Asia Program,

The idea of social justice is very important in Indonesian national consciousness. The purpose of development in accordance with the Constitution of the Republic of Indonesia is “to develop general prosperity, realize social justice for all Indonesians, and advance the nation’s life.”²⁰ However, despite the prevalence of this concept in Indonesian political discourse, social justice still remains a distant ideal. Consecutive Indonesian governments, as we shall see, have had different—even opposing—ideologies and strategies by which to achieve that ideal. The series of cabinets in the period of the liberal parliamentary democracy (1950-1957) failed because of various economic, political and ideological factors, as well as domestic and international problems which eventually brought down the system.²¹ President Sukarno’s Guided Democracy (1957-1966), accompanied by *Ekonomi Terpimpin* (Guided Economy), which attempted to transform the Indonesian economic structure into a socialist model, *Sosialisme á la Indonesia*, ultimately failed to enhance the level of economy and political stability due to economic mismanagement, internal political-ideological contradictions, conflicts of interests among the regime’s supporting groups, and military confrontation with Malaysia. The Guided Democracy system created political instability and economic disaster.²²

Cornell University, 1959); Benjamin Higgins with Jean Higgins, *Indonesia: The Crisis of the Millstones*, A Search Light Original, ed. George W. Hoffman and G. Etzel Pearcy (Princeton, NJ: D. Van Nostrand Company, 1963); Benjamin Higgins, *Indonesia’s Economic Stabilization and Development* (New York: Institute of Pacific Relations, 1957); Benjamin Higgins, “Thought and Action: Indonesian Economic Studies and Policies in the 1950s,” *Bulletin of Indonesian Economic Studies* 26, no. 1 (April 1990): 37-47. The most recent writing on Sjafruddin’s economic ideas is Thee Kian Wie, “The Debate on Economic Policy in Newly-Independent Indonesia between Sjafruddin Prawiranegara and Sumitro Djojohadikusumo,” *Itinerario* 34.1 (March 2010): 1-22.

¹⁹ M. Dawam Rahardjo, *Pragmatisme dan Utopia: Corak Nasionalisme Ekonomi Indonesia* (Jakarta: LP3ES, 1992), 45-55; Robert C. Rice, “The Origin of Economic Ideas and Their Impact on Economic Development in Indonesia,” *Masyarakat Indonesia* 9, no. 2 (1982): 141-154.

²⁰ Constitution of Republic of Indonesia of 1945 (2002), preamble.

²¹ Higgins with Higgins, *Indonesia*, 85-87; Glassburner “Economic Policy-Making,” 90-91.

²² Ian Chalmers, “Introduction,” in *The Politics of Economics Development in Indonesia: Contending Perspectives*, ed. Ian Chalmers and Vedi R. Hadiz (London: Routledge, 1997), 15-17; Howard Dick, “Formation of the Nation-State, 1930s-1966,” in *The Emergence of a National Economy: An Economic History of Indonesia, 1800-2000*, ed. Howard Dick et al (Crows Nest, NSW: Asian Studies Association of Australia, Allen & Unwin and University of Hawai’i Press, 2002), 186-191; M. C. Ricklefs, *A History of Modern Indonesia since c. 1200*, 4th ed. (Stanford,

The subsequent Army-dominated “New Order” regime (1966-1998) reversed the policies of its predecessor, reintegrating Indonesia into the global economy and receiving massive foreign support in the process. The regime also devised a highly centralized authoritarian system and achieved a level of national unity and stability that enabled the government to engineer economic growth. However on the other hand, flagrant unequal distribution, increased economic disparities, tightly-controlled socio-cultural development, and rampant corruption were tolerated as people lost their political freedom and had to endure suppression and violence to retain the New Order’s national stability and economic benefits. Economic crisis, which culminated in violent riots and widespread demonstration, finally brought the New Order regime’s rule to an end on May 21, 1998.²³

In the post-New Order period Indonesia has had democratically elected governments which have implemented liberal pro-market economic policies. Changes have taken place since then; economic and monetary stability was eventually achieved, though still not to the fullest and immediate extent. Inefficiency including widespread corruption and unequal distribution still constitute striking complications that inhibit the realization of the ideals of a just and prosperous society.²⁴

CA: Stanford University Press, 2008), 318-321; Bruce Glassburner, “Indonesian Economic Policy after Sukarno,” in *The Economy of Indonesia: Selected Readings*, ed. Bruce Glassburner (Ithaca: Cornell University Press, 1971), 428-432.

²³ Hal Hill, *The Indonesian Economy*, 2nd ed. (Cambridge: Cambridge University Press, 2000), 272-283; Mohammad Sadli, “The Indonesian Crisis,” in *Southeast Asia’s Economic Crisis: Origins, Lessons, and the Way Forward*, ed. H.W. Arndt and Hal Hill (New York: St. Martin’s Press, 1999), 18-19; John Bresnan, “The United States, the IMF, and the Indonesian Financial Crisis,” in *The Politics of Post-Suharto Indonesia*, ed. Adam Schwartz and Jonathan Paris (New York: Council on Foreign Relations Press, 1999), 88; Miftah Wirahadikusumah, “The Rise and Development of the Indonesian New Order Regime” (Ph.D. diss., University of Hawaii, 1990), 19-27.

²⁴ Richard Robison and Kevin Hewison, “Introduction: East Asia and the Trials of Neo-Liberalism,” in *East Asia and the Trials of Neo-Liberalism*, ed. Kevin Hewison and Richard Robison (London: Routledge, 2006), ix; Hadi Soesastro and Raymond Atje, “Survey of Recent Developments,” *Bulletin of Indonesian Economic Studies* 41, no. 1 (2005): 7; Damien Kingsbury, *The Politics of Indonesia*, 3rd ed. (Oxford: Oxford University Press, 2005), 114-115; Sadli, “Indonesian Crisis,” 21; Richard Robison and Vedi R. Hadiz, *Reorganizing Power in Indonesia:*

For modern nation-states such as Indonesia with pluralistic religious and ethnic groups, the principle of social justice is very significant because it can be the basis for unity, prosperity and sustainability of the nation.²⁵ According to Miller, the modern concept of social justice is oriented towards society, to effect change in the social structure and conditions. For this purpose, Miller emphasizes, social justice requires the state as an institutional structure to carry out legislative and policy changes that operate on an individual level and which can make purposeful reforms in the name of fairness. Miller also emphasizes that the state, despite its power and directing capacity, nonetheless requires the cooperation of its citizens, a range of social institutions and practices to make the reforms work, and last but not least, a culture of social justice penetrating major social institutions and individual behaviour. He argues that only nation-states are able to ensure the successful implementation of the principles of justice.²⁶

Social justice is a broader concept than that of economic justice. According to Arthur and Shaw, economic justice is conceived of as an essential component of social justice. Although both deal with the equitable distribution of wealth in society, economic justice may be accomplished without social justice, but not the reverse.²⁷ Social justice “refers to the structure and policies of a society, and to its political, legal, economic and social institutions”.²⁸ John Isbister asserts that social justice has three components: equality, freedom, and efficiency. According to him, “[p]eople

The Politics of Oligarchy in an Age of Markets (London: Routledge Curzon, 2004): 3; Richard Robison and Vedi R. Hadiz, “Indonesia: Crisis, Oligarchy, and Reform,” in *The Political Economy of South-East Asia: Markets, Power, and Contestation*, ed. Garry Rodan, Kevin Hewison, and Richard Robison, 3rd ed. (Oxford University Press, 2006): 112.

²⁵ John Rawls, *A Theory of Justice*, rev. ed. (Cambridge, MA: Belknap Press of Harvard University Press, 1999), 3-6; John Rawls, *Justice as Fairness: A Restatement* (Cambridge, MA: Harvard University Press, 2001), 1-9 and 42-44; David Miller, *Principles of Social Justice* (Cambridge, Massachusetts: Harvard University Press, 1999), 4 and 271.

²⁶ Miller, *Principles of Social Justice*, 4-6, 11-13 and 18-19.

²⁷ John Arthur and William Shaw, *Justice and Economic Distribution*, 2nd ed. (Eaglewood Cliffs, NJ: Prentice Hall, 1991), 5.

²⁸ Mohammad Hashim Kamali, *Freedom, Equality and Justice in Islam* (2002; repr. Cambridge, UK: The Islamic Texts Society, 2010), 106.

deserve to be treated as equals, they deserve to be free, and they deserve to get the best they can out of their limited resources.”²⁹ Social justice, therefore, requires a situation in which political powers and liberties are justly distributed, whereas an unjust distribution of these would be acceptable for economic justice.³⁰

In the present time the topics of social justice and the moral perspective on economic justice have gained new significance. The search for an appropriate way to realise the ideals of social justice and economic prosperity underlies contemporary discussions, which revolve around the difficulties of reconciling economic growth with equality, market economy with moral-ethical principles, and practical merits of capitalism with their ethical problems.³¹ In addition, a number of authors try to more comprehensively define prosperity and happiness, work to reconcile economic efficiency and morality, approach ethics and economics from the standpoint of Christianity and other religious traditions including Islam and Judaism, and critically question injustices and moral-ethical problems brought about by global capitalism.³² There are also religiously-based viewpoints which are less critical of current global capitalism or even promote it.³³ Although many prominent religious figures and

²⁹ John Isbister, *Capitalism and Justice: Envisioning Social and Economic Fairness* (Bloomfield, CT: Kumarian Press, 2001), 4.

³⁰ Arthur and Shaw, *Justice*, 5.

³¹ See, for example, Daniel K. Finn, *The Moral Ecology Markets: Assessing Claims about Markets and Justice* (Cambridge: Cambridge University Press, 2006); Yuichi Shionoya, *Economy and Morality* (Cheltenham, UK: Edward Elgar, 2005); John Douglas Bishop, ed., *Ethics and Capitalism* (Toronto: University of Toronto Press, 2000); John W. Chapman and J. Roland Pennock, *Markets and Justice* (New York: New York University Press, 1989); Trent Schroyer, *Beyond Western Economics: Remembering Other Economic Cultures* (London: Routledge, 2009).

³² Rebecca M. Blank and William McGurn, eds., *Is the Market Moral? A Dialogue on Religion, Economics, and Market* (Washington, D.C.: Brookings Institution Press, 2004); Daniel K. Finn, ed., *The True Wealth of Nations: Catholic Social Thought and Economic Life* (Oxford: Oxford University Press, 2010); Jonathan B. Imber, ed., *Markets, Morals & Religion* (New Brunswick: Transaction Publishers, 2008); Charles Tripp, *Islam and the Moral Economy: The Challenge of Capitalism* (Cambridge University Press, 2006); John H. Dunning, ed., *Making Globalization Good: The Moral Challenges of Global Capitalism* (Oxford: Oxford University Press, 2003); Dieter Hessel and Larry Rasmussen eds., *Earth Habitat: Eco-Justice and the Church's Response* (Minneapolis: Fortress Press, 2001); Peter H. Sedgwick, *The Market Economy and Christian Ethics* (Cambridge: Cambridge University Press, 1999).

³³ Michael Novak, *The Spirit of Democratic Capitalism* (New York: Simon and Schuster, 1982); Michael Novak, *The Catholic Ethic and the Spirit of Capitalism* (New York: Free Press

thinkers admit that global capitalism has the ability to be “the most efficient economic system for wealth creation, [they] also caution that without a firm and socially inclusive moral foundation, its institutions will not be motivated or conduct themselves in a way which is both democratically acceptable and sustainable over time.”³⁴

Justice in general, including social justice, is also a theme in contemporary Islamic thought.³⁵ Many Muslim and non-Muslim writers have shown the prominence of justice in Islamic teachings. In theory, it is considered to be a supreme virtue and one of the most basic and overriding values in Islam. However, in practice the concept is elusive and there are many different interpretations of its scope and meaning.³⁶ Sjafruddin’s view of the importance of social justice in economic development was derived not only from the teachings of Islam but also from socialism, which was popular in Indonesia since the early twentieth century. The popularity of socialism—including Marxism and communism—among both Islamic and secular Indonesian nationalist leaders was a reaction to the exploitation of, and racial discrimination against, indigenous Indonesian populations employed

and Maxwell Macmillan Canada, 1993); Peter L. Berger, ed., *The Capitalist Spirit: Toward A Religious Ethic of Wealth Creation* (San Francisco, CA: ICS Press, 1990; Imber, *Markets*; Peter L. Berger and Gordon Redding, eds., *The Hidden Form of Capital: Spiritual Influences in Societal Progress* (London: Anthem Press, 2010).

³⁴ John H. Dunning, “Introduction,” in *Making Globalization Good: The Moral Challenges of Global Capitalism*, ed. John H. Dunning (Oxford: Oxford University Press, 2003), 3.

³⁵ Fazlur Rahman, “Islam: Challenges and Opportunities,” in *Islam: Past Influence and Present Challenge*, ed. Alford T. Welch and Pierre Cachia (Edinburgh: Edinburgh University Press, 1979), 319-320; Fazlur Rahman, “Roots of Islamic Neo-Fundamentalism,” in *Change and the Muslim World*, ed. Philip H. Stoddard et al (Syracuse: Syracuse University Press in cooperation with the Washington Center of the Asia Society, the Middle East Institute, and the National Committee to honour the Fourteenth Centennial of Islam, 1981), 30-31.

³⁶ Lawrence Rosen, “Islamic Concepts of Justice,” in *The SAGE Handbook of Islamic Studies*, ed. Akbar S. Ahmed and Tamara Sonn (London: SAGE Publications, 2010), 69-82; Gudrun Kramer, “Justice in Modern Islamic Thought,” in *Shari’a: Islamic Law in the Contemporary Context*, ed. Abbas Amanat and Frank Griffel (Stanford: Stanford University Press, 2007), 20-37. Fazlur Rahman, *Major Themes of the Qur’an* (Minneapolis: Bibliotheca Islamica, 1980), 37; Kamali, *Freedom, Equality and Justice in Islam*, 107.

by the Dutch colonial government.³⁷ Socialism exerted a strong influence in the Indonesian nationalist movement, so much so that the founding fathers of the nation included social justice among the principles of *Pancasila*, the state ideology, thus framing it, along with the realization of a just and prosperous society, as the primary aspiration of the nation.³⁸ Sjafruddin was active in the underground movement led by Sutan Sjahrir, the prominent leader of a socialist group in Indonesia, during the time of the Japanese occupation. Only after independence did Sjafruddin join an Islamic organization for the first time. He became a member of the Masyumi Islamic political party in 1945 and began to study Islam more seriously.³⁹

Here I focus primarily on the discussion of Sjafruddin's view on the concept of social justice and its implementation in economic development. As this work will show, Sjafruddin's conception of social justice was unique and departed from that of other Muslim thinkers such as Sayyid Quṭb, Muṣṭafā al-Sibā'ī Muḥammad Bāqir al-Ṣadr, Murtaḍā Muṭahharī, and Fazlur Rahman, all of whom discussed the issue of social justice only at a normative or philosophical level. In contrast, Sjafruddin discussed the issue both in normative-philosophical terms as well as in concrete terms of policies for economic development. This study will also present the contrast between the views of Sjafruddin and those of proponents of the idea of Islamic economics such as Muhammad Abdul Mannan, Muhammad Umer Chapra, and Khurshid Ahmad, to mention a few. Among Indonesian Islamic figures, Sjafruddin was unique in his ideas of social justice and economic development. He

³⁷ Cribb and Brown, *Modern Indonesia*, 6-13; Clive Christie, *Ideology and Revolution in Southeast Asia 1900-1980: Political Ideas of the Anti-Colonial Era* (Richmond, Surrey: Curzon Press, 2001), esp. 24-72; Takashi Shiraishi, *An Age in Motion: Popular Radicalism in Java, 1912-1926* (Ithaca: Cornell University Press, 1990).

³⁸ Chalmers, "Introduction," 2-3, 7 and 9.

³⁹ Sjafruddin Prawiranegara, "Recollections of My Career," *Bulletin of Indonesian Economic Studies* 23, no. 3 (December 1987): 101; Sjafruddin Prawiranegara, "Peranan Islam dalam Perjuangan Kemerdekaan dan Pembangunan," in *Islam Sebagai Pedoman Hidup*, vol. 1. of *Kumpulan Karangan Terpilih*, ed. Ajip Rosidi (Jakarta: Inti Idayu Press, 1986), 256; Rosidi, *Sjafruddin Prawiranegara*, viii-x.

stood in the strategic position of not only formulating principles of social justice but also having the capacity to directly implement them, having served as Minister of Finance, Minister of Prosperity, and Governor of the Central Bank, as well as leader of the Masyumi Islamic party.

Another unique aspect of Sjafruddin's concept of social justice, as we shall see, is that it was implemented, during the early years of Independence, through rational and realistic-pragmatic economic policies, and not the nationalization of foreign enterprises or the rejection of foreign investment due to nationalistic sentiments. He argued for moderate, gradual and reasonable policies to transform the remnants of colonial economic structures and to solve economic and social problems. For Sjafruddin, it was preferable to maintain social and economic growth and stability in order to provide people with jobs than to satisfy emotional nationalistic feeling or sentimental national pride by taking over foreign companies or nationalizing them by force, a development which nonetheless eventually occurred in the late 1957 against his advice.⁴⁰ He also proposed deregulation and enforcement of the rule of law, and worked to eliminate sources of corruption.⁴¹ Sjafruddin was very opposed to the politics of political discrimination against Chinese-Indonesians on the part of the Indonesian government, arguing for the recognition and implementation of their rights as citizens and workers as fully equal to those of other Indonesians.⁴² Sjafruddin also emphasized justice for the regions, especially those outside of Java (Outer Islands). According to him, the centralization of power in Jakarta was one major hindrance to development, which necessitated

⁴⁰ Sjafruddin Prawiranegara, "Dasar Politik Kemakmuran," in *Ekonomi dan Keuangan: Makna Ekonomi Islam*, vol. 2 of *Kumpulan Karangan Terpilih*, ed. Ajip Rosidi (Jakarta: CV Haji Masagung, 1988), 94-99.

⁴¹ Sjafruddin Prawiranegara, "Membangun Kembali Ekonomi Indonesia," in *Ekonomi dan Keuangan: Makna Ekonomi Islam*, vol. 2 of *Kumpulan Karangan Terpilih*, ed. Ajip Rosidi (Jakarta: CV Haji Masagung, 1988), 168-219.

⁴² Prawiranegara, "Membangun Kembali," 193-194.

that the central government give real autonomy to the regions.⁴³ He also insisted that economic development required peace and friendship with other nations including the Dutch, towards whom many other Indonesian nationalist leaders displayed enmity and resentment. Sjafruddin's nationalism was not a xenophobic one.⁴⁴

Sjafruddin was also an independently-minded Muslim economist. Like other such thinkers he did not separate the economic from religious and moral teachings, a holistic approach reflected in his ideas and policies on economic development. He derived the spirit and ethics of social justice from the teachings of the Qur'an and the traditions of the Prophet (Hadīth).⁴⁵ However, at variance with many Islamic scholars, he employed scripture not to justify a normative-legalistic approach, but instead to derive the principle or spirit behind the letter, taking it as a source of ethical guidance and inspiration. References to the verses of the Qur'an and Hadith invigorated his proposals for repairing and rebuilding the Indonesian economy, including policies to increase production, foster efficiency in the state's management of economic affairs, and ensure prosperity and just distribution.⁴⁶

As this study will show, Sjafruddin's economic views and policies to realize social justice and prosperity were also influenced by practices of European welfare states, especially Scandinavian (Sweden, Norway, and Denmark) and Benelux

⁴³ Prawiranegara, "Dasar Politik Kemakmuran," 89.

⁴⁴ Prawiranegara, "Membangun Kembali," 219.

⁴⁵ *Ḥadīth* (Arabic plural, *aḥādīth*) is "a report describing the words, actions, or habits of the Prophet"; it is "the unit through which the Sunna was preserved, transmitted, and understood..." The Sunna itself is "[t]he normative legacy of the Prophet." Jonathan A. C. Brown, *Hadith: Muhammad's Legacy in the Medieval and Modern World*, (Oxford: Oneworld Publications, 2009), 3.

⁴⁶ Sjafruddin Prawiranegara, "Ekonomi Terpimpin," in *Ekonomi dan Keuangan: Makna Ekonomi Islam*, vol. 2 of *Kumpulan Karangan Terpilih*, ed. Ajip Rosidi (Jakarta: CV Haji Masagung, 1988), 115-136; Prawiranegara, "Membangun Kembali," 168-219; Sjafruddin Prawiranegara, "Sekali Lagi: Tinjauan tentang Politik Ekonomi dan Keuangan," in *Ekonomi dan Keuangan: Makna Ekonomi Islam*, vol. 2 of *Kumpulan Karangan Terpilih*, ed. Ajip Rosidi (Jakarta: CV Haji Masagung, 1988), 251-259.

(Belgium, the Netherlands, and Luxembourg) countries,⁴⁷ and by Neo-Classical economics.⁴⁸ Professor Rahardjo compared Sjafruddin to Milton Friedman in terms of his emphasis on monetary policy controlling the regulation of the money supply and interest rate intended to increase economic growth and stability.⁴⁹ In addition, Sjafruddin bore a resemblance to Paul Samuelson, as his views reflect a synthesis of Keynesianism with neo-classical theory. This amalgam is termed Neo-Keynesianism, Neoclassical synthesis, or, according to Joan Robinson, “bastard Keynesianism”.⁵⁰ However, as will be demonstrated, despite all these influences Sjafruddin had his own views on the economy and on how Indonesia should select and execute economic policies in accordance with the country’s unique conditions and circumstances. He argued, for example, that Keynes’ theory could not be accepted at face value or carried out in a country, including Indonesia, whose conditions differed from those present in the country where the theory was born. Western economic theories did, in his opinion, contain some truths that were useful for Indonesia, but these should be investigated and examined in depth, especially with respect to which parts of the theories are valid for and applicable to Indonesia.⁵¹

⁴⁷ Sjafruddin Prawiranegara, “Adakah Konsep atau Sistem Ekonomi Khusus Islam?” in *Ekonomi dan Keuangan: Makna Ekonomi Islam*, vol. 2 of *Kumpulan Karangan Terpilih*, ed. Ajip Rosidi (Jakarta: CV Haji Masagung, 1988), 351.

⁴⁸ Rahardjo, *Pragmatisme dan Utopia*, 45; see also Sjafruddin Prawiranegara, “Apa yang Dimaksud dengan Sistem Ekonomi Islam?” in *Ekonomi dan Keuangan: Makna Ekonomi Islam*, vol. 2 of *Kumpulan Karangan Terpilih*, ed. Ajip Rosidi (Jakarta: CV Haji Masagung, 1988), 266; Prawiranegara, “Ekonomi Terpimpin,” 134-136; Prawiranegara, “Membangun Kembali,” 168-219.

⁴⁹ See Rahardjo, *Pragmatisme dan Utopia*, 45.

⁵⁰ Frank Stilwell, *Political Economy: The Contest of Economic Ideas*, 2nd ed. (Melbourne: Oxford University Press, 2006), 309. According to Stilwell, neo-Keynesianism “...stresses the equilibrium in the macroeconomic system, albeit not guaranteeing full employment. Politically, it accepts the case for a limited set of discretionary fiscal and monetary policies to fine tune the economy, reconciling equilibrium with full employment, but otherwise leaving the economy to function largely according to the principles of private enterprise” (308-9).

⁵¹ Sjafruddin Prawiranegara, “Tinjauan Singkat tentang Uang dan Bank Sentral,” in *Ekonomi dan Keuangan: Makna Ekonomi Islam*, vol. 2 of *Kumpulan Karangan Terpilih*, ed. Ajip Rosidi (Jakarta: CV Haji Masagung, 1988), 156.

As I have mentioned above, Sjafruddin's concept of social justice diverged from that of the proponents of Islamic economics. Sjafruddin argued that interest in the modern-capitalist system of financial intermediation was not *ribā*, usury. He thus saw no need for a free-interest banking and financial system as an alternative to the current one. While admitting that financial practices of the conventional banking system contained many excesses and deviations, Sjafruddin nonetheless believed that it constituted an efficient system of production and distribution which would ensure economic prosperity and justice. He argued that the basic elements of modern capitalism—private ownership of property, the systematic and self-interested pursuit of profit, and the exchange of goods and services on the basis of market prices⁵²—were in accordance with human nature and Islam. However, in his view, excessive liberal capitalism was also against Islam and nature.⁵³

In the pattern of Islamic thought which has emerged during the modern period, Sjafruddin belongs to the liberal or progressive modernist stream. Sjafruddin's thinking can be classified within the Islamic liberal modernist tradition pioneered by Sayyid Ahmad Khan, Muhammad Abduh, Muhammad Iqbal, and Fazlur Rahman, among others, which emphasizes dialogue, peace, and cooperation, promotes the humanistic and ethical values of Islam rather than its formal-legalistic interpretation, stresses the importance of *ijtihad* (new interpretation) concerning the nature of reason and its relation to religious, social and political reforms, and advocates for the establishment of constitutional and representative forms of government and the realization of social justice.⁵⁴

⁵² Peter Saunders, *Capitalism*, (Minneapolis: University of Minnesota Press, 1995), 3-7.

⁵³ Prawiranegara, "Apa yang Dimaksud," 260-295.

⁵⁴ Charles Kurzman identifies three major traditions of Islam in modern-contemporary time: customary, revivalist, and liberal. He further classifies liberal Islam into three principal "modes": The first sanctions liberal positions as authorized by the Shari'ah; the second mode argues that Muslims are free to adopt liberal positions on subjects that the Shari'ah leaves open to human ingenuity; and the third mode suggests that the Shari'ah, while divinely inspired, is subject to a

This topic has not been previously addressed from this point of view, and Sjafruddin's Islamic thought remains relatively unexamined even within the discourse on Islamic contemporary thought in Indonesia. An exception is M. Dawam Rahardjo, professor of economics at the Muhammadiyah University of Malang and Chairman of the Board of Directors of Lembaga Studi Agama dan Filsafat (LSAF, Institute for the Study of Religion and Philosophy) in Jakarta, who briefly discussed Sjafruddin's views on usury in his book on Islamic economics.⁵⁵ He also treated Sjafruddin's views and policies on national economic development in a book on economic thought in Indonesia.⁵⁶ Meanwhile, Rahardjo's monograph on Sjafruddin, focussing on the latter's role in Indonesian economic development, was written in tribute to him not long after he passed away in February of 1989. In it, Rahardjo referred to Sjafruddin as a technocrat who has wielded considerable influence over the economic policy of the New Order government.⁵⁷

In his B.A. thesis in the Department of History at the University of Indonesia, Edi Sudarjat specifically addresses Sjafruddin Prawiranegara's economic thought, locating Sjafruddin's ideas within the context of Indonesian economic history. Sudarjat's thesis is two-fold, discussing firstly, Sjafruddin's contribution to

plurality of human interpretations. The present writer would include Sjafruddin within the second and third modes of liberal Islam. See Kurzman, "Introduction: Liberal Islam and Its Islamic Context," in *Liberal Islam: A Sourcebook*, ed. Charles Kurzman (Oxford: Oxford University Press, 1998), 5-17. Meanwhile Fazlur Rahman categorizes Islamic intellectual movements since the early eighteenth and nineteenth centuries into: pre-modernist revivalist reform/pre-modernist fundamentalism, classical modernist, post-modernist revivalism/neo-fundamentalism, and neo-modernist. See Fazlur Rahman, "Islam: Challenges and Opportunities," 315-325. Sjafruddin could be classified as a classical modernist in Rahman's scheme. William Shepard discerns three general orientations: "secularist", "Islamist", and "traditionalist". Secularist orientation consists of Muslim secularism and religious secularism, and Islamism consists of Islamic modernism and radical Islamism. Finally, "traditionalism" has brought forth "neo-traditionalism". See William Shepard, "The Diversity of Islamic Thought: Towards a Typology," in *Islamic Thought in the Twentieth Century*, ed. Suha Taji-Farouki and Basheer M. Nafi (London: I.B. Tauris, 2004), 61-103. In Shepard's typology Sjafruddin could be classified within Islamic modernism.

⁵⁵ See Rahardjo, *Perspektif Deklarasi Makkah*.

⁵⁶ See Rahardjo, *Pragmatisme dan Utopia*, 45-52.

⁵⁷ M. Dawam Rahardjo, "Posisi Sjafruddin Prawiranegara Sebagai Teknokrat Indonesia," *Panji Masyarakat*, no. 604, March 1989, 26-29. Quoted in Edi Sudarjat, *Pemikiran Ekonomi Sjafruddin Prawiranegara (1945-1983)*, (B.A. Thesis: Universitas Indonesia, 1993), 4.

Indonesian economic ideas and subsequent influence on the New Order government economic policies; and secondly, Sjafruddin's arguments that bank interest was not *ribā*, including his opinion that Islam did not require its own economic system.⁵⁸ Sudarjat's thesis does not cover Sjafruddin's economic ideas within the context of social justice in Islam and Islamic modernist liberal thought, and also excluded his political and religious views. Sudarjat concluded that Sjafruddin's Islamic economic thinking was not profound, especially compared to his more advanced monetary economic thinking, and simply assumed to be incorrect Sjafruddin's opinion that there was no need to establish Islamic bank. According to Sudarjat, Sjafruddin did not possess sufficient knowledge in the field of Islamic law. I will offer a different interpretation from Sudarjat's on this very point.⁵⁹

Adnan, another writer who published a monograph on Sjafruddin's thought, explored how Sjafruddin's socialist ideas were integrated with his religious beliefs. He argued that the socialism of modern Muslim intellectuals such as Sjafruddin emerged from deeply-held religious sensibilities and values.⁶⁰ Socialism was seen as a means towards greater socio-economic justice and prosperity in the economic arrangement of a modern state.⁶¹ Adnan characterizes Sjafruddin's brand of religious socialism as one that took into consideration both material and spiritual goods in economic life, and emphasized the collective and public interest without compromising the importance of individual responsibility and initiative.⁶² He locates Sjafruddin's Islamic socialism within a normative-ideological viewpoint. Not discussed, however, are any of Sjafruddin's economic policies or proposals in the 1950s or after his 1966 release from prison, nor, interestingly, Sjafruddin's opinion of

⁵⁸ Sudarjat, *Pemikiran Ekonomi*, 2-8.

⁵⁹ Sudarjat, *Pemikiran Ekonomi*, 107.

⁶⁰ Adnan, *Islam Sosialis: Pemikiran Sistem Ekonomi Sosialis Religius Sjafruddin Prawiranegara* (Jogjakarta: Menara Kudus, 2004), 30.

⁶¹ Adnan, *Islam Sosialis*, 133.

⁶² Adnan, *Islam Sosialis*, 136.

ribā. Although Adnan's book originated from his M.A. thesis at "Walisongo" State Institute of Islamic Studies, in Semarang, Central Java, his discussion of Sjafruddin's ideas is nonetheless more limited than that in Sudarjat's B.A. thesis.

The present work will examine the contributions of Sjafruddin Prawiranegara to the identification and reconciliation of the intersecting dynamics of equality, liberty, and economic development in Indonesia. This will be accomplished through an examination of his economic development ideas and policies as reflected in his writings and speeches within the period 1946-1983. Sjafruddin's works reveal a plan to simultaneously and harmoniously realize a just and prosperous society as enshrined in the Indonesian Constitution. This study also seeks to examine the relationship between Islam and social justice, and how the latter may be implemented in economic development. This will be accomplished by presenting Sjafruddin's ideas concerning how the state or government, as an institutional structure, should bring about economic prosperity, equality, freedom of expression, and an ethical-moral society, based on his interpretation of Islamic teachings and the modern concept of social justice.⁶³ Also to be discussed are his views on the need for laws and regulation, with an independent judiciary to provide legal protection and guarantee market mechanisms and private property in the means of production.⁶⁴

The present study shows, among other conclusions, that the realization of social justice is possible through economic policies based on a rational and realistic-pragmatic approach within the framework of a democratic system of government. Equality, liberty, and efficiency can be achieved simultaneously and harmoniously. This work also shows the enduring relationship in Islamic thought between Islam

⁶³ Miller, *Principles of Social Justice*, 4.

⁶⁴ I refer here to Rawls' concept of the basic structure. See John Rawls, *Justice as Fairness: A Restatement* (Cambridge, MA: Harvard University Press, 2001), 10.

and political, economic, and social issues. Sjafruddin did not separate economic policy from religious teachings and moral principles, as reflected in his philosophies and policies on economic development. But the interrelatedness of Islam and the aforementioned issues did not lead to exclusive claims or to the proposal of a separate economic system. For Sjafruddin, religious, ethical, and moral principles should provide the foundation for economic development policy and its implementation, directing it toward material benefit as well as spiritual purposes. His understanding of social justice is considered modern in that it was oriented towards effecting change in the socio-economic structure and conditions of Indonesian society, with its ultimate goal being the realization of a just, prosperous, and moral society. This study shows that a sincere commitment to Islam and a deep sense of religiosity, as displayed by the figure of Sjafruddin, are able to foster humanitarian concern for others and a commitment to peace and cooperation among nations. Finally, this study presents Sjafruddin Prawiranegara's concept of social justice as a model to be studied, further developed, and implemented by younger generations of Indonesians for the well-being of the nation. For Indonesian Muslims, Sjafruddin is a model of deep and sincere commitment to Islam, the nation, and humanity, accompanied by superb expertise in his field. He was also a person of courage and integrity, firm and steadfast in his principles, but tolerant of differing opinions and ready to discuss them thoroughly.

This thesis consists of six parts. The first part is an introduction to the background of the study and to certain fundamental issues related to social justice. This will serve as a frame of reference for later discussions of Sjafruddin's conception of social justice. The second part deals with the problems faced by consecutive Indonesian governments in realising a just and prosperous society, and the ideologies and policies particular to each government. The third part discusses

the importance and development of the idea of social justice in Western thought and Islamic tradition. Part four offers a brief biography of Sjafruddin and outlines the general patterns of his thought as a religious socialist and Muslim liberal-modernist. This section explores distinctive aspects of Sjafruddin's thinking in general, as well as his particular approaches to social justice, economics, politics, and theology. Part five examines Sjafruddin Prawiranegara's view on Islam, social justice and development and consists of four chapters: Sjafruddin's discussion of social justice in Islam, capitalism and socialism; development as human development viewed from an Islamic framework; social justice and Islamic economics; and his economic ideas, proposals and policies. This section forms the core of the present study and presents a rather comprehensive exposition of the concept of social justice by a single Indonesian Muslim thinker. Part six concludes the discussion of Sjafruddin Prawiranegara's philosophy of social justice and offers some reflections on its potential for implementation in Indonesia and certain other Muslim countries.

PART TWO: THE PERVASIVENESS OF THE IDEA OF SOCIAL JUSTICE IN INDONESIAN ECONOMIC THINKING

The idea of social justice is very important in Indonesian national consciousness. Socialism, including Marxism/communism, gained popularity among both Islamic and secular nationalist leaders as a response to the discriminatory and exploitative policies of Dutch colonial rule.⁶⁵ In general, Indonesian nationalist leaders identified the idea of social justice with a socialism that rejected both capitalism and liberal democracy. They also considered the struggle for independence to be part of the larger effort to build an equitable society.⁶⁶ The ideology exerted such a strong influence within the Indonesian nationalist movement that the founding fathers of the nation included the principle of social justice in the state ideology, Pancasila (Sanskrit, literally: The Five Principles), along with the primary aspiration of the nation which was the realization of a just and prosperous society.⁶⁷ This part of the thesis will discuss the patterns and problems of economic development following the transfer of sovereignty at the end of 1949 onward, with particular attention paid to the issues surrounding the government's attempt to implement social justice. This discussion is intended to provide some background to the pervasiveness of the idea of social justice among Indonesian leaders and intellectuals, and how this concern shaped government policies concerning economic development. As we shall see, there were many varying perspectives on how the concept of social justice was to be applied. But I will first briefly discuss a history of spread and development of Islam in Indonesia, and the

⁶⁵ Cribb and Brown, *Modern Indonesia*, 6-13; Christie, *Ideology and Revolution*, 24-72; and Shiraishi, *Age in Motion*.

⁶⁶ Bur Rasuanto, *Keadilan Sosial: Pandangan Deontologis Rawls dan Habermas; Dua Filsafat Politik Modern* (Jakarta: PT Gramedia Pustaka Utama, 2005), 202-203.

⁶⁷ Chalmers, "Introduction," 2-3, 7 and 9.

economic conditions and policies during the Dutch colonial period and the interlude of Japanese military occupation and administration.

2.1. Chapter One: A History of Spread and Development of Islam in Indonesia

Islam is the religion of the majority of the population of Indonesia and has become an indigenized tradition for the last seven centuries of Indonesian history. However, scholars continue to debate a number of topics related to the history of Islam in Indonesia: the time of beginning of its spread, from which area that Islam came, the region where Islam began to arrive and thrive, and how the character of the ongoing process of Islamization. Historians have not been able to provide a definitive conclusion because the records of Islamization are limited and do not provide sufficient information about a process that was very significant in the history of Indonesia. The most difficult question to answer is: how did Islam succeed in becoming the religion of majority of population of Indonesia?⁶⁸

There are some points that historians seem to agree about the spread of Islam in the Malay-Indonesian archipelago: the conversion of peoples in the regions of Southeast Asia including Indonesia varied in terms of time and it lasted for a long time. It is suggested that although Muslim traders had apparently been present as early as the time of the third Caliph, ‘Uthmān ibn‘Affān (644-656) in some parts of Indonesia and other Southeast Asian regions for several centuries before Islam became established within the local communities, conversions became significant only in the thirteenth, and especially in the fourteenth and fifteenth centuries.⁶⁹ In

⁶⁸ M.C. Ricklefs, *A History of Modern Indonesia since 1200*, 4th ed. (Stanford, California: Stanford University Press, 2008), 3; Taufik Abdullah and Sharon Siddique, "Introduction," in *Islam and Society in Southeast Asia*, ed. Taufik Abdullah and Sharon Siddique (Singapore: Institute of Southeast Asian Studies, 1986), 1.

⁶⁹ Ricklefs, *A History*, 3, 7 and 9-10 and 13; C.A.O. van Nieuwenhuije, *Aspects of Islam in Post-Colonial Period: Five Essays* (The Hague and Bandung: W. van Hoeve, 1958), 35.

addition, it seems that Islam did not come to Indonesia from one area. In addition to Arab Muslim traders, historians refer to the role of the Chinese, Persian and Indian Muslims. The influence of Persian and Indian, beside Arab, Islamic cultures were profound in Indonesian Islam.⁷⁰ Apart from the process of Islamization of most people in the Southeast Asian archipelago, the process of indigenization of Arab, Chinese, Persian, and Indian Muslims also took place. In Java a process of Javanization happened among those foreigner Muslims.⁷¹ There were intermarriages between foreign and local Muslims which brought about the formation of Islamic populations and communities. Islamization of Indonesia was a work done by those foreign Indonesian Muslims as well as Muslims in various areas and at various times. The spread of Islam in Indonesia—as well as in other parts of the Muslim world—had been marked by a process of assimilation and accommodation that led to Islam in Indonesia to be culturally different from one region to other regions, such as Java or Sumatra and between West Java with Central and East Java. Similarly, in terms of time Islamization of Indonesian society differed from one region to another.⁷²

Most scholars agree that Islam seemed to spread through trade centered on the coastal regions and through *da'wah* (missionary) activities and esoteric learning of the Sufi teachers. The spread of Islam was apparently complicated and rather slow. It started from North Sumatra to the spice-producing areas of East Indonesia. The areas where it was most firmly established were those that were most

⁷⁰ Ricklefs, *A History*, 3-4 and 14; Robert Cribb and Colin Brown, *Modern Indonesia : A History since 1945* (London and New York: Longman, 1995), 4.

⁷¹ Ricklefs, *A History*, 8.

⁷² Ricklefs, *A History*, 8-10 and 15; W.F. Wertheim, *Indonesian Society in Transition: A Study of Social Change*, 2nd, Rev. Ed. (The Hague: W. van Hoeve Publishers Ltd., 1969), 33; Mark W. Woodward, "Introduction: Talking Across Paradigms, Indonesia, Islam, and Orientalism," in *Toward a New Paradigm: Recent Development in Indonesian Islamic Thought*, ed. Mark W. Woodward (Tempe, Arizona: Arizona State University, Program for Southeast Asian Studies, 1996), 20.

important in international trade: the Sumatran shores of the Straits of Malacca, the Malay Peninsula, the north coasts of Java, Brunei, Sulu and Maluku. In East Java, highly regarded Sufi teachers, claiming supernatural powers, attracted courtiers of Hindu-Buddhist Javanese kingdom of Majapahit. Besides, Islam attracted people in the archipelago by reason of the power of its message and by its egalitarian philosophy; and its system of commercial law was appealing to traders and to rulers who wished to attract trade to their ports. In addition, by embracing Islam, people in Southeast Asia thought of themselves as citizens of the Muslim world in ways that made it easier to do their business affairs and to grant them political power.⁷³ The principle of equality in Islam was a factor driving the population of the towns and the north coast of the Java Sea, who were not happy with the teaching of caste in the Hindu religion, to embrace Islam. Islam gave the small person a sense of his individual dignity as a member of the Islamic community. According to Hindu world-view, he or she was merely a creature of a lower order than the members of higher castes. Under Islam he could, as it were, feel himself/herself their equal even though he/she still occupied a subordinate position in the social structure.⁷⁴ Similar to that of Christianity in the West, Islam also played a civilizing function and contributed greatly to the humanizing numerous Southeast Asian customs.⁷⁵ Another factor that led to the rapid spread of Islam was penetration of the Western powers, especially the advent of the Portuguese to the archipelago. Islam became a “fighting ideology” to face Western colonial intrusion and Christian penetration.⁷⁶

⁷³ J. C. van Leur, *Indonesian Trade and Society: Essays in Asian Social and Economic History*, trans. James S. Holmes and A. van Marle (The Hague and Bandung : W. van Hoeve Ltd., 1955).

⁷⁴ Wertheim, *Indonesian Society in Transition*, 198; Cribb and Colin, *A History since 1945*, 4; Ricklefs, *A History*, 7 and 9-10.

⁷⁵ Wertheim, *Indonesian Society in Transition*, 196.

⁷⁶ Wertheim, *Indonesian Society in Transition*, 198-199.

As has been said above, the existing Indian-influenced culture of the western archipelago at first blended easily with Islam, which had in any case passed through the influences of Persia and India before it arrived in the region. There was a process of cultural assimilation at work as Islam encountered the pre-Islamic cultures. Islamization is a process which has continued down to the present day. Therefore, it must not be assumed that once an area is known to have had a Muslim ruler or a Muslim population, the process of Islamization was complete. It has continued among the population in rural and urban areas both qualitatively and quantitatively by support of the authorities or through direct contact with foreign Muslim traders.⁷⁷ In the nineteenth and twentieth century major Islamic reformist movement appeared in Indonesia. They have brought changes and reformation of educational and socio-economic institutions and purification of Islamic teachings from many superstitions and other local elements.⁷⁸

In conclusion, Islamization in Indonesia involved a process of assimilation and accommodation and mostly it happened gradually and peacefully.⁷⁹ Islam now has spread almost evenly and advanced in the Indonesian archipelago. Although the intensity of the acceptance of Islam in Indonesia is different from one region to another, and different interpretations of Islam exist among various groups, as also occur in other parts of the Muslim world as well as in other religions, Indonesians today seem more aware of themselves and more publicly express their Islam compared to the 1950s and earlier times.⁸⁰

We have another important aspect of Islam in Indonesia in the following paragraphs. The fact that many Muslims in Indonesia especially in Java have had

⁷⁷ Ricklefs, *A History*, 7.

⁷⁸ Abdullah and Siddique, "Introduction," 1-2.

⁷⁹ Ricklefs, *A History*, 13.

⁸⁰ Woodward, "Introduction," 26 and 37.

maintained many pre-Islamic Indian and local beliefs and practices have been discussed widely by many Indonesianists. As it is well-known, Clifford Geertz categorized Muslims in Java (precisely Middle and East Java) into three groups. First are the *santri* or orthodox practicing Muslims; second, the *abangan* or heterodox-syncretic Muslims practicing or holding traditional local animist beliefs and customs; and third, the *priyayi*, Muslims who are deeply influenced by aristocratic-Indian ideas and ideals as reflected in their attitudes and behaviour patterns.⁸¹ Many scholars and experts on Indonesia disagreed with this religious-cultural category. While *santri-abangan* variants could be accepted as legitimate categories based on a different religious orientation, *priyayi* (aristocrat or nobility) is a social status rather than a religious category. *Priyayi* can be classified into variant of either *abangan* or *santri*.⁸² Their Criticisms are apparently in line with Geertz later observation as reflected in his latter works which emphasize cleavage between *santri* and *abangan*, and eliminate *priyayi* variant in analyzing the influence of religious orientation of Javanese in their political groupings.⁸³

Another aspect of the problem of Geertz's religious-cultural category is its generalization. Basic distinction between *santri* and *abangan* often attributed to differences in socio-economic class, political affiliation as reflected in the patterns of elite competition in the Japanese era and the early days of independence, political mobilization and conflict in rural Java. However, as revealed by Bambang Pranowo's

⁸¹ Clifford Geertz, *The Religion of Java* (Chicago and London: University of Chicago Press, 1960); Frederick Mathewson Denny, *An Introduction to Islam*, 3rd. ed. (Upper Saddle River, New Jersey: Pearson Prentice Hall, 2006), 333-334; Woodward, "Introduction," 11.

⁸² Deliar Noer, *The Modernist Muslim Movement in Indonesia, 1900-1942* (Singapore: Oxford University Press, 1973), 19; Harsya W. Bachtiar, "The Religion of Java: A Commentary," *Madjalah ilmu-ilmu Sastra Indonesia*, Vol. 5, 1973, 65-115; Mitsuo Nakamura, *The Crescent Arises over the Banyan Tree: A Study of the Muhammadiyah Movement in a Central Javanese Town* (Yogyakarta, Indonesia: Gadjah Mada University Press, 1983).

⁸³ Bahtiar Effendy, *Islam dan Negara: Transformasi Gagasan dan Praktik Politik Islam di Indonesia* (Jakarta: Paramadina, 2009), 38-39.

anthropological research for his Ph.D. thesis in a village in Central Java, Geertz's thesis that *abangans* are unreal or nominal Muslims does not seem to apply. In the village of Tegalroso, Magelang, Central Java, Pranowo's research shows, Javanese *abangan* are displeased if they are called as nominal or statistical Muslims. They believe they are true Muslims, although they do not pray regularly. Even members of the PNI (Indonesian National Party) and PKI (Indonesian Communist Party), who are indifferent toward religion, still consider themselves as Muslim. Further, in historical perspective, according to Pranowo, the relationship between *santri* and *abangan* has varied from time to time. There have been times in which Islam has served as a uniting force that includes all classes and has been able to unite and give identity to the entire Javanese community, as during the Java war against the Dutch (1825-1830) and in the first ten years of the SI movement (1912-1922).⁸⁴ In addition, the re-emergence of Islamic political parties in the post-Soeharto Indonesia has not revived hostility between those people who are associated with the *santri* and those who are associated with the *abangan* and has not reversed the religious-political convergence between the two groups which happened during the New Order period. Instead, mutual crossings occur between the religious-cultural groupings in their political affiliations. Many of those who come from the *santri* persuasion have joined nationalist-secular parties and many of those associated with *abangan* background have joined Islamic parties even a fundamentalist one.⁸⁵

A historian, Marshal G.S. Hodgson, also criticized the description given by Geertz in *The Religion of Java* as systematic error. Hodgson said: "Unfortunately, its

⁸⁴ M. Bambang Pranowo, "Partai Politik dan Islamisasi di Pedesaan Jawa," in *Pembangunan dan Kebangkitan Islam di Asia Tenggara*, ed. Saiful Muzani (Jakarta: LP3ES, 1993), 179-194.

⁸⁵ For an analysis of political development in the post-Suharto Indonesia and its connection to the interaction between *abangan* and *santri* see Bahtiar Effendy, *Islam and the State in Indonesia*, Ohio University Research in International Studies, Southeast Asia Series No. 109 (Athens: Ohio University Press; Singapore: Institute of Southeast Asian Studies, 2003), 199-224.

general high excellence is marred by a major systematic error [...], Geertz identifies 'Islam' only with what that school of modernists happens to approve, and ascribes everything else to an aboriginal or a Hindu-Buddhist background, gratuitously labeling much of the Muslims religious life in Java 'Hindu'. He identifies a long series of phenomena, virtually universal to Islam and sometimes found even in the Qur'an itself, as un-Islamic; and hence his interpretation of the Islamic past as well as of some recent anti-Islamic reactions is highly misleading [...] For one who knows Islam, his comprehensive data --despite his intention-- show very little has survived from the Hindu past even in inner Java and raise the question why the triumph of Islam was so complete."⁸⁶ Therefore, the distinction between *abangan* and *santri* as Ward Keeler states should be put in a spectrum, not an opposition or dichotomy, and should be used cautiously.⁸⁷

Geertz's *The Religion of Java* was based on Snouck Hurgronje's *the Achehnese* and has replaced it as the standard reference on Indonesian Islam. Moreover, Geertz's thesis on Islam in Java has deep roots in the anti-Islamic British and Dutch orientalism. Similar to Edward Said's observation, Woodward suggested that in Indonesia orientalism not only misrepresented Islam, it denied its existence. Orientalists viewed the millions of people who considered themselves to be good and devout Muslims are not really Muslims. They applied this particularly to the Javanese. In their portrayal, the religion of Javanese is not really Islam but "a generally undefined variety of Hinduism and/or Buddhism articulated in classical

⁸⁶ Marshal G. S. Hodgson, *The Venture of Islam: Conscience and History in a World Civilization*, vol. 2 (Chicago: University of Chicago Press, 1974), 551. See also Mark R. Woodward, *Islam in Java: Normative Piety and Mysticism in the Sultanate of Yogyakarta*, the Association for Asian Studies (Tucson: The University of Arizona Press, 1989).

⁸⁷ Woodward, "Introduction," 31-32; Denny, *An Introduction to Islam*, 334.

dance, the *gamelan*, the *wayang*, and mystical cults."⁸⁸ Sir Thomas Stamford Raffles, Lieutenant Governor General during the British interregnum of 1811-1816 started this understanding of Javanese and other Indonesian cultures which had been shaped primarily by the acrimoniously anti-Islamic polemics of the time. He viewed Islam as "a corrupt, bigoted faith that had led to the decline of 'classical' Javanese civilization."⁸⁹ It is not clear whether he was influenced by Dutch Protestant scholars-- such as Adrian Reland who emphasized the need to study Islam in order to defeat and destroy it-- who not only continued the medieval traditions of denouncing the Qur'an and the Prophet Muhammad, but also added a novel element that "contemporary Muslims had departed from the original meaning of Islam."⁹⁰ In turn, Raffles' pioneering work, *History of Java*, and "British colonial scholarship that sought to use knowledge of Asian cultures to facilitate colonial administration" inspired Dutch Indologie.⁹¹ It is clear that since the beginning a strong interrelationship between colonial and missionary scholarship had been established, as to the conclusion that "Indonesian Islams were corrupt versions of an essentially foreign religion" maintained despite advances in empirical understanding of Islamic textual and popular traditions had been acquired by Dutch scholars in the nineteenth century.⁹²

Snouck Hurgronje and other Dutch scholars used this orientation and understanding of Islam to limit the political potential of Islam and "to provide 'Islamic' justifications for anti-Islamic colonial policy, including the restriction of mosque construction in rapidly expanding urban areas."⁹³ In addition, the Dutch

⁸⁸ Woodward, "Introduction," 16-17 and 29.

⁸⁹ Woodward, "Introduction," 17-18 and 24-25

⁹⁰ Woodward, "Introduction," 22-24.

⁹¹ Woodward, "Introduction," 25

⁹² Woodward, "Introduction," 25.

⁹³ Woodward, "Introduction," 25

colonial government also adopted Snouck Hurgronje's idea of "associationism" as one of the core elements of its "ethical policy" introduced in the early years of the twentieth century. The policy not only successfully created the native elite--who had used to have traditional Islamic educations-- alienated from, or even many of them were hostile to, their own religion through modern, secular educations, but also influenced the post-colonial scholarship. This alienated elite was the one Geertz described in the early 1950s in *The Religion of Java*.⁹⁴ His study and Benedict Anderson's "The Idea of Power in Javanese Culture"⁹⁵ have helped pervasively to maintain the persistence of orientalist representation of Indonesian Islam in contemporary scholarship. Both of them reverberate conventional propositions in Dutch colonialism, and their interpretations of Indonesian religion and culture form a paradigm in Indonesian studies. They tended to emphasize the "non-Islamic" character of Javanese religion, the marginality of Islam in Indonesian culture and the superficial nature of Javanese Islam.⁹⁶ The influence of the Geertz's and Anderson's "Orientalism" in such a way that scholars such as Ward Keeler and Shelly Errington who found that the data they obtain from their study of Indonesian culture incompatible with Geertz's and Anderson's paradigm, are "forced" to adjust their analyses with the established paradigm.⁹⁷ M.C Ricklefs even repeats Raffles' opinion that the conversion of Javanese to Islam "did not alter the fundamentally Hindu/Buddhist character of Javanese religious thought...".⁹⁸ This opinion is similar to Geertz's characterization of Indonesia as an Indic state and Anderson's emphasis

⁹⁴ Woodward, "Introduction," 26-29.

⁹⁵ Benedict R. O'G Anderson, "The Idea of Power in Javanese Culture" in *Culture and Politics in Indonesia*, ed. Claire Holt (Ithaca: Cornell University Press, 1972).

⁹⁶ Woodward, "Introduction," 29-31.

⁹⁷ Woodward, "Introduction," 31-32.

⁹⁸ Woodward, "Introduction," 32.

on Java's tantric past.⁹⁹ Theodore Pigeaud has gone so far as to claim that "the 'real' Javanese religion is to be found in the remnants of pre-Indic mythologies."¹⁰⁰

However, today the orientalist paradigm that consigned Islam to the relatively minor position in Indonesian culture and history has ceased to have explanatory power. Scholars can no longer ignore Islam as a reality for political or religious reasons. The Islamic social and cultural flourishing in Indonesian society over more than the last three decades makes it unrealistic to designate Islam as an insignificant force located on the boundaries of Indonesian civilization. Postcolonial studies of the role of Islam in the life of the Javanese royal courts by S. Soebardi and Ann Kumar show that Islam played a central role in premodern *priyayi* life.¹⁰¹ William Roff and Karel Steenbrink expose that the orientalist paradigm combined missionary fantasies with a colonial policy to diminish conceptually the place and role of the religion and culture of Islam in Southeast Asian societies. By doing this the colonial governments hoped to be able to silence the political voice of Islam.¹⁰²

In the past three decades paradigm shift has occurred in the study of Islam in Southeast Asian regions. According to Woodward, "... Islam has gained new prominence in Southeast Asian studies. Islamic studies can no longer ignore the local Islams of Indonesian and other Southeast Asian cultures [...] There is more at work here, however, than a mere reversal of orientalism in which the politics of the orient drive western interpretation. The Indonesia of today appears more overtly and self-consciously Islamic than that of the later colonial period, or even of the early 1950s when Geertz conducted his initial field work. The question we must address is whether or not this interest is a by-product of the wave of Islamic revivalism that

⁹⁹ Woodward, "Introduction," 31-32.

¹⁰⁰ Woodward, "Introduction," 32-33.

¹⁰¹ Woodward, "Introduction," 37.

¹⁰² Woodward, "Introduction," 33-34.

has swept the world since the 1970s, or rather, the emergence of an Islamic society from colonial control that sought, for reasons of its own, to obscure and ignore the Islamic heritage of its subject people."¹⁰³ In relation to this paradigm shift what Hefner said is illustrative:

In adopting a Muslim perspective on Indonesian democratization, then, I seek to correct for the earlier marginalization of Islam in Indonesian studies. I should emphasize, however, that I am interested in the politics and culture of the full Muslim community, not merely self-professed Islamists or supporters of an Islamic state. In this book, then, "Muslim politics" refers to any and all kinds of political actions based on a person's conviction as a Muslim, whether or not the resulting behavior embraces the idea of an "Islamic" state.¹⁰⁴

Geertz since then, provided a more accurate picture of Muslims in Java in a book that compares between Indonesia or Java with Morocco. According to him, Indonesia and Morocco have an obvious likeness, that is, their religion is Islam, which is symbolized by the fact that they pray to the same direction toward Mecca. But they culturally, historically and geographically different which produced remarkably spiritual climate differences indicated by the fact that although they both face Mecca but the one facing the east and the other facing the west. If in Morocco the Islamic conception of life embodied in activism, moral severity, intense individuality, which is blended with saint worship and magical power, then in Indonesia the same concept accentuated aestheticism, inner experience, and radical dissolution of personality. Geertz no longer portray Islam in Indonesia, particularly in Central and East Java as unreal or superficial Islam. Indonesian Islam is real Islam but because differences in geography, culture and history, and livelihood, Islam in Indonesia as a social, cultural and psychological phenomena is different from Islam

¹⁰³ Woodward, "Introduction," 37.

¹⁰⁴ Rober W. Hefner, "Preface," in *Civil Islam: Muslims and Democratization in Indonesia* (Princeton and Oxford: Princeton University Press, 2000), xix.

in other countries such as Morocco or Middle-East countries.¹⁰⁵ These factors also bring about not only "a more moderate" Indonesian Islam compared to Islams in the Middle-East countries but also moderate or mild secular and authoritarian Indonesian regimes in the past (1957-1998).

Woodward reminds us that description of Indonesian cultures and local Islams can no longer be separated from the wider Islamic world of which they are part. In his opinion, "[t]he current question should be *how* rather than *if* the Muslim cultures of Indonesia are Islamic. We cannot, however, avoid discussing the Indic and indigenous contributions to Indonesian Islamic cultures for fear of Muslim sensibilities. The term 'local Islam' consists of two elements -- it is as mistaken to neglect the 'local' as it is to ignore the 'Islam'."¹⁰⁶

2.2. Chapter Two: The Economic Policies of the Dutch Colonial Government

Dutch exploitation of the human and natural resources of the territory of the Netherlands East Indies (now known as Indonesia) began in 1602, when two Dutch mercantile companies merged to form *Vereenigde Oost-Indische Compagnie* (VOC), the United East Indies Company.¹⁰⁷ At the beginning of the nineteenth century, considered to be the starting point for an economic history of modern Indonesia, Governor-General Herman Daendels (1808-1811), a representative of the Napoleonic Empire, carried out many reforms in order to create a modern bureaucracy and build the infrastructure of a modern state. The work was further

¹⁰⁵ Clifford Geertz, *Islam Observed: Religious Development in Morocco and Indonesia* (Chicago: University of Chicago Press, 1971), 9-11.

¹⁰⁶ Woodward, "Introduction," 38.

¹⁰⁷ L. De Jong, *The Collapse of a Colonial Society: The Dutch in Indonesia during the Second World War* (Leiden: KITLV Press, 2002), 7; Daniel Wilco van Welderen Rengers, *The Failure of a Liberal Colonial Policy: Netherlands East Indies, 1816-1830* (The Hague: M. Nijhoff, 1947), 4-5.

developed by Sir Stamford Raffles, British Lieutenant Governor General (1811-1816) during the British interregnum.¹⁰⁸

From the seventeenth century until the demise of colonial rule in 1942, Dutch economic policies in the Netherlands Indies, which consisted of "forced deliveries", "contingencies", land taxes (or rents), and the cultivation system, were primarily intended to benefit Dutch and European interests.¹⁰⁹ This was the case even during the government of the Liberal Era (1870-1900), which purported to put an end to the cultivation system that historically required the exploitation of the Indies peoples through forced labor. Liberal economic policy failed to produce the intended benefits because, despite ostensible support for indigenous welfare, proponents of liberal policy in the colonial government did not regulate Dutch and European private capital and enterprises. Indeed, given this conflict of interest, living standards actually declined and income and wages fell in real terms.¹¹⁰

These conditions persisted throughout the early twentieth century, even during the period of the Ethical Policy (1901-1920s). Unlike previous economic policies of the Liberal Era, the Ethical Policy was designed to regulate free enterprise, unrestrained private capital, and labor markets in the Netherlands. The Ethical Policy was touted as a turn towards Christian ethics, a recognition of the obligation of the Dutch towards the people of the Indies, and an expression of

¹⁰⁸ Howard Dick, "State, Nation-State and National Economy," in *The Emergence of a National Economy: An Economic History of Indonesia, 1800-2000*, ed. Howard Dick et al (Crows Nest, NSW: Asian Studies Association of Australia, Allen & Unwin and University of Hawai'i Press, 2002), 9-15.

¹⁰⁹ De Jong, *Collapse of a Colonial Society*, 8; Cornelis Fasseur, *The Politics of Colonial Exploitation: Java, the Dutch, and the Cultivation System*, ed. R.E. Elson, trans. R.E. Elson and Ary Kraal (Ithaca: Southeast Asia Program, Cornell University, 1992), 145-161; Rengers, *Failure*, 6-11.

¹¹⁰ Ricklefs, *A History*, 150-151; Vincent J. H. Houben, "Java in the 19th Century: Consolidation of a Territorial State," in *The Emergence of a National Economy: An Economic History of Indonesia, 1800-2000*, ed. Howard Dick et al (Crows Nest, NSW: Asian Studies Association of Australia, Allen & Unwin and University of Hawai'i Press, 2002), 66; De Jong, *The Collapse of a Colonial Society*, 8; Fasseur, *Politics of Colonial Exploitation*, 145-161.

humanitarian concern for their general welfare and economic wellbeing.¹¹¹ During this period some advances in living standards were achieved, but many of the efforts failed to combat poverty and bring real prosperity to the Indies people. These shortcomings were neither accidental nor unexpected, since the relationship between the peoples of the Indies and the Dutch had been always one of exploitation and oppression. The primary function of colonies like the East-Indies was to serve the interests of the colonizing power in terms of producing goods for its markets and consumption.¹¹²

Due to the lack of improvement, the Ethical Policy was abandoned in the 1920s and the colonial government in fact resorted to even more repressive policies toward nationalist movements, especially after the Partai Komunis Indonesia (PKI, the Indonesian Communist Party) led abortive violent uprisings against colonial rule in 1926/1927.¹¹³ These uprisings were reflective of a deep sense of resentment against Dutch rule, created by the exploitative colonial economic policies which resulted in socio-economic discrepancies, impoverishment, and racial discrimination. Indonesians thus concluded that the most effective way of solving their problems was the eradication of colonial rule. The colonial experience also sensitized generations of Indonesian intellectuals to the ideals of social justice, which they saw as having been denied to them as colonial subjects but which, through independence, they could achieve for their people. The period from 1945 to

¹¹¹ J. Thomas Lindblad, "The Late Colonial State and Economic Expansion, 1900-1930s," in *Emergence of a National Economy*, ed. Howard Dick et al, (Crows Nest, NSW: Asian Studies Association of Australia, Allen & Unwin and University of Hawai'i Press, 2002), 117-118.

¹¹² Adrian Vickers, *A History of Modern Indonesia* (Cambridge: Cambridge University Press, 2005), 10-14 and 16-17; Anne Booth, *The Indonesian Economy in the Nineteenth and Twentieth Centuries: A History of Missed Opportunities* (London: Macmillan Press, 1998), 2; Eduard J. M. Schmutzer, *Dutch Colonial Policy and the Search for Identity in Indonesia: 1920-1931* (Leiden: E. J. Brill, 1977), 1-2, 6-13, 25-31 and 159; Robert Cribb, "Introduction: The Late Colonial State in Indonesia," in *The Late Colonial State in Indonesia: Political and Economic Foundations of the Netherlands Indies 1880-1942*, ed. Robert Cribb (Leiden: KITLV Press, 1994), 1-8; G. H. A Prince, "Economic Policy in Indonesia, 1900-1942," in *New Challenges in the Modern Economic History of Indonesia*, ed. J. Thomas Lindblad (Leiden: Programme of Indonesian Studies, 1993), 166-167.

¹¹³ Lindblad, "The Late Colonial State," 119 and 121.

1949 saw the culmination of this resolve as the struggle for independence reached its final stages and the colony of the Dutch East-Indies was transformed into the independent state of Indonesia.¹¹⁴

2.3. Chapter Three: The Japanese Interval

The Japanese occupation lasted only from March 1942 to August 1945 but had a tremendous effect on the lives of Indonesians. At first many Indonesians welcomed the occupying Japanese forces as liberators. However, they later came to realize that the Japanese had proven to be more oppressive than the Dutch. Japanese economic policy was directed primarily towards wartime interests. Indonesians experienced reduced living standards and scarcity, especially of food, clothing, and medicines. Food production fell and quotas on forced rice delivery were not met, despite increased administrative pressure. By November 1944 some 2.6 million Indonesian laborers were arbitrarily subjected to forced labor under cruel treatment and harrowing working conditions.¹¹⁵

The Japanese occupation, including management of the economy, had a lasting legacy in the post-independence period. Firstly, it reinforced a paternalistic and centralist ethos in state management, and introduced a new neighborhood association (*tonarigumi*) which under the authoritarian governments of Sukarno and Suharto would be used to effectively control dissent and movement of individuals. It also left behind a large indigenous bureaucracy which inherited

¹¹⁴ Cribb and Brown, *Modern Indonesia*, 1 and 6-13; Howard Dick, "Introduction," in *The Emergence of a National Economy: An Economic History of Indonesia, 1800-2000*, ed. Howard Dick et al (Crows Nest, NSW: Asian Studies Association of Australia, Allen & Unwin and University of Hawai'i Press, 2002), 1-8; R. E. Elson, *The Idea of Indonesia: A History* (Cambridge: Cambridge University Press, 2008), 1.

¹¹⁵ Booth, *The Indonesian Economy in Nineteenth and Twentieth Centuries*, 48-50; Dick, "Formation," 164 and 166-167; Cribb and Brown, *Modern Indonesia*, 13-14; Shigeru Sato, "The Pangreh Praja in Java under Japanese Military Rule," in *Japan, Indonesia, and the War: Myths and Realities*, ed. Peter Post and Elly Touwen-Bouwsma (Leiden: KITLV Press, 1997), 69, 72 and 76-77.

lasting practices of corruption.¹¹⁶ However, the Japanese occupation also made it possible for Indonesian nationalist leaders and radical youth to prepare for Indonesian independence.¹¹⁷ In the final months of its rule, the Japanese authority sponsored efforts towards the formation of an independent state in the former Dutch colony.¹¹⁸

2.4. Chapter Four: The Variety of the Idea of Social Justice

Revolution, nationalism and socialism in Indonesia were strongly influenced by varieties of Marxist ideology and Islamic modernism.¹¹⁹ However, differences of emphasis and nuance among nationalist leaders who subscribed to Marxist theory of imperialism were becoming increasingly visible, especially after Indonesia's sovereignty was recognized by the international community. This pertained primarily to three issues: their use of a Marxist perspective on human history, the nature of the relationship between Indonesia and Dutch colonialism, and the strategy for gaining independence.¹²⁰ Sukarno, for example, "based his anti-colonial views on the Marxist theory of imperialism."¹²¹ He admitted that "imperialism had created the lineaments of a modern economy in Indonesia;" however, contrary to what would be predicted by Marxist orthodoxy, "he insisted [...] that this

¹¹⁶ Dick, "Formation," 167; Cribb and Brown, *Modern Indonesia*, 14.

¹¹⁷ Dick, "Formation," 167. There was a crucial connection between these two periods of Indonesian history that would have long repercussions on Indonesian politics and economics. If the oppressive Dutch colonial rule helped to raise the idea of social justice, along with strong feelings of anti-colonialism and anti-imperialism among Indonesians, then the Japanese military occupation gave many Indonesians confidence that they could defeat people of the West and aroused a "fascist" character in the Indonesian armed forces: "the notion that society could and should be controlled and that the armed forces should be allied with government in closely directing and controlling Indonesian society." Kingsbury, *Politics of Indonesia*, 34.

¹¹⁸ Dick, "Formation," 167.

¹¹⁹ Clive Christie argues that, "the Marxist ideological viewpoint on revolution, nationalism and socialism constituted the most important unifying worldview that linked the anti-colonial movements of the Southeast Asia region between 1919 and 1980." Christie, *Ideology and Revolution*, 3; Kahin, *Nationalism and Revolution*, 44; Cribb and Brown, *Modern Indonesia*, 12.

¹²⁰ Christie, *Ideology and Revolution*, 52-56.

¹²¹ Christie, *Ideology and Revolution*, 52.

modernization had made little impact on the indigenous economy.”¹²² The purely exploitative nature of Dutch imperialism, he asserted, had steadily reduced all sections of Indonesian society to poverty. The entire nation became proletariat. “Capitalist-style colonialism did not—as Marx and Engels had anticipated—‘jolt’ the native economy out of its subsistence torpor, and create new classes and greater class differentiation.”¹²³ In Sukarno’s view, “the Western class categories of Marxism were inappropriate to Indonesian society, since Dutch colonialism had ‘equalized’ through impoverishment the status of the vast bulk of the population, and leveled the distinctions between peasant, worker, petty-bourgeois and other categories.”¹²⁴ Thus Sukarno, in contrast to Marx and Engels, saw capitalist-style colonialism as having given rise to two opposing parties: the Dutch as colonial oppressor and exploiter, and Indonesia as the oppressed and exploited. Sukarno used Marxist theory to emphasize the importance of a sense of national unity among the Indonesian population under Dutch rule for obtaining independence. He was concerned that class differentiations within the population of the Netherlands Indies, including peasant, worker, petty-bourgeois, aristocrat, and others, were obscuring the main priority of the struggle for independence from Dutch colonial rule. This desire of Sukarno’s would continue to be an obsession for him after independence was achieved and he became president of the country. He brought forth the concept of *nasakom*, an acronym of the Indonesian words for nationalism, religion and communism, which aimed to unite these three elements in the struggle against imperialism, capitalism, and neo-colonialism. But ultimately, it seemed that his goal was contrary to the realities of Indonesian society itself.

¹²² Christie, *Ideology and Revolution*, 52.

¹²³ Christie, *Ideology and Revolution*, 52.

¹²⁴ Christie, *Ideology and Revolution*, 160.

Contrary to “Marx and Engel’s view that pre-colonial Asian cultures had become in some way fossilized . . . [Sukarno believed] that pre-colonial Indonesian civilization had had an inner dynamic and capacity for natural economic evolution—an evolution that had been stifled, not advanced, by Western colonialism.”¹²⁵ Therefore, for Sukarno, “the Indonesian nationalist movement and the subsequent independent Indonesian state should be rooted in the values and traditional political systems of indigenous society.”¹²⁶ In his political and economic thinking, he presented the concepts of *gotong-royong* (mutual aid) within a community and *musyawarah* and *mufakat* (general consultation/deliberation and consensus) in reaching community decisions. His socialist ideology, *Marhaenism*, was comparable to Marx’s concept of the proletariat but broader in scope, and was claimed to be typical of Indonesia. The concept of *Marhaen* included the proletariat as well as all grassroots groups and lower classes such as small peasants, small traders, small fishermen, stall vendors, cart drivers, and lower clerks, among others.¹²⁷ In short, according to Sukarno, *Marhaen* was “[...] the destitute People of Indonesia.”¹²⁸ In elaborating his ideology he employed elements of socialism, Islam, and Hinduism. He mentioned the Hindu god Krishna of the Bhagavad Gita and Gatotkaca or Purabaya, the son of Bima, in his description of struggle against colonial rule.¹²⁹ Likewise, in illustrating the utopian socialist society, he referred to various myths such as the Just King (*Ratu Adil*), Prabu Jayabaya, *Vishnu Murti*, *al-Mahdī*, “the guided one”, or *al-Muntazar*, “the expected one”, as expressions of socialism and communism which

¹²⁵ Christie, *Ideology and Revolution*, 52.

¹²⁶ Christie, *Ideology and Revolution*, 160.

¹²⁷ Sukarno, “Marhaen, a Symbol of the Power of the Indonesian People,” in *Indonesian Political Thinking, 1945-1965*, ed. Herbert Feith and Lance Castles (Ithaca: Cornell University Press, 1970), 157.

¹²⁸ Sukarno, “Marhaen,” 157.

¹²⁹ Sukarno, “Nationalism, Islam and Marxism,” trans. Karel H. Warouw and Peter D. Weldon (Ithaca, NY: Cornell University Modern Indonesia Project, 1984), 35; Christie, *Ideology and Revolution*, 54.

would manifest throughout the world, destroying capitalism and its imperialist support system. With the power of Islam, Sukarno said, “Inshā’ Allāh [God willing], God will realize a new society.”¹³⁰ While admitting fundamental ideological differences between Marxism and Islam, he argued that both were “fundamentally anti-capitalist, and therefore anti-colonialist.”¹³¹ For Sukarno, “...true Islam is essentially socialistic.”¹³² Because of this:

[A] broad-minded Moslem, a Moslem who understands the requirements of our struggle, will certainly agree to an alliance with the Marxists, since he is aware that usury and the collection of interest are forbidden by his religion. He is aware that this is the Moslem way of attacking the very foundations of capitalism, for, as we have previously explained, usury is the same as surplus value, the inner essence of capitalism. He is aware that, like Marxism, Islam, with its “belief in God,” with its “recognition of the Kingdom of God,” is a protest against the evils of capitalism.¹³³

He urged Marxists to cooperate with Muslims, since the two shared a common opposition to a racially- and economically-oppressive colonial power.¹³⁴ Sukarno’s socialist ideology of *Marhaenism*, his principles of *gotong-royong* and *musyawarah*, and his enthusiasm to unite nationalism, Islam, and Marxism impacted Indonesian

¹³⁰ Sediono M. P. Tjondronegoro, “Sosialisme, Komunalisme atau Populisme?” *Prisma* 11 (November 1980): 27.

¹³¹ In 1926 Sukarno said, “Can the feeling of nationalism—which, because of this very self-confidence so easily turns into national arrogance and no less easily takes the further step of becoming racial arrogance, even though the concept of race is utterly different from the concept of nation, since race is a biological, while nationalist is a sociological concept—in the struggle of the colonized peoples can Nationalism be coupled with Islam, which in its essence knows no nation and which in fact has been embraced by a variety of nations and races? Under colonial systems, can Nationalism ally itself with Marxism, which is international and inter-racial? With full conviction, I answer: ‘Yes!’”. Sukarno, “Nationalism, Islam and Marxism,” 39.

¹³² Sukarno, “Nationalism, Islam and Marxism,” 50.

¹³³ Sukarno, “Nationalism, Islam and Marxism,” 51.

¹³⁴ Sukarno said, “This hatred for religious groups, which has its origin in the reactionary attitude of the churches, has been turned by the Marxists against the Moslems, who have a very different attitude and completely different characteristics from the religious groups in Europe! Here is Islam is the religion of the enslaved, here Islam is the religion of the masses ‘at the bottom,’ a religion that demands the quest for freedom, a religion that forbids the existence of people ‘at the bottom’—a religion of this kind will unquestionably create attitudes which are not reactionary, and will undoubtedly generate a struggle which in several respects is identical with the struggle of the Marxists.” Sukarno, “Nationalism, Islam and Marxism,” 61.

political and economic development during his attempt to implement them between the years 1957 and 1965.¹³⁵

A strong emphasis on the idea of social justice also appeared in the social, political, and economic thought of Mohammad Hatta (1902-1982), the future Vice-President (1945-1956). His historical perspective was influenced, by Marx, Heraclitus and G.W.F. Hegel.¹³⁶ Clive Christie discerns that Hatta's notion of the operation of the 'dialectic' "[...] formed the basis for his analysis of imperialism. Like Sukarno, he accepted the basic Marxist position on the capitalist origins of the phenomenon of European imperialism. However, whereas orthodox Marxism emphasized the fundamental divide between capitalists of all races on one side, and oppressed classes of all races on the other, Hatta's thinking at this time had a tendency to give greater significance to the *racial* divide between the White civilizations of Europe and non-White civilizations of colonized Asia and Africa."¹³⁷ The concept of a fundamental confrontation between civilizations led Hatta to believe that "the confrontation between Europe and Asia is not simply a matter of race or economics: European civilization encapsulated the 'idea' of an innately individualistic, competitive approach to economic behavior, while Asian civilization embodied the 'idea' of social and economic cooperation."¹³⁸

Hatta emphasized the importance of indigenous mutual economic cooperation and village democracy in establishing an ideal basis for a distinctly Indonesian system of social democracy at a local level.¹³⁹ But at the national level he

¹³⁵ Christie, *Ideology and Revolution*, 161-164.

¹³⁶ Christie, *Ideology and Revolution*, 54-55.

¹³⁷ Christie, *Ideology and Revolution*, 55.

¹³⁸ Christie, *Ideology and Revolution*, 54-55.

¹³⁹ Christie, *Ideology and Revolution*, 173; Mohammad Hatta, "Past and Future," (Ithaca, New York: Modern Indonesia Project, Southeast Asia Program, Department of Far Eastern Studies, Cornell University, 1960), 8. An address delivered by Mohammad Hatta, upon receiving the degree of *doctor honoris causa* from Gadjah Mada University at Jogjakarta on November 27, 1956.

realistically held that the formal structures of Western-style representative and majority-based democracy should operate.¹⁴⁰ Hatta's political views reflected prevalent conceptions of Islamic democracy. He, like all devout Muslims, naturally saw 'Belief in One God'—the first principle of *Pancasila*—as the ideological basis of the state, and “not just as *primus inter pares* among other principles.”¹⁴¹ It was “the necessary moral foundation for the other principles—as an all-encompassing religious validation for what would otherwise be purely secular political tenets.”¹⁴² Hatta believed “social justice for all the people of Indonesia” could be achieved through a governing policy based on moral principles.¹⁴³ In the political field he emphasized the importance of “a system of popular representation with consultation [...] and extensive autonomy [...] reflecting the idea of ‘government by those governed’.”¹⁴⁴ In the economic sector he proposed that “the national economy would have to be organized on a cooperative basis, and the government would have to have duty to control or supervise the branches of production of importance to the State and those which vitally affect the life of the people.”¹⁴⁵ But Hatta also underscored the protection of the development of human individuality. The state should carry on its efforts to achieve “the happiness, wellbeing and moral worth of man.”¹⁴⁶

Before independence, Hatta “placed greater emphasis on the struggle against foreign imperialism, and increasingly used *pembangunan* (development) to describe the anti-imperialist struggle.”¹⁴⁷ Sritua Arief, a prominent Indonesian economist,

¹⁴⁰ Christie, *Ideology and Revolution*, 173; Hatta, “Past and Future,” 8-9.

¹⁴¹ Christie, *Ideology and Revolution*, 172; Hatta, “Past and Future,” 10.

¹⁴² Christie, *Ideology and Revolution*, 172; Hatta, “Past and Future,” 10.

¹⁴³ Hatta, “Past and Future,” 10.

¹⁴⁴ Hatta, “Past and Future,” 9.

¹⁴⁵ Hatta, “Past and Future,” 9.

¹⁴⁶ Hatta, “Past and Future,” 9.

¹⁴⁷ Chalmers, “Introduction,” 2. In his article on the economic world structure Hatta wrote: “I have already said that western imperialism must be destroyed for the sake of humanity and that it is the duty of every colonized nation to shake off the foreign yoke. And that is why Indonesia

asserted that in terms of economic development thought, Hatta was the first structuralist thinker in Indonesia and had developed dependency theory since the 1930s. In a 1933 article, in accordance with structuralist theory, Hatta explored the exploitative dialectic of economic relationships in Indonesia during the colonial period which formed the basis of his structuralist thought.¹⁴⁸ For instance, after surveying world society on the basis of economic outlook and ideology, he said:

It is clear what an unbalanced picture the world economic structure presents. Harmony and economic balance in mutual relations are nowhere to be seen. The elements which ought to create such harmony do not exist. World economy cannot be saved by slogans of free trade or protectionism. Differences in commercial policies are intersected by the clash of ideologies. Supporters of the doctrine of free trade are few in number. Whereas the older protectionists base their opinions on the economic interests of the entire community, the protectionist mentality of the totalitarian states evolves from the basic principles of their economic system which is aimed at self-sufficiency. World economy can only be saved by *planning* international economic relations.¹⁴⁹

Hatta's revolutionary, socialist and collectivist thought enormously influenced the economic ideas and philosophy of the 1945 Constitution. It accorded the state the responsibility to realize the "just and prosperous society" promised by independence. It is not a surprise, therefore, that political mobilization before and after independence established an ingrained commitment to economic populism.¹⁵⁰

Another Indonesian nationalist leader with socialist ideas was Sutan Sjahrir (1909-1966), the first Prime Minister of the Republic (1945-1947).¹⁵¹ Sjahrir stood

must obtain its independence for the sake of humanity and civilization. And I fear that the only means to achieve it, as we have already seen, will be no other than violence." See Mohammad Hatta, *Portrait of a Patriot: Selected Writings* (The Hague: Mouton, 1972), 55.

¹⁴⁸ Sritua Arief, *Teori dan Kebijakan Pembangunan* (Jakarta: CIDES, 1998), 129.

¹⁴⁹ Hatta, *Portrait*, 96-97.

¹⁵⁰ Chalmers, "Introduction," 2-3, 7 and 9.

¹⁵¹ Sjahrir's ideas described here are taken from the book *Out of Exile*, which consists of letters he sent to his Dutch wife, Maria Duchâteau-Sjahrir, in the Netherlands, first from Cipinang prison in Jakarta, and then from exile in Digoel, Papua New Guinea, and Banda Neira in the Moluccan islands. The letters spanned from 1934 until 1938. Sjahrir was released by the colonial government and left Banda Neira on January 31, 1942 and was sent to Sukabumi, West Java just two months before Japanese troops landed and occupied the Netherlands Indies. Charles Wolf, Jr.,

out for two ideas which distinguished him from Sukarno and Hatta. First was his aversion to the nostalgia of many Indonesian leaders for ancient “Indonesian” kingdoms, either Hindu or Islam. For him, the much-touted “lasting” Eastern values such as harmony, stability, patience, and spirituality were in fact the last stronghold of a ruined and dying feudal-traditional culture. In contrast to many nationalist leaders, including Hatta, Sjahrir rejected the idea that Asian civilization had intrinsic values distinct from those of the West. Consequently, he rejected the idea—favoured at the time—that the task of Asian intellectuals such as Rabindranath Tagore was to promote a dialogue between the two civilizations, out of which a synthesis could be expected to arise.¹⁵² Second, Sjahrir did not see the Indonesian struggle against Dutch colonialism as a confrontation between anti-colonialism and colonialism, between Asia and “the West”. Instead, he identified his struggle for independence as part of a global socialist-democratic alliance, based on equal partnership, against modern forms of tyranny, especially the fascisms which threatened Asia just as they did Europe. Sjahrir saw it as a tragedy that the Western colonial powers had failed to bring an end to the antagonistic and outdated system of colonialism. Sjahrir was a great admirer of European democracy and socialism. He was a socialist-democrat in the European political pedigree. Sjahrir greatly appreciated the spirit of the West with “its resilience, its vitality, its rationality.”¹⁵³ Paradoxically, according to Sjahrir, colonialism was the main factor impeding Easterners from engaging with this modern spirit.¹⁵⁴ In his opinion, colonialism had persisted not merely on the basis of force, but because of the idea, propagated by the West, that Western civilization was

“Introduction,” in Sutan Sjahrir, *Out of Exile*, ed. Maria Duchâteau-Sjahrir, trans. Charles Wolf, Jr. (New York: John Day, 1949), xi-xii, and xvii.

¹⁵² Christie, *Ideology and Revolution*, 70; Sutan Sjahrir, *Out of Exile*, ed. Maria Duchâteau-Sjahrir, trans. Charles Wolf, Jr. (New York: John Day, 1949), 67-68.

¹⁵³ Christie, *Ideology and Revolution*, 70; Sjahrir, *Out of Exile*, 144 and 146.

¹⁵⁴ Christie, *Ideology and Revolution*, 70; Sjahrir, *Out of Exile*, 189.

different from and superior to Asian civilization.¹⁵⁵ For that reason, colonial powers were concerned with encouraging “the maintenance of traditional values and political systems in colonized Asia, and [highlighting] the essential cultural differences.”¹⁵⁶ For Sjahrir, in “a society in which colonial relationships ‘corrupt and vitiate life’, the ‘educated native’ lost not only his political freedom, but something much more profound—his psychological freedom”.¹⁵⁷ According to Christie, “Sjahrir felt that one of the most destructive aspects of colonialism was that it distorted the world-view of the colonized ...,”¹⁵⁸ including the Indonesian nationalist leaders such as Sukarno and Hatta. They admired Japan and were “trapped in the essentially outdated mind-set of the confrontation between colonialism and anti-colonialism, between ‘the West’ and Asia.”¹⁵⁹ But he also condemned Western colonialism for fostering this antagonism on the part of colonized peoples toward the West. In Sjahrir’s view, anti-colonialism was hindering the Indonesian nationalist leaders’ ability to clearly see the reality of the global situation, but it was Western colonialism which had a large share in creating this erroneous perception.¹⁶⁰ For Sjahrir, the real confrontation was between democracy on the one hand and fascism, dictatorship and totalitarianism on the other. In view of what had been happening in Europe beginning in 1938, Sjahrir saw that “opposition to the Dutch rule can no longer be the primary task of nationalist propaganda or of the nationalist movement itself.”¹⁶¹ Instead, he contemplated cooperation between the Netherlands and

¹⁵⁵ Christie, *Ideology and Revolution*, 70; Sjahrir, *Out of Exile*, 189.

¹⁵⁶ Christie, *Ideology and Revolution*, 71; Sjahrir, *Out of Exile*, 157 and 189.

¹⁵⁷ Christie, *Ideology and Revolution*, 71; Sjahrir, *Out of Exile*, 189.

¹⁵⁸ Christie, *Ideology and Revolution*, 72; Sjahrir, *Out of Exile*, 115-116.

¹⁵⁹ Christie, *Ideology and Revolution*, 72; Sjahrir, *Out of Exile*, 186-188, and 196.

¹⁶⁰ Christie, *Ideology and Revolution*, 72; Sjahrir, *Out of Exile*, 185-188.

¹⁶¹ Sjahrir, *Out of Exile*, 209-211.

Indonesia, “[b]ecause the situation in the world at present is a threat not only to the Dutch realm, but to the independent future of Indonesia as well.”¹⁶²

Haji Oemar Said (H. O. S.) Tjokroaminoto (1882-1934) was another nationalist leader who espoused the idea of social justice.¹⁶³ He was chairman of Sarekat Islam (SI), the Islamic Association (1916-1934), and wrote an essay in 1924 on Islam and Socialism in order to fend off the growing Marxist-Communist infiltration within his own organization. Tjokroaminoto pointed out several similarities between Islam and socialism, but stressed that the true socialism in the Prophet Muhammad’s teachings was higher and nobler than any other socialism.¹⁶⁴ Nonetheless, he appreciated Marx and Engels’ contributions to the amelioration of the lives of the poor in Western countries which resulted in political changes there.¹⁶⁵ Quoting several Qur’anic verses, he asserted that social justice in Islam consisted of freedom, equality, and human brotherhood based on the belief in Allah, the Lord of the Universe Who loves all human beings regardless of their nation, class, or skin color.¹⁶⁶ The realization of social justice in Islam, according to Tjokroaminoto, should be implemented in three ways: awakening a sense of sacrifice for the advancement of public interest; carrying out the equal distribution of wealth; and urging people not to consider poverty as a disgrace.¹⁶⁷

¹⁶² Sjahrir, *Out of Exile*, 211.

¹⁶³ Raden Mas Hadji Oemar Said Tjokroaminoto was the dominant figure in the Sarekat Islam, the Islamic Association. This was initially called Sarekat Dagang Islam, the Islamic Commercial Union, as a Javanese *batik* trader’s cooperative founded in 1911 and led by Haji Samanhudi from Solo, Central Java. In 1912 the organization changed its name to Sarekat Islam. It was this nationalist organization which made the first concerted demand for independence. Tjokroaminoto was Sukarno’s political mentor and, for a short while, his father-in-law. Ricklefs, *A History*, 200; Sukarno, “Nationalism, Islam and Marxism,” 47; Cribb and Brown, *Modern Indonesia*, 12.

¹⁶⁴ H. O. S. Tjokroaminoto, *Islam dan Sosialisme* (Jakarta: Lembaga Penggali dan Penghimpun Sedjarah Revolusi Indonesia dan Endang dan Pemuda, 1924/1963), 17.

¹⁶⁵ Tjokroaminoto, *Islam dan Sosialisme*, 22.

¹⁶⁶ Al-Baqarah 2:213; al-Shūrā 42:13; Fāṭir 35:2; al-’Anfāl 8:63; Ālu ‘Imrān 3:103; al-Fātiḥah 1:4. Tjokroaminoto, *Islam dan Sosialisme*, 23-34.

¹⁶⁷ Tjokroaminoto, *Islam dan Sosialisme*, 27.

In contrast to Tjokroaminoto, Haji Mohammad Misbach, a former SI member, embraced Communism. He later became a leader of SI Merah, Red SI (later Sarekat Ra'jat, the People's Association) and of PKI in 1923. He was a *muballigh* (preacher), publishing the monthly newspapers *Medan Moeslimin* (Arena of Muslims) in 1915 and *Islam Bergerak* (Islam in Motion) in 1917. He established the bookstore Hotel Islam as well as a modern-style religious school, held *tabligh* (Islamic propagation) gatherings, and argued for the fundamental compatibility of Islam and communism.¹⁶⁸

2.5. Chapter Five: Economic Development Policy in the Period of Liberal Democracy (1950-1957): Liberty and Efficiency versus Collectivist Equality and Populism

Indonesia as a nation-state was officially founded in 1945, at the end of the Pacific War, when Sukarno and Hatta declared the former territory of the Netherlands East Indies an independent state. International recognition came four years later in 1949, following intermittent negotiations, armed struggle against the Dutch, and UN mediation.¹⁶⁹ The new state adopted a European-style parliamentary system based on the constitution of 1950. But in less than a decade this system, which guaranteed Indonesians democratic freedoms, would be replaced by an authoritarian system. According to President Sukarno and the military, the parliamentary system was unsuited to Indonesian national character and identity.¹⁷⁰

The purpose of the Indonesian government's development policies, according to the Constitution of the Republic of Indonesia, is "to develop general prosperity, realize social justice for all Indonesians, advance the life of the nation, and participate in the establishment of orderly world based on freedom, lasting

¹⁶⁸ Shiraishi, *Age in Motion*, 80, 127, 128, 141-143, 249, 258-261.

¹⁶⁹ Dick, "Formation," 168-170; Cribb and Brown, *Modern Indonesia*, 16-17.

¹⁷⁰ Booth, *Nineteenth and Twentieth Centuries*, 1; R. William Liddle, *Leadership and Culture in Indonesian Politics* (New York: Council on Foreign Relations Press, 1996), 3; Robert Cribb, "Introduction," 1-5.

peace and social justice.”¹⁷¹ As we shall see, successive Indonesian governments during this period proposed different approaches to achieve this ideal. The common thread uniting them, however, was a willingness to encourage foreign and private investment for the sake of economic growth, while at the same time bringing some sectors of the economy under national control.¹⁷²

During the period of parliamentary democracy, consecutive Indonesian governments produced three economic plans: the Economic Urgency Program (April 1951), the Five Year Plan (May 1956), and a regional development plan that came out of the National Conference in 1957.¹⁷³ In the assessment of Herbert Feith, Professor of Politics from Monash University in Melbourne, Australia, the earlier cabinets of this period implemented policies of “maximization of production, fiscal stability, and administrative rationalization”, while the later cabinets were more concerned with “restructuring the economy in such a way that Indonesian nationals held positions of advantage within it”.¹⁷⁴

These different approaches during the post-independence era to achieving the ideal of a just and prosperous society originated from two different views, personified by President Sukarno and Vice President Hatta, the signatories of the Proclamation of Independence. Here we will follow several analyses provided by experts of Indonesian politics and economics concerning Indonesian leaders during the 1950s and their ideas and orientations. Herbert Feith classified Indonesian leaders of this time period into two groups: ‘administrators’ and ‘solidarity makers’. The former refers to those leaders “...with the administrative, technical, legal, and

¹⁷¹ Amended Constitution of Republic of Indonesia of 1945 (2002), preamble.

¹⁷² Chalmers, “Introduction,” 10.

¹⁷³ Dick, “Formation,” 177; Higgins with Higgins, *Indonesia*, 74-75 and 91; Higgins, *Indonesia’s Economic Stabilization*, 47.

¹⁷⁴ Feith, *Decline*, 557.

foreign-language skills, such as required for the running of a modern state".¹⁷⁵ This group's orientation was in contrast to that of the 'solidarity makers', that is, "leaders skilled as mediators between groups at different levels of modernity and political effectiveness, as mass organizers, and as manipulators of integrative symbols."¹⁷⁶ Hatta and other Indonesian political leaders such Mohammad Natsir, Sukiman Wirjosandjojo, Sultan Hamengku Buwono IX, Wilopo, Mohammad Roem, Djuanda Kartawidjaja, Sumitro Djojohadikusumo, I. J. Kasimo, Colonel T.B. Simatupang, John Leimena, and the subject of this study, Sjafruddin Prawiranegara, belonged to the first group (administrators). From 1949 to 1953, they were "intensely concerned with solving administrative and economic problems, with the strengthening of law and order, administrative regularization and consolidation, the maximization of production, and planned economic development."¹⁷⁷ Sukarno, as well as the radical wing of the Partai Nasional Indonesia (PNI, the Indonesian National Party) and the Partai Komunis Indonesia (PKI, the Indonesian Communist Party), was less concerned with the aforementioned matters.¹⁷⁸ Feith also points out that

[...] 'administrators' were concerned with the immediate future, meanwhile 'solidarity makers' tended to be concerned with images of a distant utopia. [Meanwhile] Political leaders of the 'solidarity maker' group, including the President, made numerous statements about the Indonesia of the future, to which the Revolution was a bridge, the Indonesia of prosperity, justice, harmony, and strength. They repeated frequently and forcefully that this was the vision which had to be realized. But they too were little concerned about middle-range goals, or at least did not speak of them specifically. Thus there existed what might be called a bifurcation of attitudes toward the future. Sukarno fashioned symbols and reiterated the messianic demands and promises of the revolution. Hatta made administrative policy and urged realism. The two approaches were neither fused nor bridged."¹⁷⁹

Benjamin Higgins, a prominent Canadian economist, makes another classification, dividing Indonesian leaders and politicians into an "economics-

¹⁷⁵ Feith, *Decline*, 24.

¹⁷⁶ Feith, *Decline*, 113.

¹⁷⁷ Feith, *Decline*, 33, 45, 145, 150, and 556.

¹⁷⁸ Feith, *Decline*, 557.

¹⁷⁹ Feith, *Decline*, 34.

minded” or “developmentalist” group and a “history-minded” or “nationalist” group. The first group consisted of “intellectuals who attach high priority to economic and social development of the country, who feel that this development must follow Western lines in large measure, and who are willing to cooperate with the West, at least to the extent of seeking technical and capital assistance from the West, in order to achieve this goal.”¹⁸⁰ Sjafruddin, Sumitro, Djuanda, Wilopo, Sultan Hamengkubuwono IX, Burhanuddin Harahap, Major General Abdul Haris Nasution, and Ali Budiardjo were among the leaders who were included in this group.¹⁸¹ Meanwhile the second group, “history-minded” or “nationalist” leaders, was “a mixture of Communists and of a larger number who are nationalist [of PNI], conservative (in Western terms), and isolationist. Its leaders attach highest priority to ‘completion of the revolution’ in the sense of eliminating the control over Indonesian national life exerted by foreigners through economic activity. While favouring economic and social development, they attach great importance to retention of the national culture, language and religion and to abolishing the remnants of foreign influence.”¹⁸²

The differences between the two groups reflected the conflicting visions of the nation’s two most revered leaders, President Sukarno and Vice-President Hatta. The former attached the highest priority to the continuation of the national revolution, saying that:

For us, the common People of Indonesia, the Revolution has not yet ended, and for that reason we march forward in order to implement the ideals of the Proclamation...On and on go the strivings of that Revolution, on and on one phase is followed by another. As I have said: “For a fighting nation there is no journey’s end.”¹⁸³

¹⁸⁰ Higgins, *Indonesia’s Economic Stabilization*, 103; Higgins with Higgins, *Indonesia*, 88.

¹⁸¹ Higgins, *Indonesia’s Economic Stabilization*, 103; Higgins with Higgins, *Indonesia*, 86-89, 93.

¹⁸² Higgins, *Indonesia’s Economic Stabilization*, 103; Higgins with Higgins, *Indonesia*, 88.

¹⁸³ Sukarno, “The Dynamism of Revolution,” in *Indonesian Political Thinking, 1945-1965*, ed. Herbert Feith and Lance Castles (Ithaca: Cornell University Press, 1970), 113.

He continued,

[t]here are people who do not understand Revolutionary logic. Those are the people who say in the midst of a journey, "The Revolution is over," whereas in fact the Revolution is not yet completed and still goes on, on, and again on. This is Revolutionary logic: once we start a Revolution, we must continue that Revolution until all its ideas have been implemented...[and] leading to the formation of a New World, free from colonialism, free from exploitation, free from color discrimination, free from spying on each other with atom bombs and thermonuclear weapons in their hands."¹⁸⁴

Sukarno asserted that Indonesia's independence required the removal of "even the slightest trace of colonialism" in the economic sphere.¹⁸⁵ He seemed less concerned with the practical aspects of a well-planned economic development based on real economic considerations.¹⁸⁶ What mattered to him was the continuation of the struggle to end the colonial grip on Indonesia's economy, as well as resistance to imperialist attempts to weaken national unity and purpose, including the liberation of Dutch New Guinea or Irian Barat (Irian Jaya or Papua). For Sukarno, a "just and prosperous society" would be attained through socialist principles in the form of "progressive state control of the economy in general, particularly in the main of areas of production and distribution."¹⁸⁷ Indonesia must remove foreign capital and foreign experts immediately if it were to gain complete political and economic independence. Sukarno saw the presence of the former as a form of colonialism and imperialism.

Hatta differed fundamentally from Sukarno over the appropriate solution to the deterioration of Indonesia's political and economic conditions in the 1950s. Above all, he did not believe that the revolutionary mindset which had emerged in 1945 should be encouraged or intensified. In his opinion, the revolution had ended

¹⁸⁴ Sukarno, "Dynamism," 114-116.

¹⁸⁵ Christie, *Ideology and Revolution*, 160.

¹⁸⁶ Chalmers, "Introduction," 14.

¹⁸⁷ Christie, *Ideology and Revolution*, 161.

with the termination of armed struggle through which Indonesia obtained international recognition. According to Hatta:

A revolution is a sudden explosion of society which brings with it an "Umwertung aller Werte". A revolution shakes the floor and the foundations; it loosens all hinges and boards. Therefore a revolution should not last too long, not more than a few weeks or a few months. It should then be checked; the time will then have arrived for a consolidation which will realize the results produced by the revolution. What is left unfinished is not the revolution itself, but the efforts to carry its ideals into effect over a period of time after the foundations have been laid.¹⁸⁸

The rebellions, factionalism, political anarchy, adventurisms, corruption, and economic malaise that afflicted the country were, in his opinion, effects of the revolution not having been checked in due time. Hatta believed that putting an end to revolutionary politics was necessary to establish economic and political consolidation, in order to achieve social democracy and democratic responsibility.¹⁸⁹

In actuality Hatta had espoused, as had Sukarno and all other leaders, anti-colonialist, revolutionary, socialist and collectivist thought. However, due to the harsh terms of the 1949 Round Table Agreement, Hatta, as vice-president, could only adopt a gradualist approach to economic development. In addition, he realized that Indonesia still suffered from a lack of human resources, and that the republic needed foreign enterprise and capital as well as technicians in order to restore what had been destroyed during the revolution and to construct the new nation.¹⁹⁰ This attitude was also shared by Sjafruddin Prawiranegara, Djuanda Kartawidjaja and Sumitro Djojohadikusumo, among others.

Sutan Sjahrir advocated another way of thinking about how to achieve social justice and prosperity. It seemed that Sjahrir had already anticipated the problems the new nation would face and the possibility of authoritarian and totalitarian tendencies on the part of certain Indonesian nationalist leaders. In retrospect,

¹⁸⁸ Hatta, "Past and Future," 15.

¹⁸⁹ Hatta, "Past and Future," 15; Christie, *Ideology and Revolution*, 172-174.

¹⁹⁰ Chalmers, "Introduction," 9-10.

Sjahrir had recognized that the tendencies were, in part, a reflection of Indonesia's feudal-patrimonial society.¹⁹¹ In 1948, Sjahrir felt that a socialist society could not be established in Indonesia within his lifetime. He predicted that the future development of Indonesia during the next two or three decades would be that of a mixed economy between state and private enterprise. According to Sjahrir's observation, Indonesia did not yet possess a middle class from which the necessary managerial and technical personnel were to be recruited. He argued that the benefits of some measure of capitalist development would outweigh its potential harm, significantly eliminating the burden of the Indonesian feudal heritage and developing, in its stead, a more individualist attitude amongst the Indonesian people. Moreover, capitalist enterprise would help Indonesia's economic life by providing the government with the necessary administrative personnel to manage and serve national interests efficiently, especially in the emerging government-managed economic sectors.¹⁹²

The brand of socialism which Sjahrir wanted to introduce was one that was "decentralized and administered locally as much as possible."¹⁹³ For Sjahrir, top priority should be given to democracy and not to nationalism.¹⁹⁴ Sjahrir and the other PSI leaders therefore emphasized the importance of "political education of the people in order to make them politically mature, critical, and independent in their analysis and judgment of political issues" and thus to further raise their democratic potential.¹⁹⁵ The combination of a decentralized political and economic structure

¹⁹¹ Sutan Sjahrir, *Our Struggle*, trans. Benedict R. O'G. Anderson, Translation Series, Modern Indonesia Project (Ithaca, New York: Southeast Asia Program, Department of Asian Studies, Cornell University, 1968), 26-29.

¹⁹² Kahin, *Nationalism and Revolution*, 321; George McT. Kahin, "Preface," in Sutan Sjahrir, *Our Struggle*, trans. Benedict R. O'G. Anderson, Translation Series, Modern Indonesia Project (Ithaca, New York: Southeast Asia Program, Department of Asian Studies, Cornell University, 1968), iv; Sjahrir, *Our Struggle*, 26.

¹⁹³ Kahin, *Nationalism and Revolution*, 321.

¹⁹⁴ Sjahrir, *Our Struggle*, 28.

¹⁹⁵ Kahin, *Nationalism and Revolution*, 321; Kahin, "Preface," iv-v; Sjahrir *Our Struggle*, 33.

and a politically mature public would prevent strains of totalitarianism and authoritarianism from emerging in the future.¹⁹⁶

These economic and social views of Hatta, Sjahrir, and other leaders from the modernist wings of Masyumi, PSI, and the moderate wing of PNI, with their reasonable and pragmatist tendencies, greatly influenced policies of the early governments of the parliamentary period. The prevailing mode of thought during this period was based on the premise that achieving social justice and prosperity required the implementation of the principles of freedom, equality, and efficiency. As mentioned above, Hatta argued that the revolutionary politics which led to independence must make way for economic and political stability in order to achieve a society with democratic rights and responsibilities. The establishment of parliamentary democracy was a step in that direction. This was accompanied by a strong collectivist approach to various government economic programs that focused on nationalization schemes and funding domestic industries, as well as the encouragement of foreign capital in order to stimulate economic growth. These measures were meant to establish an efficient economic order while simultaneously turning the balance of power away from the vestiges of Dutch economic control towards greater indigenous participation. The prevailing approach of the cabinets of the 1950s was thus to set up a viable economic system given the realities of the time.¹⁹⁷

But the three development plans and various related government policies were not fully and consistently implemented. The “administrator” or “economics-minded- developmentalist” group, which prioritized economic rationality, economic and social development and was prepared to collaborate with the West, was often challenged by the “solidarity maker” or ‘history-minded’ group, which emphasized

¹⁹⁶ Sjahrir, *Our Struggle*, 34-37.

¹⁹⁷ Chalmers, “Introduction,” 10-12.

emotional nationalism and was more concerned with removing foreign control over the national economy.¹⁹⁸ Different orientations were seen, for example, with regard to the issue of power distribution between the central and the regional governments. The conflict between these two groups resulted in ineffective development in the regions and an increase in the gap between Java and outside areas, among other effects.¹⁹⁹ This situation posed a challenge to Indonesia, whose leaders, under the pretext of dismantling the Dutch-imposed system of federalism, concentrated on integrating the economy and consolidating a centralized state as the Dutch colonial government had done before.²⁰⁰ For many Indonesians living outside Java, this problem still has yet to be resolved satisfactorily.

The position of the first group became increasingly weaker because of the insistent Dutch refusal to open negotiations on the status of West New Guinea (Irian Barat/Irian Jaya/Papua).²⁰¹ The pragmatic-liberal (administrator or economic-minded developmentalist) group's defense of cooperation with the West, including protection of Western economic interests, became less tenable given the obstructionist attitude of the Dutch concerning the sovereignty of West New Guinea. In the eyes of the radical nationalist the policy was simply lacking in nationalist spirit. In addition, the established economic structure, colonial in origin, by which

¹⁹⁸ Higgins with Higgins, *Indonesia*, 85-90, 93

¹⁹⁹ The heavy-industry development plan of the Asahan Valley in North Sumatra stalled because the radical nationalist or solidarity-maker group opposed the administrator or economic-minded-developmental group's proposal to accept the offers made by the World Bank, the Japanese government, an American private company, and the French government to financially help its construction. As a result the plan was abandoned. Higgins with Higgins, *Indonesia*, 75, and 111-112.

²⁰⁰ Those in the administrator economic-minded developmentalist or liberal pragmatist group, based on considerations of fairness, effectiveness and efficiency, tended to give more autonomy to the regions and argue for decentralization of power. But the solidarity-maker or radical nationalist saw autonomy and decentralization for the regions as reminiscent of "Dutch forced federalism" which lasted for a few months in 1949-1950. They considered the idea to be a threat to national unity. Higgins with Higgins, *Indonesia*, 69-70; Lindblad, "The Late Colonial State," 111-114; Dick, "Formation," 179.

²⁰¹ Dick, "Formation," 170-171; Kahin, *Nationalism and Revolution*, 449. The issue was finally resolved in 1969 by an "act of free choice" that was called for by the UN-sponsored transfer arrangements and which resulted in the incorporation of Irian Barat (West Papua) into Indonesia's twenty-sixth province. Ricklefs, *A History*, 337.

the Dutch government maintained its domination²⁰² and which clashed with the interests of certain political, social and economic groups,²⁰³ further hampered economic stabilization and development.²⁰⁴

Finally, the democratic parliamentary political system—or the abuse thereof—was an important political factor in preventing the cabinets from maintaining consistent and sustainable economic policies. The system allowed for a change of cabinet in a short time. Over a period of approximately eight years, eight successive cabinets tried to transform the dualistic or uneven economic structure and to carry out redistribution of wealth controlled by foreign powers. Each cabinet emphasized a different set of principles than previous ones.²⁰⁵ The two opposing political groups used the no-confidence vote against each other in the parliamentary system in order to dislodge the serving cabinet. In other words, political parties and

²⁰² The government, under the Financial-Economic (*Finec*) Agreement, had to make several financial and economic concessions to the Netherlands, including obligatory consultation with the Netherlands on any monetary and financial measures and the unfair taking-over of \$1.1 billion of public debt, comprising the entire internal debt of the colonial government of 3 billion guilders plus another 1.5 billion of the \$3.5 billion external debts. Indonesia also had to maintain, for two years at European pay scales, the positions of some 17,000 Dutch officials. Besides this, it had to bear the costs of absorbing 26,000 out of 65,000 soldiers of the Dutch colonial army into the Indonesian National Army. When Burhanuddin Harahap's cabinet "abrogated the Finec agreements in February 1956, all but 18% of the debt had been paid off." Dick assumed that "had the debt of almost \$1 billion been released for development, the Indonesian economic situation in the mid-1950s, would have been much brighter." Dick, "Formation," 171 and 182; Ricklefs, *A History*, 275-276.

²⁰³ Bruce Glassburner, "The Economy and Economic Policy: General and Historical," in *The Economy of Indonesia: Selected Readings*, ed. Bruce Glassburner (Ithaca: Cornell University Press, 1971), 4; Glassburner, "Economic Policy-Making," 177-178. An industrial development plan and the *Benteng* (fortress) program, which was specifically designed to build up an indigenous Indonesian business class, also failed due to the graft and patronage practices among political parties which led to the suspension of the program in 1957.

²⁰⁴ Other economic issues were uneven development between export-oriented enterprises in the modern sector and peasant agriculture in the traditional sector; the threat of over-population, especially on Java, and the problem of acute imbalance arising out of the uneven rate of past economic development. These were all legacies of colonialism. Henk Schulte Nordholt, "Decentralisation in Indonesia: Less State, More Democracy?" in *Politicising Democracy: The New Local Politics of Democratisation*, ed. John Harriss, Kristian Stokke, and Olle Törnquist (New York: Palgrave Macmillan, 2004), 35; Ricklefs, *A History*, 297-300; J. A. C. Mackie, "The Indonesian Economy, 1950-1963," in *The Economy of Indonesia: Selected Readings*, ed. Bruce Glassburner (Ithaca: Cornell University Press, 1971), 17-19; Houben, "Java in the 19th Century," 61-63.

²⁰⁵ Glassburner, "The Economy and Economic Policy," 4; Higgins with Higgins, *Indonesia*, 78, 88-90.

their leaders failed to act in a responsible way to create a working parliamentary democracy.²⁰⁶ This conflict also spread to the military, prompting one faction to demand the dissolution of parliament.²⁰⁷

Consequently, economic policies of the post-independence Indonesian government that aimed to solve economic problems and to free the Indonesian economy from the legacy of colonialism did not run as well as expected. There was widespread and deep disappointment among many Indonesians, especially those outside of Java, as the promises of prosperity and social justice failed to materialize. President Sukarno tried to resolve the troubles of the country by implementing in February 1957 his concept of *Demokrasi Terpimpin*, a “Guided Democracy”.²⁰⁸ However, this move instead exacerbated political instability in the midst of growing tension between Jakarta and regions outside Java. The unresolved political disputes were an impetus for regional military commanders to launch the PRRI (the Government of the Revolutionary Republic of Indonesia) in Sumatra and for uprisings of Permesta (Perjuangan Semesta, Universal Struggle) in Sulawesi a month later. In addition, the political stalemate in the Constitutional Assembly over the issue of the basis of the state was additional ammunition for the Army with which to disparage the credibility of the liberal-democratic system. All of these developments led to Sukarno’s implementation of martial law, upon army advice, which effectively placed the military in charge of the country.²⁰⁹ Eventually the president promulgated the Decree of July 5, 1959, which declared “the return” to the 1945 Constitution and dismantled the Constituent Assembly. One year later the elected parliament was dissolved and replaced by a handpicked parliament.²¹⁰

²⁰⁶ Higgins with Higgins *Indonesia*, 85; Feith, *Decline*, 45.

²⁰⁷ Higgins with Higgins *Indonesia*, 85-87.

²⁰⁸ Glassburner, “Economic Policy-Making,” 90-91.

²⁰⁹ Dick, “Formation,” 186.

²¹⁰ Ricklefs, *A History*, 299-301; Dick, “Formation,” 186.

In conclusion, the pragmatist-moderate economic development policy espoused in the early period of parliamentary liberal democracy, intended to realize a just and prosperous society, was eventually replaced by a more populist- and statist-oriented policy. The effort to achieve social justice and prosperity by promoting freedom, equality, and efficiency had failed. The “administrator-developmental” group was defeated by the increasingly powerful “solidarity maker” or radical nationalist group which opposed economic and political liberalism, distrusted foreign capital and believed in the complete capacity of the state to realize populist development aspirations.

2.6. Chapter Six: The Guided Democracy and Guided Economy of Sukarno (1957-1966): The Predominance of Collectivist and Populist Equality

The establishment of *Demokrasi Terpimpin* (Guided Democracy) signified the beginning of authoritarian regimes in the history of Indonesia. It came after a prolonged period of failed attempts of the parliamentary democracy, in the decade following the transfer of sovereignty in 1950, to promote prosperity and redistribution of wealth.²¹¹ The more dominant mode of thought in this period held that social justice and prosperity would be achieved by emphasising a centralized state policy and equal distribution of wealth, a policy that ignored economic rationality and efficiency and discredited freedom. Sukarno’s Guided Democracy was in essence the implementation of his socialist ideology of *Marhaenism*, with its emphasis on anti-colonialism and Western imperialism, his concepts of *gotong-royong* and *musyawarah*, and his enthusiasm to unite nationalism, Islam, and Marxism as he had expressed before Independence.

Sukarno’s Guided Democracy was accompanied by a Guided Economy (*Ekonomi Terpimpin*), in which the Indonesian economic structure was transformed

²¹¹ Feith, *Decline*, 599-601; Dick, “Formation,” 186.

into a socialist or collectivist model that was, according to Sukarno, distinctly Indonesian: *Sosialisme á la Indonesia*. Underpinning the new system was Sukarno's personal charismatic leadership, supported by the radical wing of PNI, and PKI, as well as the army. The two parties, especially PKI, were used by Sukarno to check the power of the Army.²¹² Sukarno made it a point to rid Indonesia of any traces of Western influence—especially that of capitalism, which he saw as another form of exploitation. Soon foreign investment was shut down.²¹³

The inauguration of Sukarno's Guided Democracy spelled the end of previous governments' attempts at economic pragmatism, with their emphases—varying with each successive cabinet—on increasing production by maintaining the influx of foreign capital while nationalizing certain vital industries. The era of Guided Democracy did not separate economics from ideology, and promised a self-sufficient state-controlled economy through the establishment of heavy industries and cooperatives, with some involvement of the private sector.²¹⁴ These nationalistic tendencies existed before but were tempered by the pragmatic and level-headed approach of trained economists such as Sumitro, Sjafruddin Prawiranegara, and Jusuf Wibisono.²¹⁵ Sukarno, on the other hand, put great emphasis on Article 33 of the 1945 Constitution, which placed the responsibility for enacting social justice on the state.²¹⁶ He interpreted this article as giving the state a direct and extensive role in the economy, decreasing the role of the private sector. But the severe lack of capital and expertise—two problems that plagued even the more realistic plans of previous governments—meant that Sukarno's Guided Economy failed to prepare clear steps to achieve the goals of social justice. Its emphasis on collectivist equality

²¹² Dick, "Formation," 186; Liddle, *Leadership and Culture*, 17; Ricklefs, *A History*, 303-305.

²¹³ Dick, "Formation," 186-188; Ricklefs, *A History*, 315-318.

²¹⁴ Chalmers, "Introduction," 14-15.

²¹⁵ Glassburner, "Economic Policy-Making," 80-83.

²¹⁶ Chalmers, "Introduction," 15.

came at the cost of a viable and efficient economic system and political freedom. Economic policies were formulated under the practically untenable 'spirit of revolution' (*semangat revolusi*). Furthermore, under the same 'spirit', the government initiated an irresponsible military confrontation against the newly-independent country of Malaysia that consumed a large portion of the government budget and led to an increased deterioration of the economy, culminating in severe political crisis.²¹⁷

With most of the liberal developmentalist-pragmatist group imprisoned, exiled, or isolated from the public sphere, there were almost no dissenting voices against Sukarno's authoritarian Guided Democracy from inside Indonesia. An exception was that expressed by Mohammad Hatta, Sukarno's longtime friend but now his only opponent, who carried such influential moral authority that not even Sukarno dared to put him in prison. In his article entitled "Our Democracy", Hatta criticized the Guided Democracy for making the realization of justice, prosperity and democracy even less of a reality. He rightly noted that Sukarno had violated the Constitution several times.²¹⁸ Instead of achieving the aim of the revolution, to establish a just and prosperous society and democracy, Hatta predicted that Sukarno's Guided Democracy dictatorship would end in chaos and anarchy, and the system would collapse "like a house of cards."²¹⁹ Hatta's prediction proved true. Not only did Guided Democracy fail to establish economic and political stability which could create a climate conducive to the achievement of social justice and prosperity, but in 1965 the system was dismantled and Sukarno himself was eventually impeached as president.

²¹⁷ Chalmers, "Introduction," 15-17; Dick, "Formation," 186-191.

²¹⁸ Mohammad Hatta, "A Dictatorship Supported by Certain Groups," in *Indonesian Political Thinking, 1945-1965*, ed. Herbert Feith and Lance Castles (Ithaca: Cornell University Press, 1970), 138-139.

²¹⁹ Hatta, "A Dictatorship," 140.

Mohammad Natsir may be among the earliest to offer a comprehensive response to President Sukarno's Guided Democracy, before he finally left Jakarta in December 1957 to Padang, West Sumatra in order to take refuge from intimidation and threats from leftist groups. In an address given while General Chairman of the Masyumi Party, on the occasion of its eleventh anniversary, November 7, 1956, and just two weeks after Sukarno's first calls for a "guided democracy", Natsir defended democracy, along with responsible political parties, as the solution to the nation's problems. Emphasizing Masyumi's role as a stabilizing factor ensuring Indonesia's safe progress since 1950 and the efforts of various political parties to solve national problems, he admitted that the spiritual and material wellbeing of the nation had not yet been achieved. Instead, the situation was characterized by "incompetence and confusion in every sphere [along with] gross waste of human power, money and time"; widespread intrigue; and the privileging of self-interest. He warned his audience that the final outcome of this state of affairs would be general dissatisfaction, the loss of a sense of social responsibility, and discontent, which had led some sections of the population to hope blindly for the coming of a *Ratu Adil* (a just ruler or king), a messianic leader who would right all wrongs. He chastised Sukarno for being one of those who proposed the destruction of the existing democratic system in order to make way for a kind of supreme authority or dictatorship, thought to bring an immediate and total solution to all difficulties.²²⁰

Natsir challenged that idea on the basis that dictatorship, as a system, was simply inconsistent with the precepts set down in the teachings of Islam. The ideology of dictatorship should therefore be firmly rejected by the Muslim community. The second reason was that geographically speaking, Indonesia, consisting of thousands of islands with diverse ethnic groups, cultures and

²²⁰ Mohammad Natsir, "Restoring Confidence in Democracy," in *Indonesian Political Thinking, 1945-1965*, ed. Herbert Feith and Lance Castles (Ithaca: Cornell University Press, 1970), 89-91.

languages, was incapable of being ruled by a dictatorship. He argued that the difficulties Indonesia was facing stemmed from a lack of idealism, a materialistic orientation, the blurring of the lines between right and wrong, and a lack of realism in terms of assessment of problems and distribution of duties. Natsir reminded politicians and political parties that it was very easy for a democracy, without discipline and caution, to break down into lawlessness. He urged the elite leaders to safeguard and honour the responsibility and privilege they bear under a democratic system to avoid anarchy and dictatorship and to restore confidence in democracy.²²¹ Another critic of the turn towards dictatorship was Sumitro Djojohadikusumo, former Minister of Finance and Trade and Industry, who wrote from exile a tract denouncing Sukarno's arbitrary rule, neglect of economic development, empty sloganeering, and propaganda.²²²

The eventual collapse of Sukarno's Guided Democracy regime was a result of its inability to sustain the contradictory elements within its own system. The effort to eliminate the army leadership (under Abdul Haris Nasution and Ahmad Yani) was the catalyst of the crisis, in which six senior generals and one junior officer were murdered. But the plot, executed by a small group of leftist army officers in collaboration with certain elements of PKI, ultimately failed. Subsequently the army—supported by Muslim organizations and university student—orchestrated a massive and violent eradication of Communists and their supporters, totalling hundreds of thousands of victims in many villages and towns, especially in Central Java, East Java and Bali, that brought the country to the brink of a civil war. The army, suspecting the president of complicity in the plot, finally managed to force him

²²¹ Natsir, "Restoring Confidence," 91-94.

²²² Sumitro Djojohadikusumo, "The Failing of Sukarno," in *Indonesian Political Thinking, 1945-1965*, ed. Herbert Feith and Lance Castles (Ithaca: Cornell University Press, 1970), 141-146. The group of Indonesian exiles living in Malaya, Singapore, Hong Kong and European countries, led by Djojohadikusumo, published a mimeographed booklet in December 1959 entitled *Searchlight on Indonesia*.

to hand over executive power to General Suharto. The Guided Democracy system had created political instability and economic disaster, as well as social strife. The increasing influence of the Communist Party aroused fear and anxiety on the part of the military, religious communities, and conservative elites. Ultimately, the army won, the Communists and leftists were eradicated and political parties and civilian groups which had supported Sukarno's Guided Democracy/Economy were discredited.²²³

2.7. Chapter Seven: Social Justice and the New Order Economic Development Policy (1966-1998): The Victory of Rationality, Efficiency, and Stability and the Subordination of Freedom and Equality

In March 1967, President Sukarno was impeached by the Provisional People's Consultative Assembly (MPRS). His dismissal marked the end of the 'Old Order' of Guided Democracy and the emergence of the 'New Order' of army-dominated government.²²⁴ The big political issues, especially the place of the Indonesian Communist Party in Indonesian politics, seemed to be settled, but only through tremendous economic and human cost. The New Order government emphasized stability and development and limited the scope of political participation of civilian groups and political parties. Its fundamental mission was economic development.²²⁵ In pursuit of this mission, the government returned to the pragmatic open-door approach of the early years of independence, while abandoning some of its more collectivist and nationalistic tendencies which placed great responsibility for social justice and prosperity on the state, an approach that

²²³ Dick, "Formation," 189-190; Ricklefs, *A History*, 318-321; Glassburner, "Indonesian Economic Policy," 428-432.

²²⁴ Harold Crouch, "The Army, the Parties and Elections," *Indonesia* 42 (November 1971): 177.

²²⁵ Thee Kian Wie, "The Soeharto Era and After: Stability, Development and Crisis, 1966-2000 in *The Emergence of a National Economy: An Economic History of Indonesia, 1800-2000*, ed. Howard Dick et al (Crows Nest, NSW: Asian Studies Association of Australia, Allen & Unwin and University of Hawai'i Press, 2002), 194.

Sukarno carried to an extreme during the era of Guided Democracy.²²⁶ Accordingly, the rise of Suharto's New Order was heralded "as the victory of rationality over ideology and of economics over politics".²²⁷ However, as we shall see in the following account, this high priority given to economic viability and growth came at the price of political freedom and equitable distribution of the wealth gained through economic development.

The new government under General Suharto adopted a "development strategy" that emphasised economic growth, income distribution and national security. The policy was designed by Western-trained economic technocrats under the tutelage of Professor Sumitro Djojohadikusumo, Minister of Finance in the 1950s and a critic of Sukarno's Guided Democracy/Economy. In a reversal of its predecessor's policies, the new government reintegrated Indonesia into the global economy. The policy was reflected by the massive influx of foreign support, especially from the Western countries and Japan.²²⁸ The army-dominated government also devised a highly centralized system, achieving a level of national unity and stability that enabled the government to engineer economic growth.²²⁹ New foreign investors and Indonesian businessmen were invited to develop Indonesia's natural resources and to resume industrialization efforts.²³⁰ The policies worked to restore Indonesia's economic growth. Economic recovery was made

²²⁶ Chalmers, "Introduction," 22.

²²⁷ Robison and Hadiz, "Indonesia: Crisis, Oligarchy, and Reform," 115.

²²⁸ Benedict R.O'G Anderson, "Old State, New Society: Indonesia's New Order in Comparative Historical Perspectives," *Journal of Asian Studies* 42 (March 1983): 488-489; John Bresnan, *Managing Indonesia: The Modern Political Economy* (New York: Columbia University Press, 1993), 68-71; Anne Booth and Peter McCawley, "The Indonesian Economy Since the mid-Sixties," in *The Indonesian Economy During the Soeharto Era*, ed. Anne Booth and Peter McCawley (Kuala Lumpur: Oxford University Press, 1981), 7.

²²⁹ Nordholt, "Decentralisation," 35-36; Gustav Ranis and Frances Stewart, "Decentralisation in Indonesia," *Bulletin of Indonesian Economic Studies* 30.3 (March 1994): 42.

²³⁰ Wie, "Soeharto Era," 206.

possible by using the revenue accumulated by the government during the oil booms in the 1970s.²³¹

Despite the economic progress, unequal distribution was clearly evident in the increasing social and economic disparities. The main beneficiaries of Suharto's economic policies were powerful military officers, bureaucrats, and wealthy business cronies (predominantly Chinese-Indonesians). The livelihoods of the masses, laborers, and farmers were compromised as their work contributed to a rising standard of living without their fairly reaping the result of their labour. Corruption was widespread. Indonesia had become a safe place for crony capitalism and corruption in the region.²³²

In addition, the political stability and economic growth of the New Order were in fact the fruit of military-authoritarian rule. Indonesian society had to endure suppression and violence for the New Order economic policies, and people had to accept a very limited level of democracy to retain economic benefits.²³³ The policy reflected, among other things, another impact of the Japanese military occupation on Indonesian political culture. Most of the Army's top officers who took over state power under Suharto's leadership had been trained by the Japanese military, which passed on its doctrine of the armed forces' active involvement with government to closely direct and control society.²³⁴

²³¹ Hal Hill, *The Indonesian Economy*, 16; Liddle, *Leadership and Culture*, 5-6.

²³² Bresnan, *Managing Indonesia*, 286-287 and 290-291; Andrew MacIntyre, "Investment, Property, and Corruption in Indonesia," in *Corruption: The Boom and Bust of East Asia* (Manila: Ateneo De Manila University Press, 2001), 40; Kingsbury, *Politics of Indonesia*, 15.

²³³ Jamie Mackie, "Indonesia: Economic Growth and Depoliticization," in *Driven by Growth: Political Change in the Asia-Pacific Region*, ed. James W. Morley (Armonk, New York: M.E. Sharpe, 1999), 126-130; Wirahadikusumah, "Rise and Development," 19-20 and 24-27.

²³⁴ Kingsbury, *Politics of Indonesia*, 34. The official doctrine used to justify the army/military's role in civil and government affairs was formulated as the doctrine of *Dwifungsi* (dual function). The concept was outlined by General Abdul Haris Nasution, Chief of Staff of the army in 1958, and came to be known as 'Middle Way' concept, between military dictatorship and military neutrality, in government and civil affairs. Kingsbury, *Politics of Indonesia*, 49-51.

During this period the issue of social justice continued to be a concern for many sections of the public, considering that the great accumulation of wealth as a result of economic development was not matched by a likewise concerted effort to redistribute it fairly.²³⁵ Having stabilized and expanded the economy, the government was met with widespread expectations that the early ideals for social justice championed by the nation's founding figures would be achieved. Critics of the government invoked the stipulations of the Constitution and *Pancasila* as the basis for grassroots development policies aimed at promoting national strength through government-led initiatives.²³⁶ They appealed to the egalitarian principles of the leaders of the independence movement, who placed great emphasis on the building of an indigenous entrepreneurship, the advancement of small-scale businesses, and the cooperative movement.²³⁷ In general, these critics believed that the long-awaited economic sovereignty of Indonesia was still out of their hands, remaining under the control of foreign capital and stipulations for aid as well as of social elites, who benefitted disproportionately from the New Order's single-minded pursuit of economic growth. The following account shall further show the variety of the concern for social justice among Indonesian economic thinkers.

Ian Chalmers classifies the streams of economic development thought in the New Order period into three: pragmatic-economic liberalism, statist-nationalism, and economic populism.²³⁸ The first stream of thought was espoused by Western-trained economic technocrats. They "tended to favor economic deregulation and market-oriented policies [and]... pragmatic planners quite prepared to advocate

²³⁵ Chalmers, "Introduction," 20.

²³⁶ Chalmers, "Introduction," 29.

²³⁷ Chalmers, "Introduction," 29.

²³⁸ Chalmers, "Introduction," 27-29.

state controls to achieve particular development goals.”²³⁹ They were not, however, dogmatic economic liberals.²⁴⁰ A particular thinker worthy of note is Sumitro Djojohadikusumo, Minister of Trade and Industry (1950), Minister of Finance (1952-1953 and 1955-1956), Minister of Trade (1968-1973) and Minister of Research and Technology (1973-1978). He was considered the doyen of Indonesian economists. Most of the economists who established the early New Order economic policy, including Mohammad Sadli, Emil Salim, Ali Wardhana, and others, as well as its principle architect Widjojo Nitisastro, were his students. Nevertheless, Indonesian economist Sjahrir (b. 1945)²⁴¹, who once opposed the New Order regime’s policies, was also his student. During the New Order period Sumitro’s students and protégés played very important roles both as planners of the regime’s economic policies and as their critics. In the mid-1980s “Sumitro suggested that the economy had become over-regulated [...]”²⁴² In addition, he criticized the emphasis on “equity” by populist-oriented economists and on the concept of “value-added” advocated by statist-nationalists.²⁴³ A change of direction in his economic thinking had taken place. During the early 1950s he devised the Economic Urgency Program, including a state-led industrial development plan,²⁴⁴ and in the early years of the New Order he advocated economic development policies in which “the state would have a major role stimulating new economic initiatives.”²⁴⁵ Sumitro’s new stand

²³⁹ Ian Chalmers and Vedi R. Hadiz, “The Pragmatic Technocrats,” in *The Politics of Economics Development in Indonesia: Contending Perspectives*, ed. Ian Chalmers and Vedi R. Hadiz (London: Routledge, 1997), 40.

²⁴⁰ Chalmers and Hadiz, “Pragmatic Technocrats,” 40.

²⁴¹ Dr. Sjahrir should not be confused with Sutan Sjahrir, the first Prime Minister and leader of PSI (1909-1966).

²⁴² Ian Chalmers and Vedi R. Hadiz, “The Liberal Critique,” in *The Politics of Economics Development in Indonesia: Contending Perspectives*, ed. Ian Chalmers and Vedi R. Hadiz (London: Routledge, 1997), 94.

²⁴³ Chalmers and Hadiz, “Liberal Critique,” 95.

²⁴⁴ Dick, “Formation,” 177.

²⁴⁵ Chalmers and Hadiz, “Liberal Critique,” 94.

appeared to resemble Sjafruddin's opinion, which the former had opposed in the 1950s.

Sumitro was a member of Sutan Sjahrir's PSI with its socialist-Marxist ideology. Here we see the link between Sumitro's ideological evolution and external changes in economic structure and political circumstances. Sumitro was a member of the cabinets in the early 1950s which adopted a pragmatic approach to economic development. However, in actuality he was less pragmatic and realistic than Sjafruddin and more socialistic and nationalistic. His economic policies during the 1950s were criticized by Sjafruddin because of their profoundly "nationalistic" and discriminatory aspects.²⁴⁶ The impetus for this shift seemed to have been the collapse of oil prices during the 1980s. From then on, Sumitro vigorously advocated a gradual shift towards economic liberalism.²⁴⁷

Comparable to Sjafruddin with respect to his realistic views reflected in his formulation of religious socialism,²⁴⁸ Sumitro, consciously or not, based his adoption of economic liberalism on his party's ideological realism. This was characterized by a revisionist-eclectic approach to Marxism of adapting socialism to Indonesian conditions and characteristics, as espoused by Sutan Sjahrir (1908-1966), the chief figurehead of PSI, and most of its other leaders. They felt that the Marxian doctrine of class struggle was irrelevant to the social conditions existing in Indonesia.²⁴⁹

This exposition of PSI's aforementioned ideological interpretation of Indonesian economy and society helps us to understand how Sumitro and his New Order economist-technocrat students, almost all of whom were PSI sympathizers, so

²⁴⁶ Glassburner, "Economic Policy-Making," 85. Among the vey nationalistic and discrimantory aspects of the plan were developing small, *national* (i.e., indigenous) industry to produce import substitutes, giving capital assistance to indigenous enterprise, and restricting certain markets to indigenous sellers. From those schemes Chinese Indonesians were excluded.

²⁴⁷ Chalmers and Hadiz, "Liberal Critique," 94-95; Andrew Rosser, *The Politics of Economic Liberalisation in Indonesia: State, Market and Power* (Richmond, England: Curzon, 2002), 3.

²⁴⁸ Kahin, *Nationalism and Revolution*, 309-310.

²⁴⁹ Kahin, *Nationalism and Revolution*, 320.

easily applied this ideology to real conditions in Indonesia, including their advocacy of liberal capitalist economic development.

Another representative of this stream of pragmatist-liberal thought was Widjojo Nitisastro, the main architect of the New Order's economic policy.²⁵⁰ Nitisastro was head of Suharto's team of Presidential Economic Advisers in 1966, and later served as Minister of State for National Development Planning/Head of Bappenas/The National Planning Body (1971-1983) as well as Coordinating Minister of Economics and Industry (1973-1983).²⁵¹ Nitisastro stressed "a long-term development plan and [devoting] greater attention to policy implementation."²⁵² But he also argued for a principal and dominant position for state enterprises in the economy, and a more dynamic role for social forces in economic affairs.²⁵³ This pragmatic-economic liberalist stream of development thought emphasized economic freedom and efficiency—but not political freedom and equality—as a means by which to realize the national ideal of a just and prosperous society.

The second stream of economic development thought was a statist-nationalist one. This mode of thought emphasized the role of the state in creating, strengthening, and supervising a self-reliant national economy.²⁵⁴ Baharuddin Jusuf Habibie was one of the proponents of this statist-nationalist stream of thought.²⁵⁵ He

²⁵⁰ Widjojo Nitisastro presented his exposition of general economic problems since 1955 in a symposium held in September 1955 at the University of Indonesia, but his ideas had been ignored during the Guided Democracy period. See Wilopo and Widjojo Nitisastro, *The Socio-Economic Basis of the Indonesian State: On the Interpretation of Paragraph 1, Article 38 of the Provisional Constitution of the Republic of Indonesia*, trans. Alexander Brotherton (Ithaca, NY: Modern Indonesia Project, Southeast Asia Program, Department of Far Eastern Studies, Cornell University, 1959).

²⁵¹ Chalmers and Hadiz, eds., *Politics of Economic Development*, xiv, 40 and 41.

²⁵² Chalmers and Hadiz, "Pragmatic Technocrats," 41.

²⁵³ Chalmers and Hadiz, "Pragmatic Technocrats," 41 and 45. See also Wilopo and Nitisastro, *Socio-Economic Basis*, 20.

²⁵⁴ Ian Chalmers, "The Continued Appeal to Statist-Nationalism," in *The Politics of Economics Development in Indonesia: Contending Perspectives*, ed. Ian Chalmers and Vedi R. Hadiz (London: Routledge, 1997), 163-164 and 167; Rosser, *Politics*, 3.

²⁵⁵ He was President of Indonesia (May 1998-September 1999), Minister of State for Research and Technology (1978-1998), and chairman of the country's main technology research body,

believed that an “increase of scientific and technological skills” was the key to transforming Indonesia into “an industrially and technologically advanced nation”²⁵⁶ which could achieve real independence “characterized by capacity for economic self-reliance, by success in maintaining cultural identity, and by the power to maintain political integrity.”²⁵⁷ He emphasized the need to protect “national technological capacities until the nation reaches the stage when it can compete internationally.”²⁵⁸ In his view, one particular stage a nation had to undergo during “the transformation [...] into a technologically and industrially advanced nation” was that of “large-scale basic research” to develop new theories necessary for continued advancement.²⁵⁹ Contrary to most other proponents of economic nationalism, Habibie was confident that Indonesia, despite its economic weaknesses, would be able to compete with stronger economies and suggested that economic internationalization could advance development.²⁶⁰

Another figure of this school was Ginanjar Kartasasmita, who held several economic posts in the New Order cabinets (1983-1998).²⁶¹ Kartasasmita stressed

BPPT, in addition to chairing various state corporations involved in high-technology industries. He was instrumental in developing Indonesia’s fledging aircraft industry. Although he had not been known as a Muslim activist, in 1990 he became chairman of ICMI, the Association of Indonesian Muslim Intellectuals. On March 12, 1998 he was elected vice-president, and two months later, on May 21, he succeeded Suharto as president after the latter resigned. Habibie successfully led the country in its transition toward democracy.

²⁵⁶ Chalmers, “Continued Appeal,” 166.

²⁵⁷ B.J. Habibie, “Industrialisation and the Technological Transformation of a Nation,” in *The Politics of Economic Development in Indonesia: Contending Perspectives*, ed. Ian Chalmers and Vedi R. Hadiz (London: Routledge, 1997), 176.

²⁵⁸ Habibie, “Industrialisation,” 177.

²⁵⁹ Habibie, “Industrialisation,” 177-178; Prof. Dr. Ing. B.J. Habibie, “Keynote Speech,” in *Habibienomics: Economic Development through Added-Value Oriented towards Technology and Industry*, ed. A. Makmur Makka (Jakarta: Cipta Kreatif, 1994), 15-16 and 26-30.

²⁶⁰ Chalmers, “Continued Appeal,” 166 and 167.

²⁶¹ From 1993-1998 he was the first non-economic technocrat to serve as Minister of National Development Planning and Head of the National Development Planning Body (BAPPENAS). From 1998 to 1999 he served again as Minister of National Development Planning/Head of BAPPENAS and Coordinating Minister of Economy, Industry and Trade. From October 1, 2004 to 2009 he served as Chairman of Regional Representative Council (DPD), a newly-established legislative institution similar to the United States Senate. Chalmers and Hadiz, “Notes on the Authors,” in *The Politics of Economic Development in Indonesia*, ed. Ian Chalmers and Vedi R. Hadiz (London: Routledge, 1997), xii-xiii; Chalmers, “Continued Appeal,” 165.

the necessity of economic self-reliance for the country's survival. According to him, "... [t]he economic foundation of a self-reliant country is its capacity to satisfy its requirements for goods and services domestically."²⁶² In principle, a country should be self-reliant with respect to vital needs such as food and clothing. He therefore urged support for a national movement to buy domestic produce.²⁶³ However, at variance with Habibie, Kartasasmita believed that internationalization might hamper efforts to develop a self-reliant economy unless three programs were employed: protecting domestic industries, upgrading domestic industries, and fostering a patriotic consciousness to choose domestic rather than foreign products.²⁶⁴

Statist-nationalist thought emphasized efficiency, equality, limiting economic freedom for the interest of the nation's collectivism, and putting aside political freedom. However, the call for freedom and populist equality continued to be raised during the New Order period. Sarbini Sumawinata²⁶⁵ and Soedjatmoko,²⁶⁶ both of whom were also former members of PSI, strongly maintained their commitment to freedom and equality. Soedjatmoko was less concerned with growth and more with a nation's capacity to grow.²⁶⁷ In his view, development should expand and multiply

²⁶² Ginanjar Kartasasmita, "To Build National Economic Resilience," in *The Politics of Economic Development in Indonesia*, ed. Ian Chalmers and Vedi R. Hadiz (London: Routledge, 1997), 168.

²⁶³ Kartasasmita, "To Build," 168; Ginanjar Kartasasmita, "Peluang dan Tantangan dalam PJP II," in *Peluang dan Tantangan PJP II di Bidang Ekonomi, Politik, Hukum dan Sosial Budaya: Demokrasi dan Budaya MEP*, ed. A. Suryana Sudrajat (Jakarta: PT Bina Reka Pariwisata, 1995), 21.

²⁶⁴ Kartasasmita, "To Build," 170-172; Chalmers, "Continued Appeal," 167 and 171.

²⁶⁵ He was a former Chairman of the Central Bureau of Statistic (BPS) and a PSI (Indonesian Socialist Party) intellectual. In his opinion, development was "a process of political rather than economic change." In the late 1960s he strongly criticized economic policies which he believed were benefiting only a small group of the elite. Chalmers and Hadiz, "The 'Society-First' Critics," in *Politics of Economics Development*, 57 and 61-62.

²⁶⁶ Soedjatmoko was one of the most prominent intellectuals in Indonesia and Asia. In the 1980s he was appointed rector of the United Nations University in Tokyo. Chalmers and Hadiz, "Notes on the Authors," xvi-xvii; Chalmers and Hadiz, "The 'Society-First' Critics," in *Politics of Economic Development*, 62-64.

²⁶⁷ Ambassador Soedjatmoko, "Perceptions of Social Justice," in *The Primacy of Freedom in Development*. Ed. Anne Elizabeth Murase. American Values Projected Abroad, ed. Kenneth W. Thompson, vol. 20 (Lanham, MD: University Press of America, 1985), 41.

opportunities on the personal level for the entire population.²⁶⁸ He emphasized the importance of the decentralization of power and accountability,²⁶⁹ and urged policymakers to accompany the top-down strategy with a bottom-up strategy “which ensures voluntary participation, initiative and growth at the grass roots level.”²⁷⁰ He believed that success in dealing with poverty and social justice would ensure freedom on an individual, social, and national level.²⁷¹

The call for freedom and equality was also raised by a former student activist-turned-economist with a populist approach, Arief Budiman. As a student activist he participated in the 1966 movement that was instrumental in overthrowing the Guided Democracy regime of President Sukarno. He was well-known for consistently upholding democratic principles and socialistic ideas.²⁷² Consequently, he was one of the critics of the New Order with its capitalist model of development which, according to him, was based on the assumption that human beings were greedy and materialistic.²⁷³ For Budiman, a socialist system seemed to provide a better guarantee for the preservation of equitable distribution.²⁷⁴

Also present were prominent economists, intellectuals and NGO activists from Islamic organizational backgrounds such as Mohammad Dawam Rahardjo, Sritua Arief, and Adi Sasono. Their parents were members of the Masyumi Party and they themselves belonged to a modernist Muslim student organization, HMI (Association of Islamic University Students) and in the 1960s had joined the student movement that toppled President Sukarno. They were reformists rather than

²⁶⁸ Soedjatmoko, *Primacy of Freedom*, 41.

²⁶⁹ Soedjatmoko, *Primacy of Freedom*, 41.

²⁷⁰ Soedjatmoko, *Primacy of Freedom*, 41.

²⁷¹ Soedjatmoko, *Primacy of Freedom*, 44.

²⁷² Vedi R. Hadiz, “The Populist Critique,” in *The Politics of Economics Development in Indonesia: Contending Perspectives*, ed. Ian Chalmers and Vedi R. Hadiz (London: Routledge, 1997), 115.

²⁷³ Arief Budiman, “A Socialist Pancasila Economic System,” in *The Politics of Economics Development in Indonesia: Contending Perspectives*, ed. Ian Chalmers and Vedi R. Hadiz (London: Routledge, 1997), 125.

²⁷⁴ Budiman, “Socialist Pancasila,” 127.

revolutionaries, as they focused their efforts on offering practical solutions to economic problems. They used structuralist and dependency theory merely as tools of analysis to more clearly explain the economic conditions in Indonesia. Their writings display a strong commitment to Islamic teachings of human equality and justice.²⁷⁵ Sasono and Arief frequently referred to Hatta's populist and collectivist ideas²⁷⁶; meanwhile Rahardjo echoed Hatta's economic thinking, especially his idea of cooperatives, and also appreciated that of Sjafruddin.²⁷⁷ According to them, their use of neo-Marxist dependency analysis was justified by similarities in social, economic and political conditions between Indonesia and the countries of Latin America.²⁷⁸

Rahardjo interpreted current expressions of "economic domination" as being structurally different from those of the colonial period. In the past, an advanced nation would directly control another. In contrast, "today's structural domination is indirect, in the sense of asymmetrical ties between the metropolitan centers and their satellites, between the centers and peripheries at both global and national levels." Such a relationship, for Rahardjo, "is not a mutually beneficial form of interdependence, but is exploitative in nature. The hegemonic power expands and penetrates the economically backward region, while this backward region 'develops' by becoming dependent on the advanced center, becoming relatively more backward. Its economy may even decline."²⁷⁹

²⁷⁵ For Sasono's views of Islam and socio-economic justice see Adi Sasono, "Islam dan Religius Sosialisme," in *Aspirasi Umat Islam Indonesia*, ed. Bosco Carvalho and Dasrizal (Jakarta: Leppenias, 1983), 107-117. For Rahardjo's view on Islamic economy see Rahardjo, *Perspektif Deklarasi Makkah*. Sritua Arief was less explicit in his reference to Islam, although he referred to it briefly. See Arief, *Teori*, 383 and 435.

²⁷⁶ Sasono, "Islam dan Religius Sosialisme," 110-113.

²⁷⁷ M. Dawam Rahardjo, *Intelektual, Inteligensia dan Perilaku Politik Bangsa: Risalah Cendekiawan Muslim/Intellectual, Intelligentsia and Nation's Political Attitude: Muslim Intellectual Treatise* (Bandung: Mizan, 1993), 16, 27-29 passim.

²⁷⁸ Group discussions in the 1980s in Jakarta.

²⁷⁹ M. Dawam Rahardjo, "Struktur Dominasi dalam Proses Pembangunan," in *Esei-esei Ekonomi Politik* (Jakarta: LP3ES, 1985), 196. In this book Rahardjo also discusses poverty, the map of

Rahardjo elucidated why such a relationship is called structural. In his analysis, “the elements of domination and dependence are woven together in a complex system, both within and between sectors.”²⁸⁰ Political, economic and cultural factors “are interrelated to form a domination-dependency relationship in the social system.”²⁸¹ He maintained that “[...] the structures of the colonial economic system remained and there was a continuation of the dualistic economic system, with a growing modern sector and a traditional sector still in a condition of subsistence.”²⁸² He called the New Order regime a “repressive developmentalist regime”²⁸³ that “[...] has as its distinctive features a bureaucracy directed by a military-controlled government, economic development organized by technocrats, and restrictions on the freedom and activities of the institutions of a conventional democracy—although they are still tolerated. In such a situation, mass poverty and a distorted distribution of income exist alongside capitalistic economic growth and extravagant lifestyles.”²⁸⁴

Meanwhile, Sasono asserted that the revolution for independence was not followed by a social revolution. Even the contemporary Indonesian economy was a continuation of that of the Dutch colonial period. Consequently, he suggested, New Order economic policy had succeeded merely in prolonging Indonesia’s position of

modern economics, regionalism and international labor division, ideological assumptions of economic development models, social participation model in development, critiques of Marxism and Marxism as a critique of capitalist development, among others. The article is also entitled “Development and the Structure of Domination” as appears in Hadiz, “Populist Critique,” 130-135.

²⁸⁰ Rahardjo, “Struktur Dominasi,” 196.

²⁸¹ Rahardjo, “Struktur Dominasi,” 196-197.

²⁸² Rahardjo, “Struktur Dominasi,” 197.

²⁸³ As Herbert Feith discussed, other terms for this Third World development phenomena are “bureaucratic-authoritarianism” (from Guillermo O’Donnell), “modernization from above” (Barrington Moore), “defensive modernization”, “modern autocracy”, “neo-Bismarckism”, “delayed-dependent industrialization” (Philippe Schmitter), “associated dependent development” (Fernando Henrique Cardoso), “techno-fascism” (Iqbal Ahmad), and “Brazilianization” (Richard A. Falk). The term “repressive developmentalist regime” used by Rahardjo is also employed by Feith. See Herbert Feith, “Rezim-rezim Developmentalist Represif di Asia: Kekuatan Lama, Kerawanan Baru,” *Prisma* 9, no. 11 (November 1980): 70-84.

²⁸⁴ Rahardjo, “Struktur Dominasi,” 199.

dependency in the international economy. Foreign aid had only served the interests of the creditor countries. He also argued that the impoverishment of the Indonesian people was not a result of the existing economic system malfunctioning, but was in fact a necessary consequence of the system itself. Echoing the prescriptions of dependency theory, he suggested that realising the goal of social equity required fundamental structural change.²⁸⁵

Arief's development thinking was mainly influenced by the structuralist paradigmas developed by his teacher, Joan Robinson.²⁸⁶ He pointed out that Indonesia's economic development had produced rapid growth for a small number of people, poverty for many, but dependency for all. The rapid growth enjoyed by the minority was a dependent form of development, and the poverty suffered by the majority was a product of that dependence. Dependence had been accompanied by a process of unequal exchange, transplanting a foreign system of production and its associated social relations while marginalizing many people from the indigenous system of production within which they had existed, functioned and found their livelihood. This process of marginalization was not accompanied by their absorption into the new system of modern industry, for this new system of production was not pro-worker.²⁸⁷

Arief offered an alternative development strategy which prioritized increasing effective domestic demand and not foreign. Arief was aware that foreign

²⁸⁵ Adi Sasono, "Tesis Ketergantungan dan Kasus Indonesia," *Prisma* 9.12 (December 1980), 73.

²⁸⁶ Joan Robinson, *Aspects of Development and Underdevelopment* (Cambridge: Cambridge University Press, 1979), 102-104. Joan Robinson, for example, said that "[t]he most pervasive and strongly held of all neoclassical doctrines is that of the universal benefits of free trade....The argument is conducted in terms of comparisons of static equilibrium positions in which each trading nation is enjoying full employment of all resources and balanced payments, the flow of exports, valued at world prices, being equal to the flow of imports." However, Robinson described how the neoclassical doctrine of free trade in practice benefited England but disadvantaged Portugal in the nineteenth century. She concluded that the free trade doctrine serves "the interests of whichever nation is in the strongest competitive position in world markets," such as Great Britain in the past and the United States in the present day. Robinson, *Aspects*, 103-104.

²⁸⁷ Arief, *Teori*, 414.

economic relations were too important to disregard. Hence he affirmed that his alternative strategy was not anti-foreign economic relations, but instead was opposed to foreign relations which bound the Indonesian people in dependence. He emphasized the need to bring about social structural change to lay the foundation for an alternative development process. Without such fundamental change, in Arief's analysis, the Indonesian economy would remain essentially an appendage to the expansion of international capital, a process fuelled by multinational corporations and controlled by the metropolitan centers.²⁸⁸

Suharto's rule finally came to an end on May 21, 1998. He resigned due to the continuing economic crisis, which came to a head with fierce protests and widespread demonstrations. In accordance with the Constitution, Vice President Baharuddin Jusuf Habibie succeeded him as president. Indonesia was experiencing its worst financial and economic crisis since the Sukarno era, as entire countries in East and Southeast Asia were engulfed by the collapse.²⁸⁹

Hill, Sadli, and Bresnan point to several factors which contributed to the economic crisis, which included structural economic, political, and social weaknesses that were long-term and short-term, domestic and international. In addition to those shortcomings, the situation was worsened by Indonesia's pre-existing external debt and unregulated capital mobility, careless macroeconomic management, entrenched corruption, and mismanagement of the crisis by the incumbent authoritarian government. Eventually the regime suffered loss of legitimacy and confidence after detrimental IMF policies aggravated the crisis and occasioned more political instability.²⁹⁰

²⁸⁸ Arief, *Teori*, 423-434.

²⁸⁹ Wie, "Soeharto Era," 197 and 234.

²⁹⁰ Hal Hill, *The Indonesian Economy*, 272-283; Mohammad Sadli, "Indonesian Crisis," 18-19; John Bresnan, "United States," 88.

Indonesia's economy had experienced a steeper decline than any other East or Southeast Asian country. Indonesian observers argued that the authoritarian political system was the reason Indonesia failed to react effectively to the crisis. According to McBeth, a democracy could have responded better to the challenge.²⁹¹ The democratic advantage was clearly seen in the cases of Thailand and South Korean, where a transition to a more open and democratic popular-based regime was the key to building confidence in the government and a more successful rehabilitation process.²⁹²

2.8. Chapter Eight: Indonesian Economic Development in the Post-New Order Period: Social Justice, Neo-Liberalism, and the Continuing Debate

Indonesia has seen much change since the fall of the New Order regime. The country has been on its way towards a more liberal political and economic policy. President Habibie's government instituted reforms in 1999 when it passed two decentralization laws through parliament, although these still preserve the central government's exclusive control over the main sources of revenue of the regions and over the bulk of government enterprises.²⁹³ In 1999 Indonesia held its first general free election since 1955, and in 2004 it held the first-ever direct presidential election. Also in 2004 elections were held for members of the House of Representatives and the newly-formed Regional Representative Council (the equivalent to the United States Senate). The elections were conducted under a representative-democratic system combined with direct popular vote, which further

²⁹¹ John McBeth, "Political Update," in *Post Soeharto Indonesia: Renewal or Chaos?*, ed. Geoff Forrester (The Netherlands: KILTV and Institute of Southeast Asian Studies, 1999), 21-22.

²⁹² Sadli, "Indonesian Crisis," 19; R. William Liddle, "Indonesia's Unexpected Failure of Leadership," in *The Politics of Post-Suharto Indonesia*, ed. Adam Schwartz and Jonathan Paris (New York: Council on Foreign Relations Press, 1999), 38.

²⁹³ Nordholt, "Decentralisation," 37-38. During his short tenure as president, Habibie decided to offer East Timor an option for independence. The decision angered many nationalists as well as the military, and would cost him his chance at presidential re-election in October 1999. However, the United Nations welcomed the decision and held a referendum resulting in the independence of East Timor in January 1999. Kingsbury, *Politics of Indonesia*, 299-300.

guaranteed the people's sovereignty based on the Amended Constitution of 1945. The first and second direct presidential elections (2004 and 2009) resulted in the election of President Yudhoyono.²⁹⁴ In addition, political parties and parliaments have functioned effectively to control government policies, to undertake legislative functions, and to become instruments of political disagreement, and the Indonesian press enjoys genuine freedom.²⁹⁵

The Indonesian economy in the post-New Order period has achieved a degree of macroeconomic stability.²⁹⁶ Economic development policies of post-New Order Indonesian governments have been developed under International Monetary Fund (IMF) advice and pressure from its Neoliberal agenda. Richard Robison and Kevin Hewison identify some core elements of the neo-liberal project as “[... emphasizing] the market, fiscal discipline, trade, investment and financial liberalization, deregulation, decentralization, privatization and a reduced role for the state.”²⁹⁷ Such measures, coupled with regulatory reform and the rule of law in a range of related economic, social and political policies, have been beneficial to macroeconomic improvement and have facilitated economic stability.²⁹⁸

However, these more liberal political and economic policies that Indonesia has undergone since 1998 have not necessarily reduced the long-term problems of poverty, corruption and inefficiency, and social and economic inequality. The main beneficiaries of political democracy and Neoliberal economic policies are the same

²⁹⁴ Donald K. Emmerson, “What is Indonesia?” in *Indonesia: The Great Transition*, ed. John Bresnan (Lanham: Rowman & Littlefield Publishers, 2005), 39; Soesastro and Atje, “Survey,” 1.

²⁹⁵ Robison and Hadiz, “Indonesia: Crisis, Oligarchy, and Reform,” 113.

²⁹⁶ Robison and Hewison, “Introduction,” ix; Soesastro and Atje, “Survey,” 7; Kingsbury, *The Politics of Indonesia*, 114-115; Sadli, “Indonesian Crisis,” 21.

²⁹⁷ Robison and Hewison, “Introduction,” ix.

²⁹⁸ Robison and Hewison, “Introduction,” 21.

old players: “the New Order’s politic-business oligarchies” and crony capitalists.²⁹⁹

This development could be discerned from Robison and Hewison’s observation that

[...] it is now evident that the new Indonesian democracy has not been able to assert its authority over a state apparatus (and its corps of officials) that had evolved under Suharto into a crude mechanism for allocating power and resources. Moreover, the power and influence of politicians, tycoons, and officials have not been subordinated to a rule of law and the authority of the courts, and thus money politics and the authority of political bosses have instead appropriated the institutions of democratic governance.³⁰⁰

They further detect that many elements of the authoritarian New Order are able to dominate the democratic system and reap the benefits of Indonesia’s recent democracy by using their abundance resource.”³⁰¹

Although economic growth has been stable and in general the economy is in quite good shape, according to Ross H. McLeod there has been disappointment and pessimism about the future.³⁰² He observes that although some progress has occurred in instituting good corporate governance, this has not taken place as expected.³⁰³ Corruption is still an acute problem and there has even been a flourishing of such behaviour at the level of local government. But the vigorous campaign by the *Corruption Eradication Commission* (KPK) to prosecute corrupt officials shows at least an increased determination to act against corruption.³⁰⁴ Poverty reduction still poses the biggest challenge for Indonesia and this issue has overshadowed current government achievements. Although in the current global economic recession the slowdown was much less pronounced in Indonesia than anywhere else in Southeast Asia, Indonesia still trails behind its neighbours in terms of health care, education, and other basic services, while weak government

²⁹⁹ Robison and Hadiz, *Reorganizing Power*, 3.

³⁰⁰ Robison and Hadiz, “Indonesia: Crisis, Oligarchy, and Reform,” 112.

³⁰¹ Robison and Hadiz, “Indonesia: Crisis, Oligarchy, and Reform,” 113-114.

³⁰² Ross H. McLeod, “Survey of Recent Developments,” *Bulletin of Indonesian Economic Studies* 44, no. 2 (2008): 183 and 184.

³⁰³ McLeod, “Survey,” 44, 183-184.

³⁰⁴ McLeod, “Survey,” 44, 184.

institutions discourage investors and undermine services to the poor.³⁰⁵ The unemployment rate in Indonesia was last reported at 6.56 percent in August of 2011.³⁰⁶ Indonesia discontinued IMF programs on December 31, 2003 and chose not to receive further funding on the basis that the government was successful in minimizing risks which reassured the market and fostered international confidence in the country. Since then, the Indonesian government has had only periodic meetings with the IMF for policy discussions, and had paid off all its debt to the IMF by 2007.³⁰⁷

The IMF-directed economic policies in the era of Reformation or the post-New Order regime period have been challenged and criticized, especially by proponents of economic populism and statist-nationalism and even by a prominent proponent of New Order pragmatic-economic liberalism. What follows are a few examples of reactions and criticism. Mohammad Sadli³⁰⁸ expressed his concern that the IMF prescriptions for economic and fiscal policy of the post-New Order regime government “may contain a hidden agenda which reflects the values or interests of its major shareholders.”³⁰⁹ In an article examining the causes of the 1997-1998 crises in Indonesia, he clearly links this hidden agenda to interests of U.S. multinational companies and protection of domestic markets against forceful

³⁰⁵ Thee Kian Wie and Siwage Dharma Negara, “Survey of Recent Developments,” *Bulletin of Indonesian Economic Studies* 46.3 (2010): 279 and 302-303; McLeod, “Survey,” 44, 182-184, 195 and 197-207.

³⁰⁶ Trading Economics, “Indonesia Unemployment Rate: January 2010—June 2012,” Trading Economics, <http://www.tradingeconomics.com/indonesia/unemployment-rate>.

³⁰⁷ Kwik Kian Gie, *Kebijakan Ekonomi Politik dan Hilangnya Nalar* (Jakarta: Kompas, 2006), 101-102; John Bresnan, “Economic Recovery and Reform,” in *Indonesia: The Great Transition* (Lanham, MD: Rowman & Littlefield Publishers, 2005), 226; BBC News, Business, “Indonesia Regains Investment Grade after 14 Years,” British Broadcasting Corporation, December 15, 2011, <http://www.bbc.co.uk/news/business-16211521>.

³⁰⁸ Professor Sadli was former Minister of Human-Power (1971-1973) and Minister of Mining (1973-1978). He was among the “pragmatic technocrats” who played a large role in determining the direction of economic policy in the early days of the New Order regime in 1967. Although he was well-known as a pro-business minister and urged for market mechanisms to play a role, he held the view that the success of economic expansion would depend not only upon market forces but also upon the nature of state intervention. Chalmers and Hadiz, “Notes on the Authors,” xv; Chalmers and Hadiz, “Pragmatic Technocrats,” 42.

³⁰⁹ Sadli, “Indonesian Crisis,” 21.

competition from labor intensive industries in large developing countries.³¹⁰ According to him, although from an economic and technocratic standpoint IMF supervision over the Indonesian government's economic policies has been a blessing in disguise, the IMF's insistence "on completely opening up international trade-- that is removal of remaining tariff and non-tariff barriers-- may decimate fledging domestic companies."³¹¹ Sadli admitted that economic efficiency is essential; however, social and political equity are equally important. For him, the government should always treat national aspirations as an inseparable part of its economic policy. He therefore urged low-income developing countries to act slowly in liberalizing capital markets.³¹²

The second response is from M. Dawam Rahardjo, a prominent public intellectual and critic of Indonesia's economic policy and a proponent, in the late 1970s through the 1980s, of the dependency thesis criticizing the economic development policy of the New Order regime. But since the early 1990s, following international political and economic developments such as the demise of Communist states and the end of the Cold War, China and Vietnam's transitions toward market economies, globalization and technological advancement, and the economic success and prosperity of Asian Tigers, he gradually shifted his framework of analysis to a moderate position on the left-right spectrum.³¹³ He recently argued that a new social-democratic front, incorporating aspects of Anthony Giddens's "Third Way" approach and modified to fit the Indonesian context, offers a viable alternative to the

³¹⁰ Sadli, "Indonesian Crisis," 22.

³¹¹ Sadli, "Indonesian Crisis," 21.

³¹² Sadli, "Indonesian Crisis," 22-23.

³¹³ Garry Rodan, Kevin Hewison, and Richard Robison, "Theorising Markets in South-East Asia: Power and Contestation," in *The Political Economy of South-East Asia: Markets, Power, and Contestation*, 3rd ed., ed. Garry Rodan, Kevin Hewison, and Richard Robison (Oxford University Press, 2006), 9-10; Robison and Hewison, "Introduction," xiv-xix; Anthony Giddens, *The Third Way and its Critics* (Cambridge, UK: Polity Press in association with Blackwell Publishers Ltd., 2000), 1-2; Anthony Giddens, *The Third Way: The Renewal of Social Democracy* (1998; repr., Cambridge: Polity Press in association with Blackwell Publishers Ltd., 2000), 4-5.

Neoliberal policies that have been the dominant influence on the government's economic thinking for the past decade.³¹⁴ In an attempt to move beyond the dichotomy between ideologues of the Market and those of the State, he held that working within the framework of Giddens's proposal would allow for a more effective engagement with the demands for economic justice and equality that have long been ignored under the New Order's oligarchic capitalism and the Neoliberalism of the post-*reformasi* government.³¹⁵ It would also be a step forward from Indonesia's past experimentation with socialist models of government that compromised democracy and ignored economic realities of the time, stifling pragmatic and realistic measures to improve the economy.³¹⁶ He argued that Giddens's Third Way values—i.e, equality, protection of the weak, freedom as autonomy, no rights without obligation, no authority without democracy, cosmopolitan pluralism, and philosophical conservatism—could be easily translated into pre-existing Indonesian values as expressed in Pancasila³¹⁷. Based on these principles he proposed a number of steps that the government should take to strengthen the Indonesian economy: 1) increase regional autonomy while strengthening political unity of the nation; 2) improve transparency, increase public participation, and fight corruption on all governmental levels; 3) increase administrative efficiency; 4) strengthen public participation in the democratic process; 5) base the government's legitimacy on its ability to take and manage economic risks, rather than simply security risks; and 6) develop a

³¹⁴ M. Dawam Rahardjo, "Merambah Jalan Ketiga di Indonesia," *Reform Review* 2, no. 1 (June 2008): 11-13.

³¹⁵ Rahardjo, "Merambah," 15; See Giddens, *Third Way and its Critics*, 27-37; Giddens, *Third Way: Renewal*, 99-104.

³¹⁶ Rahardjo, "Merambah," 10; See Giddens, *Third Way and its Critics*, 34-37; Giddens, *Third Way: Renewal*, 3-5.

³¹⁷ Rahardjo, "Merambah," 14; See Giddens, *Third Way and its Critics*, 50-54; Giddens, *Third Way: Renewal*, 64-68.

cosmopolitan perspective that fosters not only civil society but also an open society capable of critically absorbing and filtering outside influences.³¹⁸

A more direct criticism of the current government's Neoliberal economic policies is that of Kwik Kian Gie, a prominent economist who held the office of Coordinator Minister of Economy during the government of President Abdurrahman Wahid and served as Minister of National Development Planning under President Megawati. He argues that structural exploitation and dependency of developing countries by industrialized ones was made possible by legislative activism on the part of ideologues of the free market beginning as early as 1967 and continuing to the present day.³¹⁹ One example he presents is that of the recent amendments to the famous Article 33 of the 1945 Constitution, which gives the state responsibility over the productive sectors that affect the lives of many and designates Indonesia's economic system as a partnership/'togetherness' based on the "family affair" principle. The latter basically denotes the collectivist ideal of the constitution. The new amendments did not change the wording of the original article but did introduce new content, which Kwik Kian Gie interprets as an attempt to move the constitution away from its collectivist orientation and towards economic liberalism. Among the additions was the statement that "the national economy is to be arranged based on a democratic economy with the principles of togetherness, just efficiency, sustainability, environmental awareness, autonomy, and preserving the balance of progress and unity of the national economy; and that further regulations on this article shall be determined by legislation."³²⁰ According to Gie, with the principle of "just efficiency" in place, the principles of "togetherness" and other collectivist values could be compromised, especially if detailed elaboration of the article is left

³¹⁸ Rahardjo, "Merambah," 14-15.

³¹⁹ Kwik Kian Gie, "Siasat Liberalisasi Ekonomi," *Reform Review* 2, no. 1 (June 2008): 36-37.

³²⁰ Constitution of the Republic of Indonesia of 1945, amend. art. 33, chapt. 14.

up to legislation.³²¹ He cites as one example of this the 2001 Law No. 22 on oil and gas that allowed price increases of up to 126% in accordance with the prices determined by the market mechanism of the New York Stock Exchange. Though the Constitutional Courts declared this piece of legislation in violation of the constitution, the government and parliament ignored the Courts with impunity.³²²

Adi Sasono, a former Minister of Cooperative and Small Enterprise Development in the President Habibie's cabinet (1998-1999) and current head of the Dekopin (the National Council of Cooperatives), is another contemporary figure who has consistently maintained the socialist credentials of Hatta's economic thought and even aspects of Sukarno's economic populism. He sees the current government's neoliberal policies as a continuation of the New Order policy of capital growth, one that has led to the Indonesian economy's structural dependency on foreign governments and companies.³²³ In his opinion, despite the growth of Indonesia's economy during the past decade, the modus operandi of capital interests remains the same: to maintain Indonesia as a source of raw material and cheap labour, a place of capital flight, and a market for products of developed countries.³²⁴ In support of this, Sasono cites a new piece of legislation, Law No. 25/2007 passed to replace Law No. 1/1967, which had placed a number of economic sectors under State control and protection, such as drinking water, mass media, fishing, telecommunication, electricity, etc.³²⁵ Law No. 25/2007 did away with this list altogether and opened up a number of economic sectors, such as agriculture, to foreign investment. For Sasono, this legislation liberalizes the economy in ways that leave Indonesians vulnerable to foreign interest and erode their economic

³²¹ Gie, "Siasat Liberalisasi Ekonomi," 38.

³²² Gie, "Siasat Liberalisasi Ekonomi," 39.

³²³ Adi Sasono, "Adi Sasono tentang Penjarahan Ekonomi Indonesia: Mereka Terus Berusaha Melestarikan Kepincangan Struktural!" *Reform Review* 2.1 (June 2008), 53.

³²⁴ Sasono, "Adi Sasono," 53.

³²⁵ Sasono, "Adi Sasono," 54.

autonomy. He further argues that such economic liberalization is more extreme than the measures undertaken by developed countries themselves, which would implement protectionist policies in the interest of their own people.³²⁶ Under pressure from the IMF and World Bank, two major instruments of developed countries by which to influence Indonesian economic policies, the successive *reformasi* (reform period) governments have sustained the country's structural dependency upon foreign capital and loans.³²⁷

The aforementioned opinions show the persistent relevance of social justice and economic development among proponents of both statist-nationalism and populism. Indonesians today enjoy relative political stability and freedom but still endure social and economic inequality. In addition, corruption and inefficiency remain as acute and widespread as before. Similarly to the New Order government, the current government has been trying to accommodate various competing perspectives on social justice. For example, the Ministry of Cooperative and Development of Small Business has been defended as a public means to protect small businesses, farmers, and the informal sector. The debate on how a just and prosperous society should best be achieved is as lively and important today as it was during the early Independence period.

In conclusion, the idea of social justice is clearly rooted in the Indonesian historical experience of oppressive, exploitative, and discriminative Dutch colonial policies which, based on racial differences and driven by economic interests, resulted in impoverishment and socio-economic disparities. These conditions encouraged Indonesian nationalist leaders and intellectuals under colonial rule to take inspiration from a variety of ideological streams and resources, including

³²⁶ Sasono, "Adi Sasono," 54.

³²⁷ Sasono, "Adi Sasono," 54.

Islamic teachings, to elevate social justice one of the basic guiding objectives of their struggle for independence. Successive post-independence Indonesian governments have faced various political, economic, and social problems in realising this objective. Furthermore, opinions differed on how to employ the principle of justice in politics and economic development policy; these were manifested in the tension between freedom, equality, efficiency, economic growth, and stability. Different actors—governments, public intellectuals, politicians—adopted diverse economic policies, political systems and even ideological inclinations to solve these issues and to realize the ideal of a just and prosperous society. The liberal parliamentary system allowed for broad political participation but failed to adequately raise the level of economic performance. Those who put emphasis on freedom, rationality and efficiency were confronted by forces that emphasized populist and collectivist equality. The confrontation created social and political instability. Mass mobilization and ‘ongoing revolution’ under Sukarno’s systems of Guided Democracy and Economy created economic stagnation and social-political instability. In this period priority was given to populist and collectivist equality while freedom and efficiency were reduced and disregarded. The New Order army-dominated regime was able to generate economic growth. However, as we have seen, this was achieved at the expense of political participation and social development. Preeminence was given to efficiency and stability, while freedom and equality were seen as lesser concerns. All these factors engendered political, economic, and social instabilities in Indonesia during most of the second half of the twentieth century that culminated in the economic and political crises of 1998. In the post-New Order period Indonesia has had democratically-elected governments that have implemented pro-market Neoliberal economic policies. Although successive Indonesian governments embraced different, and at times even opposite,

economic development strategies, political frameworks, and ideological orientations, they nonetheless all expressed strong concern for the interests of the common people and for social justice in their development policies.

PART THREE: THE IDEA OF SOCIAL JUSTICE IN WESTERN AND ISLAMIC THOUGHT

In the previous section, we examined the historical background of the discourse on social justice among Indonesian nationalist leaders and intellectuals. The prominence of this discourse can be traced to their desire to emancipate Indonesians from the experience of colonialism that deprived most of them of freedom and prosperity. This tradition of local discourse forms an important aspect of Sjafruddin's thinking on the issue. Sjafruddin also spoke as a Muslim leader and intellectual, and his contribution to the discourse of social justice and development should be viewed from a distinctly Indonesian modernist Islamic perspective. Furthermore, he was also a scholar who was trained, during the formative period of his education, in the Dutch system with its secular and European orientation. In this section, therefore, I will briefly discuss the idea of social justice in both Western and Islamic thought. By taking into consideration these two historical contexts we are in a better position to appreciate Sjafruddin's eclectic thought that integrated both Western and Islamic traditions. This will prepare the ground for a critical analysis, in part five, of Sjafruddin's unique contribution to Islamic modernist thinking about social justice.

3.1. Chapter One: The Idea of Social Justice in Western Thought

The idea of social justice emerged in the early twentieth century and its increased popularity, especially after the publication of John Rawls' *A Theory of Justice* in 1971, was one of the most prominent developments in the history of

political philosophy in the West.³²⁸ The concept of social justice has been interpreted differently in various periods throughout history. Ancient philosophers such as Plato defined justice as “performing the function(s) for which one’s nature is best fitted,”³²⁹ and argued that true justice could flourish only if the rulers were philosophers/guardians who exercised authority over the polity.³³⁰ The three social classes—the philosophers/guardians, the soldiers/auxiliaries and the workers/businessmen—were allowed to perform their respective functions on the basis of a clear division of labor.³³¹ According to Solomon and Murphy this notion of justice “makes more sense with ‘righteousness’ than with justice” and denotes an understanding of justice as inequality.³³² Plato’s idea of justice also signifies the importance of the “totalitarian state” as defined by Popper, a society where individuals depend on the state to guarantee their existence.³³³

In *Nicomachean Ethics*, Aristotle used the word *dikaiosune* (which more properly means ‘righteousness’) and identified justice as a virtue. He classified justice into “distributive” and “rectificatory” types and defined it as fairness and equality (proportion) and a mean between extremes.³³⁴ Insight into social change and mobility was thus absent in the ancient Greek philosophers’ conception of

³²⁸ Matthew Clayton and Andrew Williams, “Introduction,” in *Social Justice*, ed. Matthew Clayton and Andrew Williams (Malden, MA: Blackwell Publishing, 2004), 1; Will Kymlicka, *Contemporary Political Philosophy: An Introduction*, 2^d ed. (Oxford: Oxford University Press, 2002), 53-55.

³²⁹ Robert C. Solomon and Mark C. Murphy, “Plato, ‘Justice in the State and in the Soul,’ from the Republic (ca. 380 B.C.),” in *What is Justice? Classic and Contemporary Readings*, 2nd ed., ed. Robert C. Solomon and Mark C. Murphy (New York: Oxford University Press, 2000), 22. The concept of distributive justice is a classic concern in philosophy as discussed in Plato’s *Republic* and Aristotle’s *Nicomachean Ethics*. See Plato, *The Republic*, trans. Desmond Lee, 2nd rev. ed. (New York: Penguin Books, 1987), 196-224, and Aristotle, *Nicomachean Ethics*, trans. Terence Irwin (Indianapolis: Hackett Publishing, 1985), 122-125.

³³⁰ Solomon and Murphy, “Plato,” 22.

³³¹ Plato, *The Republic*, 198-199, 206, 209 and 218.

³³² Solomon and Murphy, “Plato,” 22.

³³³ Karl Popper, *The Open Society and its Enemies*, (Princeton, NJ: Princeton University Press, 1950), 79 and 86-88.

³³⁴ Robert C. Solomon and Mark C. Murphy, “Aristotle, ‘The Various Types of Justice,’ from the Nicomachean Ethics (ca. 322 B.C.),” in *What is Justice? Classic and Contemporary Readings*, 2nd ed., ed. Robert C. Solomon and Mark C. Murphy (New York: Oxford University Press, 2000), 35-39 and 42; Aristotle, *Nicomachean Ethics*, 122-126.

justice. Instead, they thought of justice as a situation in which each person was to duly perform his or her proper role in the community. Only when this social order was maintained could the state be strong and flourish.³³⁵

Aristotle's idea of distributive justice and other Greek philosophies of justice reached the Western world through the works of medieval thinkers such as Saint Thomas Aquinas (1224-1274).³³⁶ In Aquinas' view justice was a cardinal virtue, inherent in the laws of nature and reflected through human conduct. Justice, then, was grounded in the natural order of the world and could be discovered through the efforts of human reason. Human society ought to be modeled in accordance with the order of the natural order, and as such ought to reflect its cosmological hierarchy. The notion of equality in society thus follows this hierarchical model, treating persons according to their innate natures and societal functions. However, Christian thinkers like Aquinas added the supernatural-theological virtues of faith, hope, and charity, grounded in Christian theological belief of Christ as God-incarnate and savior of humanity, to these virtues that are grounded in nature.³³⁷

Unlike ancient and medieval theories of justice which were conceived, as we have seen, within the framework of virtue ethics, a particular kind of human excellence in moral conduct, modern theories have been designed to deliver social change and reform in the name of fairness.³³⁸ In addition, justice received normative groundings as duty and responsibility in Kantian deontological ethics.³³⁹

³³⁵Popper, *The Open Society*, 86-90.

³³⁶ Robert C. Solomon and Mark C. Murphy, "Thomas Aquinas, 'The Nature of Justice,' from *Summa Theologia* (1274)," in *What is Justice? Classic and Contemporary Readings*, 2nd ed., ed. Robert C. Solomon and Mark C. Murphy (New York: Oxford University Press, 2000), 35 and 49-55.

³³⁷ Solomon and Murphy, "Thomas Aquinas," 49; Alasdair MacIntyre, *A Short History of Ethics* (New York: Macmillan, 1966), 117-118; Roland N. Stromberg, *An Intellectual History of Modern Europe*, 2nd ed. (Englewood Cliffs, New Jersey: Prentice-Hall, 1975), 70-72.

³³⁸ Miller, *Principles of Social Justice*, 4.

³³⁹ MacIntyre, *Ethics*, 84 and 192-198. The differences between Greek philosophical ethics and modern ethics are described by Alasdair MacIntyre as follows: "Greek philosophical ethics differs from later moral philosophy in ways that reflect the difference between Greek society and

Furthermore, in the history of modern Europe, social contract theory has been important to the concept of justice. The theory was a response to the questioning of the legitimacy of the state to make and carry out laws and to punish offenders. Responding to the question of whether the state is legitimate if it is just, social contract theory argues that states and governments are legitimate if they are formed and supported by the mutual agreement of their citizens.³⁴⁰ Social contract theories assume a “state of nature” that describes the parties involved before the agreement is formed. Depending on how theorists view human nature, the initial situation—in the absence of justice accorded by the social contract—can be antagonistic (Hobbes) or more or less sociable in some primitive order (Locke and Rousseau). Whatever the view of human nature, however, social contract theories assumed that agents acted rationally when entering into the social contract. This rationality was based on a self-interested calculation of whether the potential benefit of cooperation—the establishment of normative structures—outweighed the conditions of the “natural state” before the formation of the social contract. For Hobbes, this led to the establishment of the state based on social contracts among autonomous individuals. However, this emphasis on restricting natural human impulses meant that the preservation of social order, as the ultimate purpose of any social arrangement, was a pragmatic affair, and could therefore justify coercive, absolute rule.³⁴¹ Justice, then, was the condition whereby this social stability was preserved through the right of

modern society. The concepts of duty and responsibility in the modern sense appear only marginally; those of goodness, virtue, and prudence are central. The respective roles of these concepts hinge upon a central difference. In general, Greek ethics asks, what ought I to do if I am to fare well? Modern ethics asks, what ought to do if I am to do right? And it asks this question in such a way that doing right is made something quite independent of faring well.” (See also William K. Frankena, *Ethics* (Englewood Cliffs, NJ: Prentice-Hall, 1963), 25-28 and 30-33.

³⁴⁰ Solomon and Murphy, eds., *What is Justice? Classic and Contemporary Readings*, 2nd ed. (New York: Oxford University Press, 2000), 59.

³⁴¹ Thomas Hobbes, “The State of Nature and the Laws of Nature,” in *What is Justice? Classic and Contemporary Readings*, 2nd ed., ed. Robert C. Solomon and Mark C. Murphy (New York: Oxford University Press, 2000), 60 and 68-69.

governance.³⁴² For Locke, on the other hand, the establishment of the State was necessary in order to guarantee the preservation of property through a certain ordering of society. However, because the natural state of human beings, according to Locke, was one of liberty and the right to ownership, the state must not intervene unduly in people's lives.³⁴³ Similarly, for Rousseau, the state did not function to create 'order', but rather to realize as best as possible the natural conditions of humanity, in the context of a modern civilization that has created excessive social inequalities.³⁴⁴

Thus the idea of social change in justice can be discerned from Rousseau's theory. As David Miller writes, the modern concept of social justice is oriented towards society, to effect change in social structure and conditions. He traces the current discussions on social justice to liberal social philosophers of the late nineteenth century in their various treatises on political economy and social ethics.³⁴⁵ This period witnessed increasing ethical and political oversight of prevailing economic and social institutions and the dramatic rise of socialist movements as genuine contenders for political power. These developments ultimately led to significant changes in the market economy, including some existing property rights, as well as in the character of the state, as policies were reformulated to facilitate the just distribution of social resources. During this period, however,

³⁴² Hobbes, "State of Nature," 63 and 70-71.

³⁴³ Locke, "The State of Nature and the Social Contract," in *What is Justice? Classic and Contemporary Readings*, 2nd ed., ed. Robert C. Solomon and Mark C. Murphy (New York: Oxford University Press, 2000), 60, 74 and 79.

³⁴⁴ Rousseau, "From the State of Nature to Citizenship," in *What is Justice? Classic and Contemporary Readings*, 2nd ed., ed. Robert C. Solomon and Mark C. Murphy (New York: Oxford University Press, 2000), 60, 81, 89-91.

³⁴⁵ Miller, *Principles of Social Justice*, 2-6. According to Miller, there was much debate on the merit of other systems of economic organization and arrangement of private property. The concept of social justice was occasionally mentioned by British writers such as John Stuart Mill, Leslie Stephen, and Henry Sidgwick, as a part of distributive justice as a whole.

social justice was still strongly associated with the old concept of distributive justice.³⁴⁶

Miller also discusses significant elaborations on social justice theories developed in the first half of the twentieth century by scholars such as Westel Willoughby, L. T. Hobhouse, and T. N. Carver as well as by Pope Pius XI in his encyclical *Divini Redemptoris*.³⁴⁷ Miller considers these theories to contain ideas of an organic conception of society. Miller argues that beyond guaranteeing fair treatment of individuals, social justice also promotes strong economic activities which, pursued in a safe and orderly atmosphere, contribute to the health of the social body and to the prosperity and progress of society through the cooperation of its elements. In this view, Miller concludes that “[t]he aim of social justice is to specify the institutional arrangements that will allow each person to contribute fully to social well-being”.³⁴⁸ Matthew Clayton and Andrew Williams argue that the question of social justice arises when decisions are made regarding “the distribution of benefits and burdens between different individuals or groups”.³⁴⁹ Similarly, Miller suggests that the nature of this distribution is the main concern of social justice. As such, he sees an unjust policy or condition as a case in which a certain individual or group receives or enjoys either more or less than what they ought to, compared to other members of society.³⁵⁰ Social justice, for this purpose, requires that the state act as an institutional structure to carry out legislative and policy changes that affect every individual, and to enact purposeful reforms in the name of fairness.³⁵¹ He argues that only nation-states are able to ensure the successful implementation of

³⁴⁶ Miller, *Principles of Social Justice*, 2-3.

³⁴⁷ Miller, *Principles of Social Justice*, 3-4 and 270-271.

³⁴⁸ Miller, *Principles of Social Justice*, 4 and 270- 271. Miller also mentions, quoting T.N. Carver, the suggestion that establishing just social institutions ensures not only fair treatment for individuals but also contributes to national survival and prosperity.

³⁴⁹ Clayton and Williams, “Introduction,” 1.

³⁵⁰ Miller, *Principles of Social Justice*, 1 and 10.

³⁵¹ Miller, *Principles of Social Justice*, 4-6.

principles of justice. Furthermore, he defers to the future the idea of realising global justice.³⁵²

A significant development in Western theory of social justice occurred in 1971 with the publication of John Rawls' *A Theory of Justice*. Rawls' theory of social justice was grounded on two sets of principles. First, "each person is to have an equal right to the most extensive system basic liberties compatible with a similar system of liberties for all". Second, "social and economic inequalities are to be arranged so that they are both to the greatest benefit of the least advantaged and attach to offices and positions open to all under conditions of fair equality of opportunity".³⁵³ Rawls further explains that: "All social primary goods—liberty and opportunity, income and wealth, and the bases of self-respect—are to be distributed equally unless an unequal distribution of any all of these goods is to the advantage of the least favored".³⁵⁴ Rawls comes to this view through the device of the social contract, a thought experiment known as the "original position" which describes a situation where people building a political order are kept behind a "veil of ignorance", unaware of their social, historical and personal context. They know only general facts about human beings and human societies. In such a situation, the subjects come to agree upon the fundamental components of social justice.³⁵⁵

With this theory, Rawls argues for a principled reconciliation of liberty and equality, and he sought to prove that social justice could be the basis for unity,

³⁵² Miller, *Principles of Social Justice*, 18-19. Miller presents three features of nation-states that make possible the application of principles of justice: national identities, national political cultures, and the ability of nation-states to generate solidarity to encourage mutual trust and to penalize defaulters. So far none of these features can be provided by an international or global institution.

³⁵³ Rawls, *A Theory of Justice*, 60; John Rawls, *Political Liberalism* (New York: Columbia University Press, 1993), 5-6. A variant formulation also appears in Rawls, *Justice as Fairness*, 42-43.

³⁵⁴ Rawls, *A Theory of Justice*, 303.

³⁵⁵ Rawls, *A Theory of Justice*, 150-156, 118-122 and 136-137; Solomon and Murphy, *What is Justice?*, 281.

stability, prosperity and sustainability of a society or nation.³⁵⁶ The most fundamental idea in Rawls' conception of justice as fairness is "the idea of society as a fair system of social cooperation over time from one generation to the next."³⁵⁷ Citizens who engaged in this social cooperation were people with "the capacity for a sense of justice: it is the capacity to understand, to apply, and to act from (and not merely in accordance with) the principles of political justice that specify the fair terms of social cooperation".³⁵⁸ Such citizens also possessed "the capacity to have, to revise, and rationally to pursue a conception of the good."³⁵⁹ Another fundamental component of Rawls' theory of justice is the idea of a basic structure (of well-ordered societies), being "the way in which the main political and social institutions of society fit together into one system of social cooperation, and the way they assign basic rights and duties and regulate the division of advantages that arises from social cooperation over time."³⁶⁰ This basic framework consisted of "[t]he political constitution with an independent judiciary, the legally recognized forms of property, and the structure of the economy (for example, as a system of competitive markets with private property in the means of production), as well as the family in some form."³⁶¹

Rawls' book occupies a considerable place in discussions about social justice in contemporary history for at least two reasons. First, Rawls' theory of social justice is a critique of and viable alternative to utilitarianism, the dominant and most influential theory of justice in Western philosophy throughout the twentieth century. Utilitarianism, first developed in the eighteenth and nineteenth centuries by

³⁵⁶ Rawls, *A Theory of Justice*, 3-6; Rawls, *Justice as Fairness*, 1-9. Miller, *Principles of Social Justice*, 271.

³⁵⁷ Rawls, *Justice as Fairness*, 5.

³⁵⁸ Rawls, *Justice as Fairness*, 18-19.

³⁵⁹ Rawls, *Justice as Fairness*, 19.

³⁶⁰ Rawls, *Justice as Fairness*, 10.

³⁶¹ Rawls, *Justice as Fairness*, 10.

David Hume, Adam Smith, Jeremy Bentham, John Stuart Mill, and Henry Sidgwick, claimed that “the most plausible principle of social justice requires institutions that maximize the sum of benefits and burdens.”³⁶² The main idea of utilitarianism, according to Rawls, was that a society is just when “its major institutions are arranged so as to achieve the greatest net balance of satisfaction summed over all the individuals belonging to it.”³⁶³ The second reason for Rawls’ importance in contemporary discussions on justice is the impact and influence generated by *A Theory of Justice* in political philosophy and other academic disciplines. No study on justice now can avoid direct engagement with the work of Rawls. His theories receive both appreciation and criticism and continue to be a rich source of ideas and debate.³⁶⁴ In Nancy L. Rosenblum’s opinion, Rawls’ *A Theory of Justice* is one of the most influential works in political philosophy. She suggests that “[f]or almost twenty years, Rawls and other theorists have worked to broaden liberalism’s foundations

³⁶² Clayton and Williams, “Introduction,” 3.

³⁶³ Rawls, *A Theory of Justice*, 22. Rawls rejects utilitarianism on the argument that “it fails to provide a secure foundation for liberal, democratic freedoms, or to accommodate the conviction that individual rights, and distributive considerations, have fundamental rather than merely derivative moral importance.” Clayton and Williams, “Introduction,” 3; MacIntyre, *Ethics*, 232-244; John Stuart Mill, “Utilitarianism,” in *The Philosophy of John Stuart Mill: Ethical, Political and Religious*, ed. Marshall Cohen (New York: The Modern Library, 1961), 330.

³⁶⁴ Solomon and Murphy, *What is Justice?*, 279. Robert Nozick, a colleague and important opponent of Rawls’, developed an entitlement conception of justice in which the justness of a distribution is determined by rules of just acquisition and transfer, as an alternative to Rawls’ ‘justice as fairness’. Clayton and Williams, “Introduction,” 3, 5 and 6; Robert Nozick, *Anarchy, State, and Utopia*. New York: Basic Books, Publishers, 1974), 150-183. Rawls, in Brian Barry’s opinion, is the most original and interesting political philosopher of the twentieth century. In Barry’s assessment, Rawls’ attempt to argue that the difference principle can be derived from the original position has been widely rejected. Brian Barry, *Theories of Justice: A Treatise on Social Justice*, vol. 1 (Berkeley: University of California Press, 1989), 147-148 and 214. Michael Walzer rejects neo-Kantian deontologist universalism as developed by Rawls. He emphasizes that “[j]ustice is a human construction, and it is doubtful that in can be made in only one way.” He argues that “that the principles of justice are themselves pluralistic in form; that different social goods ought to be distributed for different reasons, in accordance with different procedures, by different agents; and that all these differences derive from different understanding of the social goods themselves—the inevitable product of historical and cultural particularism.” Because justice “is rooted in the distinct understandings of places, honors, jobs, things of all sorts, that constitute a shared way of life,” it is unjust to disregard those understandings. Walzer, *Spheres of Justice*, 5-6 and 314; David Boucher, “British Idealism and the Just Society,” in *Social Justice: From Hume to Walzer*, ed. David Boucher and Paul Kelly (London: Routledge, 1998), 95-98.

beyond its conventional basis in Locke, drawing on sophisticated versions of social-choice theory and on the moral and political arguments of Kant and Hume.”³⁶⁵

Lately, issues of social justice have dominated the intellectual scene in political philosophy. For instance, there has been a change in much of contemporary political theory in Britain and the United States of America to focus more on issues of distribution, justification of claims of justice, and the interpretation of equality.³⁶⁶ Likewise, popular topics in contemporary political philosophy are the ideals of justice, freedom, and community. In Will Kymlicka’s opinion, the subjects of the meaning of power, sovereignty, or the nature of law, as well as the political spectrum of left and right, have been increasingly abandoned.³⁶⁷ Ronald Dworkin suggests that the idea that “each person matters equally is at the heart of all plausible political theories.”³⁶⁸ Social justice issues are so central to contemporary political philosophy that Kymlicka concludes that “the idea of an egalitarian plateau for political argument is potentially better able to accommodate both the diversity and unity of contemporary political philosophy.”³⁶⁹ Debates on social justice persist to this day and have expanded to encompass various issues such as (economic)

³⁶⁵ Nancy L. Rosenblum, “Introduction,” in *Liberalism and the Moral Life*, ed. Nancy L. Rosenblum (Cambridge, MA: Harvard University Press, 1989), 1.

³⁶⁶ David Boucher and Paul Kelly, “Introduction,” in *Social Justice: From Hume to Walzer*, ed. David Boucher and Paul Kelly (London: Routledge, 1998), 1; Kymlicka, *Contemporary Political Philosophy*, 3-4. The changes include a central aim of political philosophy, which according to Kymlicka “is to evaluate competing theories of justice to assess the strength and coherence of their arguments for the rightness of their views.” Kymlicka, *Contemporary Political Philosophy*, 6.

³⁶⁷ Kymlicka, *Contemporary Political Philosophy*, 1-4.

³⁶⁸ Kymlicka, *Contemporary Political Philosophy*, 4.

³⁶⁹ Kymlicka, *Contemporary Political Philosophy*, 4-5; Clayton and Williams, “Introduction,” 1; Boucher and Kelly, “Introduction,” 2-3. Boucher and Kelly describe how renewed interest in social justice has also occurred in contemporary democratic countries since the 1990s, after they experienced economic downturns and burgeoning welfare budgets. Although the situation in many of those countries, such as the United Kingdom, was not favorable for the implementation of more rigorous social justice policy, the study of social justice as a central part of public political discourse was encouraged by a British Commission on Social Justice.

development,³⁷⁰ international social justice,³⁷¹ cultural rights, the environment, the community, the family, and morality theory, among others.³⁷²

In conclusion, the previous discussion explored the importance of the concept of justice in the history of Western thought, showing how ideas of social justice differed in ancient Greece, medieval Christianity, and contemporary political philosophy. It presented the importance of social contract theory in the development of the concept of justice in the history of modern Europe, above all the significant place occupied by John Rawls' *A Theory of Justice* in contemporary discourse, as well as expanding debates on social justice to various issues.

3.2. Chapter Two: The Idea of Social Justice in Early and Classical Islamic Thought

The prominence of the subject of justice in the history of Islamic thought can be ascribed first and foremost to the Qur'an and the Sunnah/Hadith (traditions of the Prophet Muhammad). Notwithstanding that the scriptures clearly command Muslims to implement justice in their personal life and social conduct,³⁷³ Yūsuf al-

³⁷⁰ Amartya Kumar Sen, *Development as Freedom* (Oxford: Oxford University Press, 1999).

³⁷¹ Chris Brown considers Martha C. Nussbaum's efforts to combat the relativism prevalent in much of the current thinking on development ethics to be promising in terms of advancing the discussion of the conceptual gap between justice in a world of states and global social justice. Instead of thinking about international relations in terms of justice, it approaches the issue in terms of ethics, arguing that "there are certain human capabilities which all societies ought to allow to develop and that this requirement allows us to determine which forms of 'difference' are acceptable, and which are not...her universalism rests upon the existence of certain common situations that all human beings must face rather than on Aristotelian biology as such." Chris Brown, "International Social Justice," in *Social Justice*, ed. David Boucher and Paul Kelly (London: Routledge, 1998), 113-115; See Martha C. Nussbaum, "Non-Relative Virtues: An Aristotelian Approach," in *The Quality of Life*, ed. Martha Nussbaum and Amartya Sen (Oxford, England: Oxford University Press, 1993), 263-267; Martha Nussbaum and Amartya Sen, "Introduction," in *The Quality of Life*, 5.

³⁷² See Clayton and Williams, *Social Justice*; Solomon and Murphy, *What is Justice?*; Boucher and Kelly, *Social Justice*.

³⁷³ Majid Khadduri, *The Islamic Conception of Justice* (Baltimore: Johns Hopkins University Press, 1984), 6. In Islamic nomenclature the most common word used to denote justice is 'adl. In addition, Khadduri points to other words that are used as synonyms of 'adl, namely: *qist*, *qasd*, *istiqama*, *wasat*, *nasib*, *hissa*, *mizan*, *haqq* and many others. Antonyms of 'adl is *jawr* (injustice, oppression, tyranny, outrage), *zulm* (wrongdoing), *tughyān* (tyranny), *mayl* (inclination), *inhirāf* (deviation) and others. In addition, some senses of the word 'adl with different meanings can be found in the Qur'an: 'adl (or 'idl) may also mean *example*, *equivalent* or *alike* (al-Mā'idah 5:95), a literal expression which is indirectly related to justice; *justice* (al-Nisā' 4:58); *upright* (al-An'ām

Qaraḍāwī concluded that “[t]hey do not lay down any specific framework for how they should be implemented.”³⁷⁴ Similarly Lawrence Rosen observed that “[j]ustice is the most essential, if indeterminate, of virtues of Muslims, because it keeps open the quest for equivalence, a quest seen as central to both human nature and revealed orderliness in the world of reason and passion.”³⁷⁵ Sūrat al-Baqarah 2:143 states that the Muslim community was created to be a just society, and from sūrat (chapter) al-Nisā’ 4:58, sūrat Ṣad 38:26, and sūrat al-Naḥl 16:90, it can be understood that it is obligatory for a ruler or government to establish and enforce the law in accordance with the principles of justice.³⁷⁶ In addition to the scripture, disputes in the early Muslim community regarding the legitimacy and qualification

6:152); *compensation* (al-Baqarah 2:123); and *equal to God* (al-An‘am 6:1). Khadduri concludes that “the literal meaning of ‘adl in Classical Arabic is thus a combination of moral and social values denoting fairness, balance, temperance and straightforwardness.” Al-Fayrūz-ābādī, a lexicographer (d. 718/c.1319), says that “‘adl (justice) is antonym of *jawr* (oppression, tyranny) and the thing that is proven in the mind as being straightforward” [*Al-‘adl: didd al-jawr, wa mā qāma fī al-nufūs annahū mustaqīm*]. Majd al-Din Muhammad bin Ya‘qub al-Fayrūz-ābādī, *Al-Qāmus ‘l-Muḥīṭ*, 7th ed. (Beirut: Al-Resalah, 2003/1424), 1030. For further explanation of the meaning of ‘adl and others, both literally and conceptually, see Khadduri, *Islamic Conception*, 5-8.

³⁷⁴ Kamali, *Freedom*, 109.

³⁷⁵ Lawrence Rosen, “Concepts of Justice,” in *The Oxford Encyclopedia of the Modern Islamic World*, ed. John Esposito (New York: Oxford University Press, 1995).

³⁷⁶ Kamali, *Freedom*, 107-113. Kamali argues that justice in Islam is both a collective obligation (*farḍ kifāya*) and a supreme virtue, while according to Rahbar, “the essential motive principle of virtuous conduct in Qur’ānic thought is fear of God the *Strict Judge*, and not fear of God the *Capricious Tyrant*.” Rahbar also maintains that the dominant note of the Qur’an is the idea of God’s justice. Daud Rahbar, *God of Justice: A Study in the Ethical Doctrine of the Qur’an* (Leiden: E. J. Brill, 1960), xiii. Other verses of the Qur’an and Hadith enjoin Muslims to do justice, as shown in the following verses: “O you believe, stand out firmly for justice, bearers of witness for God, even though it be against your own selves or your parents, or your kin—and whether it be (against) rich or poor; God has a better right over them both. So follow not (your) low desires, lest you deviate. And if you distort (justice) or turn away from (truth), surely God is ever Aware of what you do” (An-Nisā’ 4:135); “O you who believe be upright for God, bearers of witness with justice; and let not hatred of a people incite you not to act equitably. Be just; that is nearer to piety. And keep your duty to God. Surely God is Aware of what you do” (Al-Mā’ida 5:8). In a *ḥadīth qudsī*, sacred hadith, God spoke through His messenger: ‘O My slaves, I have made oppression unlawful among you, so do not oppress one another’ (Reported by Muslim). From Al-Ḥāfiẓ Ibn Ḥajar al-‘Asqalānī, *Bulūgh al-Marām min Adillat al-Aḥkam* (Riyadh: Darus Salam, 1996/1416), Ḥadīth no. 1290. Justice is the goal of all of the revealed scriptures: “Certainly We sent Our messengers with clear arguments, and sent down with them the Book and the measure, that human beings may conduct themselves with justice...” (Al-Ḥadīd 57:25). “Surely God commands justice and the doing of good (to others) and the giving to the kindred, and He forbids indecency and evil and rebellion. He admonishes you that you may be mindful” (An-Naḥl 16:90). The Prophet said in a hadith: “Beware of oppression, for oppression will turn into excessive darkness on the Day of Resurrection [...]” (Reported by Muslim). From al-‘Asqalānī, *Bulūgh al-Marām*, Ḥadīth no. 1280).

of the Prophet's successor centered on the question of justice which spawned a number of early theological positions.³⁷⁷ The civil war (656-661 CE) which followed the murder of the third Caliph, 'Uthmān bin 'Affān, in 656 CE, gradually led to the formation of three major politico-religious groups: the Sunnī,³⁷⁸ the Shī'ī,³⁷⁹ and the Khārijī.³⁸⁰ A number of theological schools also emerged during this period, including the Qadariyya, the Jabriyya, and the Murji'ah, while later schools such as the Mu'tazila,³⁸¹ the Hanbaliyya, and the Ash'ariyya traced their theological genealogy to debates during this early period.³⁸²

³⁷⁷ Khadduri, *Islamic Conception*, 5 and 15; Hamid Enayat, *Modern Islamic Political Thought*, (Austin: University of Texas Press, 1982), 4-7.

³⁷⁸ For the Sunnīs, followers of the '*Ahl al-Sunnah wa 'l-Jama'ah*, the people of middle path and unity, political justice lay in acknowledging legitimate authority through *ijmā'*, community consensus. According to their view, the Prophet did not leave any directions concerning the leadership issue. It was the right of Muslim community, after the Prophet passed away, to elect the political leader from within the Quraish to carry out justice. Khadduri, *Islamic Conception*, 15-20; Enayat, *Modern*, 5-6; Khalid Blankinship, "The Early Creed," in *The Cambridge Companion to Classical Islamic Theology*, ed. Tim Winter (Cambridge: Cambridge University Press, 2008), 42-47; Fazlur Rahman, *Islam*, 3rd ed. (Chicago: University of Chicago Press, 2002), 86-87 and 169.

³⁷⁹ The Shī'a (the partisans of 'Ali), based on the principle of designation by the Prophet and in accordance with the tradition of the Prophet (Sunnah), claimed that political justice lay in the strict perpetuation of the line of legitimate succession. The Shi'a insisted that the leadership belonged to a member of the Prophet's family and it fell to his direct biological descendants to implement justice. In later development, the Shi'a elevated the concept of God's justice (*al-'adl al-ilāhī*) and benevolence (*luthf*), in which God should give guidance to human beings, especially in matters of such importance as that of leadership of the community. Mahmoud Ayoub, "The Islamic Concept of Justice," in *Islamic Identity and the Struggle for Justice*, ed. Nimat Hafez Barazangi et al (Gainesville: University Press of Florida, 1996), 21; Khadduri, *Islamic Conception*, 15-20; Enayat, *Modern*, 4-5. Justice (*'adl*) is one of five of the Shi'a fundamentals of religion (*uṣūl al-dīn*). The other four are: *tawhīd* (monotheism), *nubūwah* (prophethood), *imāmah* (vicegerency), and *ma'ād* (the Day of Judgment). See 'Allāmah Shaykh Muḥammad Ḥusayn al-Kāshifū'l-Ghiṭā', *Aṣl ash-Shī'ah wa Uṣūluhā* (Qum, Iran: Ansariyan Publications, 1982 /1402), 45-57.

³⁸⁰ Khadduri, *Islamic Conception*, 21 and 33; Enayat, *Modern*, 6-7. The Khawārij (plural of Khārijī, meaning 'an outsider'), rejected the Sunnī and Shī'ī positions. They believed that any believer could be a legitimate leader/imam and worthy of the office without distinction. An imam (leader/ruler) was needed to impose the Law and accomplish justice. However, if everyone were to abide by the Law and carry out their duties, no imam was necessary. The Khawārij called themselves the partisans of justice, *ahl al-'adl*. According to Enayat, they left two divisive legacies for Muslims in the modern history: firstly, the egalitarian principle based on their understanding of the Qur'an advocating vehemently for the right of all Muslims to choose or dismiss, or to be elected as, rulers; and secondly, their use of violence and radicalism.

³⁸¹ Blankinship, "The Early Creed," 47-48. The Mu'tazila represented a continuation of the Qadariyya movement which defended a doctrine of free will—that humans are responsible for their actions—and developed the "Five Principles" (*al-Uṣūl al-Khamsa*) in their religious doctrine: God's unity and uniqueness (*tawhīd*); His justice (*'adl*); the eternity of Paradise for the righteous and hell for sinners (*al-wa'd and wa'l-wa'īd*, literally "the promise and the threat"); the

Following the period of the Rightly-Guided Caliphs, the issue of justice emerged within theological debates in reaction to the oppressive policies of the Umayyad dynasty (661-750). In an effort to strengthen their power, the Umayyads, who had initially based their legitimacy on the doctrine of an *elected* caliph, manipulated and distorted aspects of Islamic doctrines in accordance with their political interests, marshaling them in support of monarchical rule.³⁸³ They referred to themselves as “deputy of God”, *khalīfat Allāh*, as well as “successor of the Messenger of God”, *khalīfat Rasūlillāh*, and were influenced by the Roman dynastic/aristocratic system. Meanwhile their successors, the Abbasid dynasty, were influenced by court practices of the Iranian/Persian political culture of absolute monarchy.³⁸⁴ Since then, therefore, the notion of justice in Islam was shaped within the context of an Iranian/Persian political culture or dynastic system that at the time prevailed over most of the civilized world. This philosophy of justice persisted until the nineteenth century, when European and Islamic reformist-modernist ideas began to force fundamental changes.³⁸⁵

Formulations of justice, human freedom, and responsibility gradually developed and were influenced by more systematic theological doctrines. Muslims’ encounters with Greek, Hellenistic, Buddhist, Christian, and Iranian philosophy and theology enriched philosophical, religious and moral speculations.³⁸⁶ The Mu‘tazilite school of theology fully developed the ethical and political implications of human responsibility and free choice, with the premise that human freedom and

intermediate state of the Muslim sinner, between belief and unbelief; and the command to enjoin uprightiness and to forbid evildoing (*al-amr bi’l-ma’rūf wa’l-nahy ‘an al-munkar*).

³⁸² Blankinship, “The Early Creed,” 38-54; Khadduri, *Islamic Conception*, 13-77.

³⁸³ Rosen, “Concepts of Justice”; Antony Black, *The History of Islamic Political Thought: From the Prophet to the Present* (New York: Routledge, 2001), 18.

³⁸⁴ Blankinship, “The Early Creed,” 36-38; Black, *History of Islamic Political Thought*, 18-19.

³⁸⁵ Black, *History of Islamic Political Thought*, 55 and 336.

³⁸⁶ Rahman, *Islam*, 87; Majid Fakhry, *A Short Introduction to Islamic Philosophy, Theology and Mysticism* (Oxford: Oneworld, 1997), 2-5; Henry Corbin, *History of Islamic Philosophy*, trans. Liadain Sherrard (London: Kegan Paul International in association with Islamic Publications for the Institute of Ismaili Studies, 1993), 108-109.

responsibility originated from the principle of divine justice. However, the Mu‘tazila drew the conclusion—not accepted by many other Muslim groups—that it was impossible for God to do the unreasonable and the unjust. For them, divine justice corresponded symmetrically with human justice. The Mu‘tazila’s excessive emphasis on reason, God’s justice, and Oneness brought them into conflict with more powerful opponents.³⁸⁷

Aḥmad ibn Ḥanbal (780-855), champion of Sunni traditionalism, sought to minimize the use of reason in the interpretation of scripture, employing instead a literalist methodology.³⁸⁸ However, because his teaching was simply a reaction to the Mu‘tazila’s excessive emphasis on human rationality and free will, Ibn Ḥanbal’s efforts failed to provide a complete exposition for Sunnism. Traditionists such as Ibn Ḥanbal emphasized formulations of Divine Power and Will to such an extent that they obscured other important Divine attributes, such as Justice.³⁸⁹

It was Abu al-Ḥasan bin Isma‘īl al-Ash‘arī of Baghdad (d. 324/936), a former moderate Mu‘tazilite, who would offer a more constructive middle-ground approach, by maintaining a careful balance between Revelation and independent human reasoning as sources by which to derive an understanding of God and His attributes. At his hand, the formulation of Sunni belief was decisively laid down.³⁹⁰ However, Ash‘arī theology was not adopted by all Sunnī Muslims. Abu Ja‘far al-Ṭahāwī (d. 321/935), Abū Manṣūr al-Māturīdī (d. 333/944) and Abu Bakr al-Bāqillānī (d. 1012) tried to formulate a theology that would be a truer middle ground between the Mu‘tazila and the Ash‘ariyya. They maintained the primacy of God’s will in determining what was just. However, to a greater extent than the

³⁸⁷ Rahman, *Islam*, 88-89; Blankinship, “The Early Creed,” 49-51.

³⁸⁸ Blankinship, “The Early Creed,” 51.

³⁸⁹ Blankinship, “The Early Creed,” 51-52; Rahman, *Islam*, 90; Khadduri, *Islamic Conception*, 54-56.

³⁹⁰ Blankinship, “The Early Creed,” 52; Khadduri, *Islamic Conception*, 56.

Ash'ariyya, they allowed room for human freedom and rationality with respect to the capacity of humans to differentiate and choose the just from the unjust.³⁹¹

Although debates concerning divine sovereignty and human free will were more or less settled by the 4th/10th century,³⁹² the issue of justice has remained a central subject of discussion in various Islamic schools of thought in Islam. Philosophers were concerned less with a correct understanding of God and His attributes, and more with how people's lives could be brought to participate in divine governance. Muslim philosophers conceived of justice as the underlying principle of this relationship, and justice had both an inward (ethical) and an outward (political) dimension.³⁹³ In al-Fārābī's (c. 878-c. 950) *The Virtuous City, al-Madīna al-Fāḍila* justice is realized in the division of good things (security, wealth, honor, and dignity, among others) among the people of the City and under the authoritarian rule of the *Imām*, or supreme ruler. Meanwhile, the conception of justice both in the *Just City* and *Kitāb al-Shifā', The Book of Healing*, of Ibn Sīnā (980-1037) was presented in terms of social contract theory, exploring how the welfare of all classes of the City might be secured by a public fund under the leadership of a just, prophet-like ruler. On the whole, their discussions were closely linked to the views of Plato or Aristotle.³⁹⁴

³⁹¹ Blankinship, "The Early Creed," 53; Oliver Leaman, "The Developed Kalam Tradition (Part 1)," in *The Cambridge Companion to Classical Islamic Theology*, ed. Tim Winter (Cambridge: Cambridge University Press, 2008), 86-88; Seyyed Hossein Nasr, *Islamic Philosophy from its Origin to the Present: Philosophy in the Land of Prophecy* (Albany: State University of New York Press, 2006), 129; Rahman, *Islam*, 93; Khadduri, *Islamic Conception*, 60-61.

³⁹² Al-Ash'ariyya were followed by the Mālikis and Shāfi'īs, while most Hanafis accepted the doctrines of al-Māturidī, and the Hanbalis upheld traditionism. The aforementioned schools of thought are found among *Ahl al-Sunnah wa 'l-Jama'ah* ('the people of the middle-path and unity') or Sunnī. Two varieties of Mu'tazilah were adopted by Imāmī and Zaydī Shī'a. Neoplatonism was absorbed by many Isma'īlī Shī'a, and the Ibādī doctrines (a moderate group of the Khawārij) were maintained by the remaining Khawārij. Blankinship, "The Early Creed," 38 and 53-54; Rahman, *Islam*, 93-94, 169 and 176.

³⁹³ See Majid Fakhry, *Ethical Theories in Islam*, 2nd ed. (Leiden: E.J. Brill, 1994).

³⁹⁴ Al-Fārābī, "The Enumeration of the Sciences," in *Medieval Political Philosophy: A Sourcebook*, ed. Ralph Lerner and Muhsin Mahdi, trans. Michael E. Marmura (Ithaca, New York: Cornell University Press, 1972), 26; Khadduri, *Islamic Conception*, 83-93; Fakhry, *Ethical Theories*, 78-

However, the major sources for classical discussions concerning justice as a socio-political condition were found in the historical development of Islamic Law. Unlike philosophical discussions, which took place only in elite intellectual and political circles, the discourse of Islamic legal thought penetrated all levels of Islamic society, and has therefore had the most lasting influence on the development of the conception of social justice in Islam. As a result, most discussions of social justice among Muslims take place from a legal point of view, with the Qur'an and the Sunnah as the principal sources of reference.³⁹⁵ Furthermore, because of its powerful normative and practical apparatus, Islamic law—and not theology or philosophy—has been the central domain of Islamic ethical thought.³⁹⁶

This is seen in the exposition of social justice by a number of prominent jurists. Abū Bakr al-Ṭurtūshī (d. 520/1127), for example, argued that a sense of social responsibility should in turn pressure the ruling regime to implement justice as state policy.³⁹⁷ Ibn Taymiyya (b. 661/1263 and d. 728/1325) developed the concept of *siyāsah shar'īyyah*, or Sharī'ah-oriented policy (political law or judicious policy), as a supplement to the Sharī'ah (Revealed Law), while Najm al-Din al-Ṭawfi (b. 675/1259 and d. 716/1316) argued in favour of the status of *maṣlaḥah* (public interest) as a source of law, with or without the existence of *naṣṣ* (explicit text of the Qur'an or Sunnah) to ensure social justice.³⁹⁸ According to Abu Zayd 'Abd al-Rahman

88; Avicenna, "Healing: Metaphysics X," in *Medieval Political Philosophy: A Source Book*, ed. Ralph Lerner and Muhsin Mahdi, trans. Michael E. Marmura (Ithaca, NY: Cornell Paperbacks, Cornell University Press, 1972), 107-111; Rosen, "Concepts of Justice."

³⁹⁵ Kamali, *Freedom*, 142.

³⁹⁶ A. Kevin Reinhart, "Islamic Law as Islamic Ethics," *The Journal of Religious Ethics* 2, no. 2 (fall 1983): 186.

³⁹⁷ Khadduri, *Islamic Conception*, 176-177.

³⁹⁸ Kamali, *Freedom*, 143-145; Khadduri, *Islamic Conception*, 181. *Maṣlaḥah* as a source for legal decisions was not an innovation of al-Ṭawfi but of al-Ghazālī. Both *siyāsah shar'īyyah* and *maṣlaḥah* are characterized by their essential harmony with the spirit and objectives of the Sharī'ah, sometimes even at the risk of abandoning or contradicting the letter of the law. An illustrative case referred to by proponents of these two doctrines of Islamic law is a decision of the Caliph Omar I on agricultural land in regions conquered by Muslims. When Muslims took over Iraq from Persian rule and Syria from Roman rule, Omar did not distribute agricultural lands to

Ibn Khaldūn (d. 806/1408) law was very significant as a means of administering justice, repairing social conditions, and preventing civilizational decadence and degeneration through the administration of justice.³⁹⁹ Abu ‘Abd-Allah Ibn al-Azraq (b. 832/1427 and d. 896/1491) contended that human beings were by nature oppressive and unjust. In his opinion, both ruler and ruled should be checked by restraining forces whose aim was the attainment of justice. Similarly to Ibn Khaldūn, al-Azraq held that this could be achieved through administrative processes.⁴⁰⁰

In the modern era, Muslims’ approach to social justice has experienced significant changes. Muslim scholars and political activists began to reinterpret the classical patrimonial conception of justice after realising that it was no longer able to accommodate the dynamics of the emerging modern society.⁴⁰¹

3.3. Chapter Three: Modern Muslims’ Conceptions of Social Justice

The emerging modern discourse on justice is part of Islamic responses to the decline of the Muslim world and its powerlessness against the encroachment of Western colonialism, imperialism, and scientific and technological advances. Muslims have observed many Western states outdistance Muslim countries in terms of material progress and standards of justice. While they admired this progress, Muslims also witnessed the oppression carried against many Muslim nations by

the Muslims but instead to the local small farmers, even if they were not Muslims. Caliph Omar’s policies led to a strong outcry from among the Prophet’s companions who accused Omar of deviating from the Qur’an (Chapter al-Anfāl 8:1 and 8:41) and the Sunnah. However, after intensive consultation with the prominent companions, Omar managed to convince other companions that his innovative interpretation was consistent with the spirit of the teachings of the Qur’an and the Sunnah. Omar then implemented the policy with their support. Maher Hathout, Uzma Jamil, Gasser Hathout, and Nayyer Ali, *In Pursuit of Justice: The Jurisprudence of Human Rights in Islam* (Los Angeles: Muslim Public Affairs Council, 2006), 47. Similarly, in the case of the *al-mu’allaḥāt qulubuhum*, i.e. new Muslim converts, whose friendship and cooperation were regarded as beneficial for the victory of Islam in the time of the Prophet and the first Caliph Abu Bakr, Omar discontinued the practice of giving a share in the *zakāt* revenues assigned for them as stipulated by the Qur’an (Chapter al-Tawba 9:60). Omar said that “God has exalted Islam and it is no longer in need of their favor”. Kamali, *Freedom*, 143-144.

³⁹⁹ Kamali, *Freedom*, 59; Khadduri, *Islamic Conception*, 182-185.

⁴⁰⁰ Khadduri, *Islamic Conception*, 190.

⁴⁰¹ Black, *History of Islamic Political Thought*, 55.

those same powers. Yet at the same time, the excessive autocracy of Muslim rulers toward their own people was no less severe. Many Muslim rulers came under the domination of Western powers, and were forced to make political and economic concessions at the expense of public interest, worsening the plight of their own people. The widespread social and economic malaise also escaped the attention of the traditional ‘ulamā’, scholars to whom Muslims look for guidance.⁴⁰²

Modern Muslim attitudes toward the issue of social justice have been divided. In the first group were the modernists and/or reformists, including the Iranian Jamāl al-Dīn al-Afghānī (d. 1897), Sayyid Aḥmad Khān of the Indian sub-continent (1817-1898), the Egyptian Muḥammad ‘Abduh (d. 1905), and the Syrian Rashīd Riḍā (d. 1935), all of whom advocated the adoption of Western institutions in Muslim countries to some degree, while remaining committed to the belief that injustices could be remedied by renewing the principle of consultation (*shūrā*) in the form of elective assemblies. The second group consisted of traditionalist ‘ulamā’ who merely maintained the status quo and encouraged an ethic of *taqlīd* (blind imitation of tradition or opinions of former ‘ulamā’) and passiveness, curbing any initiative from the community to change the old standards.⁴⁰³ The third group were the secularists, who argued for the adoption of secular Western-influenced standards of justice without regard for their relevance to or compatibility with

⁴⁰² Khadduri, *Islamic Conception*, 195-197; Tamara Sonn, “The Islamic Call: Social Justice and Political Realism,” in *Islamic Identity and the Struggle for Justice*, ed. Nimat Hafez Barazangi et al (Gainesville: University Press of Florida, 1996), 66; Rosen, “Concepts of Justice”; Ibrahim Abu Rabi, “Social Justice,” in *The Oxford Encyclopedia of the Modern Islamic World*, ed. John Esposito (New York: Oxford University Press, 1995).

⁴⁰³ Khadduri, *Islamic Conception*, 197-201; Ali Rahnama, “Introduction to 2nd Edition: Contextualizing the Pioneers of Islamic Revival,” in *Pioneers of Islamic Revival*, ed. Ali Rahnama, 2nd updated ed. (London: Zed Books, 2005), xxxix-xlii; Basheer M. Nafi, “The Rise of Islamic Reformist Thought and its Challenge to Traditional Islam,” in *Islamic Thought in the Twentieth Century*, ed. Suha Taji-Farouki and Basheer M. Nafi (London: I.B. Tauris, 2004), 28-39 and 50; Sonn, “The Islamic Call,” 66; David Commins, “Hasan al-Banna (1906-1949),” in *Pioneers of Islamic Revival*, ed. Ali Rahnama, 2nd ed., (London and New York: Zed Books, 2005), 128; Rahman, *Islam*, 220-223 .

Islamic traditions. The most prominent examples of this ideological trend are Kemalism in Turkey and Salamah Musa's socialism in Egypt.⁴⁰⁴

Differences between these groups centered on the extent to which secular foreign elements could be adapted to Islamic tradition. The modernist-reformist group rejected the comprehensive adoption of any one modern ideology such as nationalism, socialism, or capitalism, but they were not opposed to the assimilation of certain elements of Western conceptions of justice that did not contradict Islamic ethical principles. Instead, they argued for a formula that synthesized Islamic principles of justice with modern standards, ensured continuity with Islamic tradition, and was sensitive to the conscience of the community.⁴⁰⁵

However, the credibility of the modernist approach was destroyed in the aftermath of the two World Wars, when many Muslims felt betrayed by the West and began to express anti-Western sentiments. This led to the popularity of a fourth group, the neo-fundamentalists, who called for a return to the ways of the pious ancestors (*al-salaf al-ṣāliḥ*), the first generation of Muslims. Neo-fundamentalists believed this to be the only course open to contemporary Muslims, if they were to overcome their weaknesses and deliver justice and prosperity.⁴⁰⁶

⁴⁰⁴ Shepard, "Diversity of Islamic Thought," 64-70; Khadduri, *Islamic Conception*, 202-204; 'Abd al-Hadi Al-Fikayki, "The Shu'ubiyya and Arab Nationalism," in *Political and Social Thought in the Contemporary Middle East*, ed. Kemal H Karpat, rev. ed. (New York: Praeger, 1982), 45 and 49; Yasar Nabi Nayir, "Ataturkism is Secularism" in *Political and Social Thought in the Contemporary Middle East*, ed. Kemal H Karpat, rev. ed. (New York: Praeger, 1982), 399-412; Kemal H. Karpat, "Introduction to Political and Social Thought in the Arab Countries of the Middle East," in *Political and Social Thought in the Contemporary Middle East*, ed. Kemal H Karpat, rev. ed. (New York: Praeger, 1982), 8.

⁴⁰⁵ Khadduri, *Islamic Conception*, 196-197; Shepard, "Diversity of Islamic Thought," 61-64.

⁴⁰⁶ Sonn, "The Islamic Call," 66-68; Rahman, "Roots," 34. Both pre-modern or earlier fundamentalism and neo-fundamentalism insisted on *ijtihād* and called for a return to the original Islamic message and "shed[ding] superstition inculcated by popular forms of Sufism, to get rid of the idea of the fixity and finality of the traditional schools of law...to remove the crushing burden of a predeterministic outlook [...]" However, there are noticeable differences between earlier or premodern fundamentalist movements in the eighteenth century represented by 'Wahhābī movement' led by Muhammad Ibn 'Abd-al-Wahhāb in Arabia and neo-fundamentalism. The earlier fundamentalist movements were reactions against "degrading beliefs and practices in the popular religion." They did not encounter "ideas generated by various modern sciences and issues raised by modern socio-economic developments." See Rahman,

These Muslim thinkers began to envision Islam as a complete system (a ‘way of life’) that was in competition with other ideologies such as capitalism or socialism.⁴⁰⁷ As we shall see, the Muslim neo-fundamentalists held the conviction that Islam offered a comprehensive set of divinely-inspired norms, principles and regulations that can and should be implemented in a given territorial context. These principles were accessible only through the Qur’an and Sunnah and were not derived from any other criteria or sources of morality.⁴⁰⁸ Whereas many of the patrimonial conceptions of justice (both philosophical and legal) in the classical period were advanced as pragmatic efforts to ensure social stability, thus guaranteeing the ability of individual Muslims to perform the ritual demands of the religion,⁴⁰⁹ the Muslim neo-fundamentalists’ conceptions of social justice were at their root a matter of adhering to a set of uniquely Islamic principles and rules of conduct. To be a faithful Muslim required that one live in (or at least desire) an Islamic political or economic system. This view was further supported by the conviction that Islam as system could provide a better life arrangement than that of capitalism, socialism, or other competing ideologies.⁴¹⁰ There emerged a conception of social justice as being a matter of adhering to a set of Islamic principles and rules of conduct that form part of a self-contained and uniquely Islamic “economic system”. Islamic economics, according to its proponents, has within it inherent mechanisms for social justice. However, it should be emphasized that, as we shall see, the liberal modernists offered a different response. Though sharing the

“Islam: Challenges and Opportunities,” 317-318. Meanwhile, neo-fundamentalism was “very much a response to foreign influences and pressures.” Rahman also points out that neo-fundamentalism is “postmodernist and has been influenced by modernism [...] a liberating force, freeing the mind both from centuries of tradition and from the intellectual and spiritual domination of the West [...] *as a reaction* to modernism and to what was perceived as the excessively pro-Western orientation of most [Islamic] modernists.” See Rahman, “Roots,” 32-33.

⁴⁰⁷ Kramer, “Justice,” 21; Sonn, “The Islamic Call,” 66; Rahman, “Islam: Challenges and Opportunities,” 322.

⁴⁰⁸ Kramer, “Justice,” 21-22. Sonn, “The Islamic Call,” 66-67.

⁴⁰⁹ Rahman, *Islam*, 169.

⁴¹⁰ Kramer, “Justice,” 22; Sonn, “The Islamic Call,” 67-68.

modernist-revivalist or neo-fundamentalist conviction that Islam was a complete way of life, they did not espouse the idea that Islam comprised a distinct or “authentic” political and economic system derived from a divinely-revealed set of norms and values in order to regulate individual and communal life (as was believed by the revivalist-modernist group). For liberal modernists, the aims of the Law (*maqāṣid al-sharī‘ah*) or its general principles and values were more important than the detailed rules and regulations derived from the Qur’an and Sunnah according to the conventions of Islamic jurisprudence. They argued that the essence of Islam, or Sharī‘ah, was basic values such as justice, freedom, equality, consultation or participation (*shūrā*), and accountability or responsibility (*mas’ūliyyah, musā’alah*).⁴¹¹ They could therefore accept and incorporate modern ideas—for example, democratic forms of government or the modern banking system—into their political and economic philosophies.⁴¹² As we shall see, Sjafruddin Prawiranegara’s concept of social justice represented a liberal modernist point of view.

Unlike most Islamic discussions of justice in pre-modern times, in the modern period many Muslim intellectuals have articulated their ideas about Islam, including justice, within a category that had no precedent in Islamic intellectual tradition: that of “Islamic thought”. This pattern can be seen in the writings of Muḥammad ‘Abduh, Muḥammad Rashīd Riḍā, Muṣṭafā al-Sibā‘ī, Muḥammad al-Ghazālī, Sayyid Quṭb, Murtaḍā Mutahharī, Muḥammad Bāqir al-Ṣadr, and Maḥmūd Talegānī, among others.⁴¹³

⁴¹¹ Kramer, “Justice,” 22-23; Kamali, *Freedom*, 143-147.

⁴¹² Sonn, “The Islamic Call,” 66; Rahman, “Islam: Challenges and Opportunities,” 322-323.

⁴¹³ Noting the difficulty of specifying elements of ‘Islamic thought’, Gudrun Kramer defines it as a “repertory of references that Muslims draw upon without being restricted to it.” Kramer, “Justice,” 21.

Ḥasan al-Bannā (1906-1949), founder and leader of *al-Ikhwān al-Muslimūn*, the Muslim Brotherhood, represented an early proponent of the revivalist-modernist school of thought. The organization presented itself as a defender of the poor and downtrodden and was committed to comprehensive human and socio-economic justice inspired by a religious spirit. In Bannā's view, it was necessary to formulate an Islamic ideology; i.e. a holistic Islamic theory capable of advancing a remedy for the prevailing social condition.⁴¹⁴ He rejected attempts to synthesize Islamic and Western ideologies that have been espoused, in varying degrees, by al-Afghānī, Khān, 'Abduh, and Riḍā. His views would later be elaborated by other Muslim Brotherhood leaders such as Muḥammad al-Ghazālī, 'Abd al-Qādir 'Awdah, and Muṣṭafā al-Sibā'ī.⁴¹⁵ A key thinker was Sayyid Quṭb (1906-1966), a chief ideologue of Islamic fundamentalism whose major work on social justice has shaped fundamentalist thought on social and political issues.⁴¹⁶ Quṭb was the first Muslim scholar to explicitly use the Arabic term for 'social justice' within the context of contemporary Islamic history in his 1949 book *al-'Adālah al-Ijtimā'īyah fī 'l-Islām, Social Justice in Islam*.⁴¹⁷ He emphasized the importance of practical, everyday actions which could, he posited, be religious acts in themselves. Religion, according to Quṭb, must embrace all human activities. He argued that the current secular state's monopoly over religion must be dismantled by removing the privileges of the clerical class, which he believed was entwined with the secular state. Quṭb argued

⁴¹⁴ Commins, "Hasan al-Banna," 133-134; Oliver Carre, "Bannā', Ḥasan Al-," in *The Oxford Encyclopedia of the Modern Islamic World*, ed. John Esposito (New York: Oxford University Press, 1995).

⁴¹⁵ Commins, "Hasan al-Banna," 149-150; Oliver Carre, "Bannā', Ḥasan Al-"; Khadduri, *Islamic Conception*, 220.

⁴¹⁶ Charles Tripp, "Sayyid Qutb: The Political Vision," in *Pioneers of Islamic Revival*, ed. Ali Rahnama, 2nd updated ed. (London: Zed Books, 2005), 155 and 158.

⁴¹⁷ Hamid Algar, "Introduction," in Sayyid Quṭb, *Social Justice in Islam*, trans. John B. Hardie; trans. rev. and intrd. Hamid Algar (Washington, D.C.: The American Council of Learned Societies, 1953; Oneonta, New York: Islamic Publication International, 2000), 3 and 12. It was only beginning in the twentieth century that the phrase *al-'adālah al-ijtimā'īyah*, social justice, was used by jurists in Islamic law. See Shahrugh Akhavi, "Quṭb, Sayyid," in *The Oxford Encyclopedia of the Modern Islamic World*, ed. John Esposito (New York: Oxford University Press, 1995).

that in certain periods of Islamic history, the clergy had prevented economic and social development on the part of the poor.⁴¹⁸ At the same time he praised them, especially the *fuqahā'* (jurists), for the development of the science of jurisprudence, and advised Muslims to be confident in the ability of the Sharī'ah to govern modern society.⁴¹⁹ He understood social justice as involving human prosperity in both its material and its spiritual dimensions.⁴²⁰ Quṭb held the following principles to constitute the foundation of Islamic social justice theory: absolute freedom of conscience, complete equality of all humans; and firm mutual responsibility among members of society.⁴²¹ He emphasized that Islam recognized the right to individual ownership by legal means of acquisition and protected the rights of the possessor. However, justice was not always concerned with the interests of the individual. Justice was both for the individual and for society, and justice must exist in all of its shapes and forms.⁴²²

In 1960, Muṣṭafā al-Sibā'ī (1915-1964), head of the Syrian branch of the Muslim Brotherhood (known as *al-Jabha al-Ishtirākiyya*, the Socialist Front), published *Ishtirākiyyat 'l-Islām, The Socialism of Islam*, in which he reflected on important elements of the thought of 'al-Afghāni, 'Abduh, and Riḍā which Bannā and Quṭb had tried to abandon.⁴²³ In his book, Sibā'ī argued that socialism and Islam were compatible and that in principle, both were against human exploitation. He also emphasized that unlike Western socialism, Islamic socialism was against class struggle, instead advocating cooperation and friendship as means to bring about social change and the expansion of civilization. It recognized private property and supervised economic development, offering a formula for eliminating poverty and

⁴¹⁸ Quṭb, *Social Justice in Islam*, 27-32.

⁴¹⁹ Quṭb, *Social Justice in Islam*, 34.

⁴²⁰ Quṭb, *Social Justice in Islam*, 26-30.

⁴²¹ Quṭb, *Social Justice in Islam*, 51-92.

⁴²² Quṭb, *Social Justice in Islam*, 129-131.

⁴²³ Khadduri, *Islamic Conception*, 219-222.

allowing individuals to achieve their potential based on five principles: the right to live, the right to liberty, the right to knowledge, the right to dignity, and the right to property. Islamic socialism attached importance to religious values, and satisfied all citizens' interests without discrimination and regardless of their religion.⁴²⁴

Although there has been a strong tendency among contemporary Muslims to safeguard Islamic identity and authenticity, foreign elements, e.g. modern Western ideas, nevertheless exist even in the thought of Bannā and Quṭb.⁴²⁵ This tendency was similar to the incorporation which occurred during the classical period with Islam's encounter with various religious, philosophical, and political ideas of the Greek and Persian traditions. In previous periods, foreign elements of justice had been incorporated into Islamic theories and governance on the condition that they were introduced through recognized legal channels (*ijmāʿ*, consensus, *qiyās*, analogy, and others).⁴²⁶ Therefore Bannā argued that it was not in violation of Islamic intellectual tradition, for instance, to accept parliamentary democracy and (moderate) nationalism, although he rejected any role for a multiparty system.⁴²⁷ His view of social justice, such as state intervention in economic affairs and taxes on income and wealth, including progressive taxation, also reflected a modernist and quasi-socialist reading of the Islamic scriptures.⁴²⁸ Quṭb, in Tripp's judgment, was similarly clearly influenced by Western liberalism and socialism, not only in his earlier works but also even after he consciously sought to remove such influences in his thought. Tripp points to "a liberal individualist influence" in *Social Justice in*

⁴²⁴ R. Hrair Dekmejian, "Sibāʿī, Muṣṭafā Al," in *The Oxford Encyclopedia of the Modern Islamic World*, ed. John Esposito (New York: Oxford University Press, 1995); Muṣṭafā al-Sibāʿī, "Islamic Socialism," in *Political and Social Thought in the Contemporary Middle East*, ed. Kemal H. Karpat, rev. ed. (New York: Praeger, 1982), 105-107.

⁴²⁵ Commins, "Hasan al-Banna," 134-135.

⁴²⁶ Khadduri, *Islamic Conception*, 196.

⁴²⁷ Commins, "Hasan al-Banna," 136-137.

⁴²⁸ Oliver Carre, "Bannā', Ḥasan Al-," 198.

Islam in Qutb's attempt to reconcile the claims of the community with the rights of the individual.⁴²⁹

In recent times, discussions of social justice have increasingly been placed within the framework of Islamic economic theories.⁴³⁰ In the Sunni world, one of the most influential sources for social justice discourse in the context of a model of Islamic economics are the works of Sayyid Abū 'l-A'lā Mawdūdī (1903-1979), founder and head of the Jamā'at-i Islāmī in Pakistan.⁴³¹ He approached the topic not as an economic theoretician but as a religious reformer who wished to advance aspects of Islamic teachings and methodology as solutions for contemporary problems which, in the immediate context of the British India, had emerged from colonization and the challenges of modernity.⁴³² Indeed, Mawdūdī's proposals for an Islamically-based economic system stemmed from more practical concerns of social injustice, indebtedness, and economic dependency affecting many poor Muslims in his country.⁴³³ The importance of Mawdūdī's approach lies less with the conceptual details of an Islamic economic *theory*—an endeavour which was further developed later on by many of his students—and more with his clear and forceful articulation

⁴²⁹ Tripp, "Sayyid Qutb," 167-168.

⁴³⁰ Concerning the definition of the term, Rodney Wilson writes that there are "differing views amongst Muslim academics on whether Islamic economics was a distinct or independent discipline or simply conventional economics with some of its morally objectionable features from an Islamic perspective filtered out with Shari'a-compliant practices substituted." Rodney Wilson, "The Development of Islamic Economics: Theory and Practice," in *Islamic Thought in the Twentieth Century*, ed. Suha Taji-Farouki and Basheer M. Nafi (London: I.B. Tauris, 2004), 200. S.M. Ghazanfar defines it as follows: "It is the knowledge and application of doctrines and injunctions of the Islamic Shari'a that, in addition to requiring the pursuit of economic activities through efficient use of scarce resources in order to provide satisfaction of material needs of individuals, calls for the promotion of social justice in the society." S. M. Ghazanfar, "Islamic Economics: Salient Features and a Critical Survey," in *The SAGE Handbook of Islamic Studies*, ed. Akbar S. Ahmed and Tamara Sonn (London: SAGE, 2010), 85.

⁴³¹ Khadduri, *Islamic Conception*, 220; Wilson, "Development of Islamic Economics," 196.

⁴³² Timur Kuran, *Islam and Mammon: The Economic Predicaments of Islamism* (Princeton: Princeton University Press, 2004), 5-6; Seyyed Wali Reza Nasr, "Mawdudi and the Jama'at-i Islami: The Origins, Theory and Practice of Islamic Revivalism," in *Pioneers of Islamic Revival*, rev. ed., ed. Ali Rahnama (London: Zed Books, 2005), 98 and 102-104; M. Umer Chapra, "Mawlana Mawdūdī's Contribution to Islamic Economics," *The Muslim World* 94, no. 2 (April 2004): 163.

⁴³³ Wilson, "Development of Islamic Economics," 196-197.

of a uniquely-Islamic approach to economics as the only natural system for Muslim societies, as opposed to the alternatives of capitalism and communism.⁴³⁴

According to Mawdūdī, an economic system obtained from the Islamic vision does not allow moral values to be separated from the allocation and distribution of resources.⁴³⁵ As such, the strategy to realize spiritual happiness as well as material prosperity must not only rely either on the state, as in communism, or on the market, as in capitalism. Rather, a new set of mechanisms needed to be conceived, and these were derived from the moral foundation of Islam as rooted in the Qur'an and Sunnah.⁴³⁶ Most important was the reform of the individual Muslim in his moral and spiritual life. Mawdūdī insisted that it was not enough that a grand economic theory make provisions for equality and justice in society; rather, that theory must affect the human agent in a personal and direct way. The goal of an Islamic economics was to instil the virtues of justice, kindness, fraternity, and discipline as sincere ways of *being*, rather than to emphasise the end result of quantitatively-measurable policies or acts of good governance.⁴³⁷ He envisioned an economic system where individual citizens would feel personally responsible for fulfilling the needs of the poor, eschew a lavish lifestyle for a simple one, and maintain within themselves a "kindling moral flame" that was always ready to sacrifice one's due for another's basic needs.⁴³⁸ Mawdūdī seemed to argue that true improvement of social justice in society required the participation of individual agents alongside a centralized mechanism that encouraged and provided the means by which this participation in the cause of justice was achieved.⁴³⁹

⁴³⁴ Nasr, "Mawdudī," 105; Chapra, "Mawlana Mawdūdī's Contribution," 164.

⁴³⁵ Chapra, "Mawlana Mawdūdī's Contribution," 164.

⁴³⁶ Chapra, "Mawlana Mawdūdī's Contribution," 165.

⁴³⁷ Chapra, "Mawlana Mawdūdī's Contribution," 167.

⁴³⁸ Chapra, "Mawlana Mawdūdī's Contribution," 166.

⁴³⁹ Chapra, "Mawlana Mawdūdī's Contribution," 167 and 169.

Mawdūdī asserted that these goals would be achieved only through “comprehensive socio-economic and political reform”.⁴⁴⁰ By this he meant that the solution to contemporary injustices facing Muslims was the establishment of an Islamic state whose legal basis was the Shari‘ah.⁴⁴¹ Lacking the theoretical details of Muhammad Bāqir al-Ṣadr’s economic theory (to be discussed below), Mawdūdī’s reformist approach assumed a direct correlation between the injunctions of the Shari‘ah and universal moral imperatives, which in turn formed one central mechanism in the Islamic economic system as it was coordinated at some level by the ideal Islamic state.⁴⁴² The function of this state, in turn, was not to achieve industrial development but rather to establish a just social order, which was precisely the central moral imperative of the Shari‘ah in the context of a social collective.⁴⁴³

Mawdūdī’s thinking about Islamic economics has been further elaborated by his disciples, including Muhammad ‘Abdul Mannan, Muhammad Nejatullah Siddiqi, Muhammad Umer Chapra, Khurshid Ahmad, and Fahim Khan as well as a number of economic theorists outside of Mawdūdī’s immediate circle, such as Syed Nawab Haider Naqvi.⁴⁴⁴ Through the research and activities of these scholars and others, the Islamic perspective on issues of finance, taxation, commerce, banking, and even insurance was not only fully developed as a viable theory, but was also actively implemented through the gradual establishment of Islamic banks⁴⁴⁵ and other

⁴⁴⁰ Chapra, “Mawlana Mawdūdī’s Contribution,” 167.

⁴⁴¹ Wilson, “Development of Islamic Economics,” 197.

⁴⁴² Chapra, “Mawlana Mawdūdī’s Contribution,” 170.

⁴⁴³ Chapra, “Mawlana Mawdūdī’s Contribution,” 171.

⁴⁴⁴ Wilson, “Development of Islamic Economics,” 197- 198; Rodney Wilson, *Economics, Ethics and Religion: Jewish, Christian and Muslim Economic Thought* (New York: New York University Press, 1997), 133-135.

⁴⁴⁵ The first Islamic Bank was founded by Ahmed El-Naggar in Egypt. Taking the operation of mutual savings and loan associations in Germany as his model, he opened and managed a small savings bank in 1963 in the town of Mitr Ghamr in the Nile Delta. The enterprise was so successful as to worry the Egyptian government, and the major state-owned banks and the Central Bank of Egypt were unhappy. The government finally made the decision to nationalize it

financial and research institutions in the Middle East, Pakistan, Malaysia, Indonesia, and even some non-Muslim countries such as the United Kingdom and Hong Kong.⁴⁴⁶

Murtaḍā Muṭahharī in Iran and Muḥammad Bāqir al-Ṣadr in Iraq were the most prominent Shīʿī Muslim thinkers who formulated ideas on social justice. In Iran and Iraq these theories were devised mainly to refute various brands of Marxist socialism. In the 1950s the communist party was gradually gaining popularity in Iraq, while in Iran the Tudeh party, though officially illegal, had much popular support.⁴⁴⁷ As previously mentioned, given the central importance of justice in both Shīʿite and Muʿtazilite theology, proponents of these schools of thought emphasized human freedom as the moral imperative for social justice, relying on both rational and revealed proofs. This emphasis was clearly visible in Muṭahharī’s philosophical thought concerning social justice. His theory was based on a *tawḥīdī* theological framework, in which all matters of human and divine engagements are observed through the principle of Divine Oneness (*tawḥīd*). In this understanding, divine justice was one manifestation of *tawḥīd*, especially as it related to the divine ordering of creation on the one hand, and the created order’s “participation” in that divine order on the other. Muṭahharī wrote that the prophets “have come to impart to man the kind of vision and world view that would allow him to form an image, however sketchy, of the whole system of creation, to the extent of his allotted

rather than to close the bank, which would risk causing outspread dissatisfaction. The bank was renamed the Nasser Social Bank and the government made certain that it would not play a significant role in the financial business. Wilson, *Economics, Ethics and Religion*, 155-156.

⁴⁴⁶Wilson, “Development of Islamic Economics,” 210-214; Wilson, *Economics, Ethics and Religion*, 155-160.

⁴⁴⁷Wilson, “Development of Islamic Economics,” 202.

powers". According to him, though the realm of social justice remains resolutely in this world, its end and source are oriented towards the Divine.⁴⁴⁸

Muṭahharī hence described four ways by which the word *‘adl* (justice) was understood in the Qur’an, namely: justice in creation, ethical justice, justice in law, and social justice. He observed that of these four, the Qur’an was chiefly preoccupied with the last. This was because social justice was the single most important means by which to realize the ideal human society, which was the highest ‘image’ of the transcendental divine ordering that could be achieved within the social context.⁴⁴⁹ In this regard, Muṭahharī differed very little from past Muslim philosophers of the Peripatetic (*mashshā’ī*) and Illuminationist (*ishrāqī*) traditions, who examined issues of social arrangements from the macrocosmic-microcosmic framework.⁴⁵⁰ Yet at the same time he diverged considerably from his predecessors in that he engaged with modern conceptions of social justice, where its implementation was conceived of within a planned economy in the context of a nation-state.⁴⁵¹ Moreover, Muṭahharī also transformed the moral value of social justice into a sort of liberation theology, which he used to challenge the dominant imperialist-capitalist power. This last impetus was of course intensified as he later became one of leading ideologues of the Islamic Revolution.⁴⁵²

Muṭahharī upheld the principle of priority in the fight for social justice. In the first phase, wisdom and good counsel must be employed. Should the stages of intellectual persuasion (wisdom equals reasoning) and of spiritual persuasion

⁴⁴⁸ Ayatullah Murtaza Mutahhari, *Fundamentals of Islamic Thought: God, Man and the Universe*, trans. Ruth Campbell, Contemporary Islamic Thought, Persian Series (Berkeley: Mizan Press, 1985), 118-119.

⁴⁴⁹ Farhad Nomani and Ali Rahnema, *Islamic Economic System* (London: Zed Books, 1994), 36-37.

⁴⁵⁰ Muṭahharī, *Fundamentals*, 145-156.

⁴⁵¹ Mahmood T. Davari, *The Political Thought of Ayatullah Murtaza Mutahhari: An Iranian Theoretician of the Islamic State* (London: RoutledgeCurzon, 2005), 96-98.

⁴⁵² Hamid Dabashi, *Islamic Liberation Theology: Resisting the Empire* (London and New York: Routledge, 2008), 212; Davari, *Political Thought*, 83-84, 90 and 103-105.

(counsel equals reminding) fail, then the exercise of force against the oppressive regime or power would become moral. Thus on the one hand, Muṭahharī seemed to present a notion of social justice as a means by which to produce an ideal stable and prosperous Islamic society by employing intellectual and spiritual persuasions; on the other, the normative value of social justice seemed to be a *revolutionary ideology*, in that the advancement of social justice challenged a corrupt and oppressive state of affairs. Principles of social justice undermined the complacency of the socio-economic status quo, and urged it towards a greater ideal.⁴⁵³

Regarding the first expression above, Muṭrahharī situated the injunctions of social justice within an Islamic value system which acknowledged diverse ownership (individual, public, and governmental) and economic freedom, in which the competitive market was accepted as the coordinating mechanism of the economy. Yet that value system also limited these basic capitalist principles with legal injunctions derived from the Qur'an and Sunnah, such as prohibiting involvement in the trade of forbidden items such as wine. The limiting variable of social justice, on the other hand, was of legal import but also carried the more universal *moral* concepts of equality, fraternity, and fairness. A number of scholars regard Muṭahharī as a “moderate” in his definition of these concepts, on the basis that his conception of social justice referred to a sort of equity in the distribution of goods, whereby equity meant fairness.⁴⁵⁴ Differentiation in capability was a God-given trait—it was a fact of creation and part of the greater order. Hence, to reward on the basis of this difference was not discriminatory—in fact, it was an injustice to do the opposite and treat these differences equally, since such an act assumed the

⁴⁵³ Davari, *Political Thought*, 90-92 and 107-109; Nomani and Rahnema, *Islamic Economic System*, 37; Ayatullah Murtaḍa Muṭahharī, *Social and Historical Change*, trans. Ruth Campbell, Contemporary Islamic Thought, Persian Series (Berkeley: Mizan Press, 1986), 128-132.

⁴⁵⁴ Davari, *Political Thought*, 118-120; Nomani and Rahnema, *Islamic Economic System*, 37.

power to flatten out into likeness things that were by nature different.⁴⁵⁵ Understood thusly, social justice was to be achieved through equality before the law and equal access to opportunities, allowing for social mobility and opening the circulation of capital.⁴⁵⁶ This moderate position contrasted with that of so-called “radical” ‘Alī Sharī‘atī who showed a more socialist persuasion, whereby economic resources are equally distributed amongst all with minimal or no regard to differentiation in human capability, aptitude, privilege or effort.⁴⁵⁷

The normative injunctions that aimed to produce this vision of social justice were derived from Islamic sources, namely the Qur’an and Sunnah. In this regard, though the general concepts of equality, fairness and fraternity were universal, Muṭahharī would argue that these could be best achieved only by adhering to Divine Wisdom as expressed in these sources. Prohibition of usury is one oft-cited example of these injunctions, to which we may add others such as the prohibition of price fixing and hoarding; open access to homogeneous goods; and the free flow of information.⁴⁵⁸ However, a degree of interventionism in the market economy was necessary in order to promote social justice. Muṭahharī envisioned a planned economy oriented towards social justice, while preserving the market as the basic coordinator of the economic system. This assumed, of course, the existence of some sort of Islamic state that was constituted so as to carry out the moral imperatives of the religion through religiously-valid means.⁴⁵⁹

However, Muṭahharī also regarded the imperatives of social justice as a *revolutionary ideology* operative in the context of challenging an oppressive status quo. This aspect of social justice has its roots in the unique status held by Divine

⁴⁵⁵ Muṭahharī, *Fundamentals*, 122.

⁴⁵⁶ Davari, *Political Thought*, 108; Nomani and Rahnama, *Islamic Economic System*, 37.

⁴⁵⁷ Davari, *Political Thought*, 163; Nomani and Rahnama, *Islamic Economic System*, 37-38.

⁴⁵⁸ Davari, *Political Thought*, 117-118.

⁴⁵⁹ Davari, *Political Thought*, 115-116 and 119-120.

Justice and its sacred historical manifestation in Shī'ī theology and historiography, a position which has direct consequences for expectations of human conduct in the spheres of social arrangements and politics.⁴⁶⁰ Whereas the foregoing conception of social justice assumed the existence of an ideal Islamic state, Muṭahharī's *ideological* social justice also sought to effect change in the status quo. Hence, Muṭahharī's advocacy of a rationalist approach to *ijtihād* in matters of social justice is obvious, since this method alone allows the *mujtahid* greater freedom in producing new ordinances derived from the Qur'an and Sunnah to address perpetually-changing contemporary problems and solutions.⁴⁶¹ These two aspects of Muṭahharī's conception of social justice reveal the dynamic and stabilizing dimensions of an Islamic socio-economic ideal, which Muṭahhari maintained had continual relevance through the ages.

Probably the single most important contribution to the early development of Islamic economics as an alternative to capitalism or communism was the two-volume work *Iqtisādunā, Our Economics*, written by the Iraqi scholar and political activist Muḥammad Bāqir al-Ṣadr (1935-1980).⁴⁶² Ṣadr, who lived in Najaf, Iraq, explored in this great work the conceptual roots of capitalism and socialism which he deemed incompatible with Islam. Ṣadr asserted that Islam provided a unique economic system which, if applied properly, could meet the needs of the modern era.⁴⁶³

This work distinguishes itself from earlier attempts to conceptualize an economic theory according to Islamic principles in terms of its comprehensive

⁴⁶⁰ Muṭahharī, *Social*, 130-132; Muṭahharī, *Fundamentals*, 127-128.

⁴⁶¹ Nomani and Rahnama, *Islamic Economic System*, 37; Muṭahharī, *Fundamentals*, 54-55.

⁴⁶² Chibli Mallat, "Sadr, Muhammad Baqer Al," in *The Oxford Encyclopedia of the Modern Islamic World*, ed. John Esposito (New York: Oxford University Press, 1995).

⁴⁶³ Wilson, "Development of Islamic Economics," 202-203.

structure and consistent methodology.⁴⁶⁴ Like Muṭahharī, Ṣadr's economic theory was a response to competing communist and capitalist ideologies, which characterized the internal debate in Iraq during the 1970s.⁴⁶⁵ Indeed, Ṣadr began the conceptualization of his theory with a comprehensive critique of the capitalist, and especially Marxist, approach. His basic, more constructive methodology, however, was informed by his education in the traditional Islamic sciences and especially his specialist training in *fiqh* (Islamic jurisprudence).⁴⁶⁶ He argued that an economic theory based on the sources and value-system of Islam could obtain only through recourse to what he calls a "legal superstructure," by which he meant the jurisprudential method and sources of the Shari'ah.⁴⁶⁷ Apart from this superstructure, Ṣadr saw no other methodological source from which an *independent* economic theory could be derived. It is in this sense that Ṣadr wrote the dictum that "Islamic economics is not a science".⁴⁶⁸ A uniquely-Islamic approach to economics was obtained through the very specialized operation of *ijtihad*, which involves extensive legal research into the classical jurisprudential and moral principles regulating economic life, coupled with an acute understanding of the socio-economic circumstances at hand.⁴⁶⁹ Given this, Ṣadr was one of the first theoreticians who accepted a deductive approach in conceiving an Islamic economics based both on natural laws, such as supply and demand, as well as on the moral demands and legal approach of the Shari'ah.⁴⁷⁰

⁴⁶⁴ Chibli Mallat, "Muhammad Baqer as-Sadr," in *Pioneers of Islamic Revival*, 2nd ed., ed. Ali Rahnama (London: Zed Books, 2005), 263.

⁴⁶⁵ Mallat, "Muhammad Baqer as-Sadr," 264.

⁴⁶⁶ Mallat, "Muhammad Baqer as-Sadr," 262; Wilson, "Development of Islamic Economics," 202.

⁴⁶⁷ Mallat, "Sadr, Muhammad Baqer Al."

⁴⁶⁸ Mallat, "Sadr, Muhammad Baqer Al."

⁴⁶⁹ Mallat, "Sadr, Muhammad Baqer Al."

⁴⁷⁰ Mallat, "Muhammad Baqer as-Sadr," 264-265; Wilson, "Development of Islamic Economics," 202-204.

According to Ṣadr, the integration of economic theory in the legal superstructure of the Sharī‘ah was an expression of Islam's all-embracing vision that acknowledges and addresses both the material and spiritual conditions of human beings.⁴⁷¹ He did not accept the inadequate anthropological assumptions of communism and capitalism, both of which reduced the human condition to material determinations.⁴⁷² Economic arrangements must take into consideration the spiritual well-being of members of society. A more practical expression of this concern is that the economic system that is integrated within that legal superstructure is also regulated by the basic moral imperatives embedded in that superstructure. These moral imperatives include basic Islamic social virtues such as awareness of social justice, fraternity, and—most importantly—the spiritual ends of humanity. As such, Ṣadr’s conceptualization of Islamic economics assumed the governing auspices of an Islamic state that would be able to coordinate these integrated areas of human activity into the all-embracing Islamic vision of the ideal community.⁴⁷³ He presented a mixed economy model in which the state systematically intervened in economic activity in order to uphold social justice and fraternity within the community through a welfarist model of governance.⁴⁷⁴

In conclusion, similar to the developments in the conception of justice in the Western tradition, the conception of justice among Muslims through the modern period experienced significant development as a consequence of interaction with contemporary Western ideas of justice with their contractual and social change-oriented dimensions. If in the pre-modern period, the Islamic discourse on social justice was applied mainly in the legal and to a lesser extent philosophical traditions

⁴⁷¹ Davari, *Political Thought*, 94.

⁴⁷² Davari, *Political Thought*, 94.

⁴⁷³ Davari, *Political Thought*, 95.

⁴⁷⁴ Mallat, “Ṣadr, Muhammad Baqer Al.”

mainly with respect to a patrimonial and virtue ethics conception of justice, the Islamic discourse since the nineteenth century has emphasized legal, social, economic, and political dimensions which can be labelled Islamic thought. Islamic economics features one of the most elaborate conceptions of justice within this approach, as it tries to introduce Islamic moral principles into economic theory and practice as an alternative to secular approaches, and to employ principles of justice and equality side by side with those of economic efficiency and growth for the larger purpose of both spiritual and material prosperity.⁴⁷⁵

This chapter has shown the importance of the idea of justice in Islamic intellectual history, though Muslims, conditioned by various political cultures and societies in which they lived, have interpreted it differently. Justice is a central concept in Islam and has implications for diverse sciences of the Islamic tradition, in the fields of theology, morality, and law. We have seen how discussions on justice during the early period of Islam centered mainly on sectarian and theological issues pertaining to classical disputes on how God's attributes relate to His essence. This discourse, however, had marginal or no normative implications on ethics, let alone on policies of governance related to economic welfare. Rather, the sources of Islamic thinking on justice as a condition of economic and social welfare were the philosophical tradition on the one hand, and the legal tradition on the other. These sources continued to exert some influence right up to the modern period. However, in the context of colonialism and the emergence of the modern state, new perspectives on the issue changed this paradigm irrevocably, from the hitherto patrimonial and virtue-ethics conception of justice to a modern one.

⁴⁷⁵ Kramer, "Justice in Modern Islamic Thought, 23.

PART FOUR: SJAFRUDDIN PRAWIRANEGARA: BIOGRAPHY AND GENERAL OUTLINE OF HIS THINKING

4.1. Chapter One: A Brief Biography

Sjafruddin Prawiranegara is considered the best example of a proponent of economic liberal policy in Indonesia,⁴⁷⁶ at the same time as he is perceived to be a conservative economic policymaker.⁴⁷⁷ These facts may seem at first rather contradictory. In 1948 Sjafruddin promoted ‘religious socialism’ as an ideology which, according to him, was suitable to Indonesian society and was in harmony with the Constitution. He was known then as an ideologue of religious socialism *par excellence* in the Islamic Masyumi Party.⁴⁷⁸ Furthermore, during the Japanese occupation (1942-1945) he was close to Sutan Sjahrir, the founder of and leading figure in PSI.⁴⁷⁹ During his tenure as Minister of Finance in a number of cabinets during the 1950s and as the first Governor of the Central Bank of Indonesia (BI), Sjafruddin—along with other figures of the realist-pragmatic camp—initiated economic policies promoting “maximization of production, fiscal stability, and administrative rationalization.”⁴⁸⁰ One of the best descriptions of Sjafruddin was offered by Benjamin Higgins, a well-known Canadian economist who served as a member of a United Nations technical assistance mission to Indonesia and as Director of the Massachusetts Institute of Technology Indonesia Project in the 1950s. Higgins described him as:

[having] already established an international reputation, later to become still more solid, as a sound, conservative central banker with reliable judgment and an excellent nose for the requirements of economic policy. He was also a man of absolute integrity, unlimited gentleness and patience, and profound

⁴⁷⁶ Chalmers, “Introduction,” 28.

⁴⁷⁷ Glassburner, “Economic Policy-Making,” 81.

⁴⁷⁸ Kahin, *Nationalism and Revolution*, 309-310.

⁴⁷⁹ Rosidi, *Sjafruddin Prawiranegara*, 51-52.

⁴⁸⁰ Feith, *Decline*, 557.

spirituality. Much of the intellectual leadership of the sprawling Masyumi Party...came from him.⁴⁸¹

Higgins also pointed out the seeming contradiction between Sjafruddin's economic policy and his ideology, stating that "Sjafruddin spoke for his party as well for himself in embracing religious socialism as the economic ideology suitable for the new republic [though] his 'socialism' left plenty of room for private enterprise and individualism."⁴⁸²

A description given by Sutan Rais Alamsjah, who wrote brief biographies of ten prolific Indonesian leaders in the 1950s, not only helps us to understand Sjafruddin's character and political, economic, and religious ideas, but also foreshadowed his life's journey and the role he would later play in Indonesian national development:

[He is] a leading statesman who holds his own distinctive principles. He is never hesitant in stating his opinion, and he accepts all consequences of the actions he takes. His name is famous and intimately known by our people, more so since the upheavals of the Revolution. In the past five years, Sjafruddin has emerged to be one of the most stalwart among the many leaders, heroes and warriors of the homeland in completing the struggle for independence. His politics has foresight. He is a financial and political expert. In everyday life, he always seems happy, always smiling and laughing; sometimes his smile appears bitter [cynical] to friends whom he considers to be guilty of some wrongdoing. But even if he mocks and provokes he expresses it through humour. He is amiable, warm-hearted, soft and slow-speaking, but always firm and straightforward. Whatever he says, that is the content of his heart. He is unskilled in sweet-talk, in planting a sugar cane on the lips [a Malay/Indonesian proverb referring to flattery or honeyed words]. If someone is wrong, he would argue against him straightforwardly, no matter whose [opinion] it is. [On the other hand] if his opinion was taken to task, and it is well-justified, he is courageous enough to drop his word. He was consistent, and honest. He is also an Islamic writer with sharp pen. His essays are substantial and insightful. In all his writings, he always inclined

⁴⁸¹ Higgins with Higgins, *Indonesia*, 82.

⁴⁸² Higgins with Higgins, *Indonesia*, 82. Concerning the term "Religious Socialism," Mohammad Natsir, the general chairman of Masyumi (1949-1957), explained to George McTurnan Kahin that it "was a bit of a misnomer, for the socio-economic formula which he and these colleagues espoused called for a mixed economy, encompassing socialist, cooperative, and private components, but with it being understood that attached to private property went the social responsibility to use it in a way that would promote the welfare of the community as well as that of the owner." George McTurnan Kahin, "In Memoriam: Mohammad Natsir (1907-1993)," *Indonesia* 56 (October 1993): 161.

towards Islam. When he gives a speech, the audience is often full of laughter. He is funny and has a lot of humor. Within the party, he is among its prominent [leaders], offering his utmost energy.⁴⁸³

These quotations seems to confirm the generally-held view that Sjafruddin was a rational and honest person, two important traits that would be reflected in a number of political decisions he made during his involvement in the revolution and subsequent republican governments. His personal character, along with the intellectual behaviour he acquired from his Dutch higher education, permeated his religious, political and economic views. In evaluating and forming economic policies, he based his assessment on a rational and realistic consideration of the situation which Indonesia faced at the time, instead of on a rigid ideology or a sentimental “spirit of revolution”. Nevertheless, he was not a realist who merely sought to maintain the existing economic structure, nor a rationalist who had no ‘heart’ or compassion for the conditions of the common people in deciding economic policy. He was an idealist whose vision of the future was based on concrete situations and moral considerations. As such, Sjafruddin was able to avoid the extremes of romantic idealist-fanatic or realist-opportunist.

This approach was also reflected in his understanding of Islam and his practice of the religion. Indeed, on the one hand, Sjafruddin had strong faith in God's omnipotence and believed that Islam was the last religion and the complete way of life. But on the other hand, his understanding of Islam was also rational, humanist and progressive. According to Sjafruddin, Muslims in modern times were permitted to diverge from the opinion of the Prophet on worldly matters, if it was no longer relevant to today's circumstances or if the traditional implementation of Islamic

⁴⁸³ Sutan Rais Alamsjah, *10 Orang Indonesia Terbesar Sekarang* (Jakarta: Firma Bintang Mas, 1952), 138. This ranking of the Indonesian leaders was based on polling held by the Jakarta daily newspaper *Abadi* on June 25, 1951. Sjafruddin Prawiranegara ranked number nine. Ranking, in order from one to ten, was: Sukarno, Mohammad Hatta, Mohammad Roem, Soekiman Wirjosandjojo, Mohammad Natsir, Sultan Hamengku Buwono IX, H. Agus Salim, Sjafruddin Prawiranegara, and Sartono.

economic precepts caused needless difficulties, such as the detailed parameters of *zakāt* (alms-tax) and *ribā* (usury), as prescribed by the traditional texts.⁴⁸⁴ The Prophet's ideas and policies reported in many hadiths were, according to Sjafruddin, based on an understanding of worldly issues that was conditioned by the circumstances of his time.⁴⁸⁵ This opinion would be regarded as liberal among Muslims even by today's standards.⁴⁸⁶

Sjafrudddin Prawiranegara was born on February 28, 1911 in the sub-district of Anyar Kidul, Banten, West Java. He was the second child of Raden (Prince) Arsjad Prawiraatmadja, who was the head of the sub-district of Muncang, Banten. His family was of the Bantenese aristocracy and he therefore received a good Western education within the Dutch colonial system: he completed elementary schooling at an Europeesche Lagere School (ELS, European Primary School) in Serang, Banten, and Ngawi, East Java, and a Meer Uitgebreid Lager Onderwijs (MULO, More Advanced Primary Education) in Madiun, East Java, before gaining entrance to secondary education at an Algemene Middelbare School (AMS, General Middle School) in Bandung, West Java. At the university level, he studied law in RHS (Rechts Hogeschool) in Jakarta, which was the predecessor of the Faculty of Law of the current University of Indonesia. He graduated from RHS with the degree of *Mr.* (*Meester in de rechten*, Master of Law) in 1939.⁴⁸⁷

⁴⁸⁴ Sjafruddin Prawiranegara, "Islam dalam Pergolakan Dunia," in *Islam Sebagai Pedoman Hidup*, vol. 1 of *Kumpulan Karangan Terpilih*, ed. Ajip Rosidi (Jakarta: Inti Idayu Press, 1986), 27; Prawiranegara, *Al-'Aqabah*, 51-54.

⁴⁸⁵ Sjafruddin Prawiranegara, *Islam dilihat dengan Kacamata Modern* (Jakarta: Yayasan Idayu, 1975), 13-16.

⁴⁸⁶ In this regard Sjafruddin said in 1987: "I hope to be one of those pioneers who will introduce a new vision of Islam, as in the early stages of its history when it was liberal and humanist. We must bring Islam back to its real function as a moral force to improve the state of the world. The most important problem in the world today is to find the tolerance to live together without violence and force. This liberal approach must be made attractive and inspiring to the younger generation of Muslims in Indonesia." Prawiranegara, "Recollections," 107.

⁴⁸⁷ Rosidi, *Sjafruddin Prawiranegara*, viii.

Throughout the period of the Dutch colonial rule, as a student and in the early years following his graduation from RHS, Sjafruddin was not involved in any nationalist or Islamic organizations. Instead, during his studies, he was an active member of the conservative non-political organization USI (Unitas Studiosorum Indonesiensis), a forum which provided activities to meet student needs and interests, such as discussions, trips and sports. This forum paid almost no attention to the social conditions of the colonial state, let alone its political problems. According to Anderson,⁴⁸⁸ USI was sponsored by the Dutch colonial government to counter the somewhat-radical PPPI (Indonesian Students' Association). But in his book on intellectual and nationalism, J.D. Legge wrote that "[...] it would be inaccurate simply to categorize PPPI as radical and USI as conservative. USI members saw themselves as being 'liberal' in the broad sense rather than narrowly nationalist."⁴⁸⁹ Moreover, USI eventually became a network for students and former members to communicate and to awaken nationalist spirit during the Japanese occupation.⁴⁹⁰ However, Sjafruddin's interests extended beyond student activities. He was very much concerned with and engaged in social and humanitarian efforts. He founded PEKOPE (*Penolong Korban Perang*, War Victims' Helpers), a war relief

⁴⁸⁸ Benedict R. O'G. Anderson. *Java in a Time of Revolution: Occupation and Resistance, 1944-1946*. (Ithaca: Cornell University Press, 1972), 439.

⁴⁸⁹ J. D. Legge, *Intellectuals and Nationalism in Indonesia: A Study of the Following Recruited by Sutan Sjahrir in Occupation Jakarta* (Ithaca, NY: Cornell Modern Indonesia Project, 1988), 44. An event which showed that Sjafruddin had strong nationalist feelings, even though he was active as a board member of conservative or liberal USI, was his reaction to a statement by Professor Eggens in a lecture on civil law at RHS. According to Prof. Eggens, the Malay/Indonesian language was impossible to use as a language of science because it was a primitive language. That statement offended Sjafruddin who later wrote an article (in Dutch) in a magazine published by USI entitled "Een Hollandse Kwajongen" [A Dutch Scamp]. For Sjafruddin, what was expected from a professor was a wise and developed opinion. Sjafruddin wrote that though Eggens had just come from the Netherlands and had neither studied nor understood the Indonesian language in depth, he had dared to say the language was incapable of being a scientific language. Therefore Eggens, Sjafruddin said, deserved to be called a scamp. According to Sjafruddin, the Indonesian language contained elements such as to be a scientific language. Sjafruddin's writing was alarming, and the school senate chairman Prof. Zeylemaker ordered Sjafruddin to apologize to Eggens. Sjafruddin refused to apologize unless Eggens first apologized to the Indonesian nation and in particular to the students. The school senate had no further reaction and because of that, the matter came to be considered settled. Rosidi, *Sjafruddin Prawiranegara*, 45-46.

⁴⁹⁰ Legge, *Intellectuals and Nationalism*, 44.

organization, in which he was deeply involved. He served as secretary of the organization up to the advent of the Japanese military occupation in 1942.⁴⁹¹ Soon after his graduation, Sjafruddin began working in a private radio-broadcast and became editor of its publication, *Soeara Timur* (Voice of the East). The journal was sponsored by Soetardjo Kartohadikoesoemo, a member of the *Volksraad* (People's Council) and initiator of the famous 1936 petition requesting Indonesian self-government within a Dutch-Indonesian union.⁴⁹² However, neither nationalist organizations nor the Dutch-sponsored *Stadswacht* (City Guard) suited Sjafruddin's political aspirations.⁴⁹³ After all, he was a cooperators, unlike Sukarno, Hatta, Sjahrir, and many other Indonesian leaders who did not work jointly with the colonial power (non-cooperators). In 1940 he took a job as an employee in the Department of Finance and was posted at the tax office in Kediri, East Java. During the Japanese military occupation he was assigned as head of the Kediri tax office and was then moved to head of the tax office in Bandung.⁴⁹⁴ But the suffering of Indonesians under Japanese occupation, which was more severe than that under Dutch colonial rule, changed his belief that Indonesians were still unprepared for independence.⁴⁹⁵ While the Dutch were still in power, Sjafruddin had been convinced that Indonesia was not yet ready to become independent because its people lacked expertise and experience in almost all fields. He believed in the good intentions of the Dutch to educate Indonesians, develop the country and ultimately to grant them

⁴⁹¹ Alamsjah, *10 Orang*, 140.

⁴⁹² Ricklefs, *A History*, 228.

⁴⁹³ Rosidi, *Sjafruddin Prawiranegara*, 48.

⁴⁹⁴ Prawiranegara, "Recollections," 101; George McTurnan Kahin, "In Memoriam: Sjafrudin Prawiranegara (1911-1989)," *Indonesia* 48 (October 1989): 102; Ajip Rosidi, "Kata Pengantar," in Sjafruddin Prawiranegara, *Islam Sebagai Pedoman Hidup*, vol. 1 of *Kumpulan Karangan Terpilih*, ed. Ajip Rosidi (Jakarta: Inti Idayu Press, 1986), viii; Deliar Noer, "Kata Pendahuluan," in Sjafruddin Prawiranegara, *Islam Sebagai Pedoman Hidup*, vol. 1 of *Kumpulan Karangan Terpilih*, ed. Ajip Rosidi (Jakarta: Inti Idayu Press, 1986), xxv.

⁴⁹⁵ Widespread feelings of dissatisfaction, anger, and indignance concerning the cruel treatment of Indonesians by the Japanese triggered Sjafruddin to engage in a quarrel with a Japanese person who refused to pay taxes. At the time it may have been rare people who dared to fight, scold or blow up against Japanese. Rosidi, *Sjafruddin Prawiranegara*, 49-50.

independence.⁴⁹⁶ During the Japanese occupation, however, he came to the conclusion that Indonesian independence should be sought immediately, despite the lack of human resources to manage economic and social structures on a national level. The lack of expertise, he believed, could be gradually surmounted.⁴⁹⁷

He therefore began to attend meetings of youth activists and leaders of independence movement in Bandung, and went to Jakarta to meet his old friends from USI and to join the underground movement against the Japanese occupation led by Sutan Sjahrir.⁴⁹⁸ Sjafruddin's involvement in these activities would bring him to the forefront of national politics in the crucial period following the declaration of independence in August 1945. His first position in the new government was as secretary of the Indonesian National Committee (KNI) of the Priangan Residency in Bandung. The KNI was a transitory government body established to extend government rule throughout the various regions of the nascent state. He held the position only for a short time, since he was soon appointed one of fifteen members of the Working Body of the Central Indonesian National Committee (KNIP) in Jakarta with Sjahrir as its chairman. Sjafruddin's involvement in politics took a different turn following Vice President Mohammad Hatta's famous promulgation on November 3, 1945 that changed Indonesia's system of government from a presidential to a parliamentary system. In this declaration, the government urged all citizens to create and join political parties as a means of democracy. In this new political situation, Sjafruddin eventually chose to join the Muslim Masyumi Party in

⁴⁹⁶ Prawiranegara, "Recollections," 101. But his belief in the good intentions of the Dutch had been fading, and after November 1938—when a royal decree rejected the aforementioned petition—he no longer believed that the Dutch would cooperate to give independence to Indonesia. Rosidi, *Sjafruddin Prawiranegara*, 46; Ricklefs, *A History*, 229.

⁴⁹⁷ Rosidi, "Kata Pengantar," viii-ix.

⁴⁹⁸ Sjafruddin had maintained a close political association with Sjahrir during the revolution and was a regular visitor to his house during the Japanese occupation; nonetheless, he did not see himself as belonging to Sjahrir's circle or as his follower; although he admitted that members of the circle might regard him as such. See Legge, *Intellectuals and Nationalism*, 68 and 141.

1946, despite his association and closeness with Socialist Party leader Sjahrir, an act which brought him into national politics.⁴⁹⁹

Along with Mohammad Natsir, Sjafruddin led Masyumi's dominant socialist religious wing. His influence among those in the party who espoused Modernist Islamic views increased with the publication of his book, *Politiek dan Revolusi Kita, Politics and Our Revolution* (Yogyakarta: 1948).⁵⁰⁰ The book was a reflection of Sjafruddin's short-lived involvement in the struggle to maintain independence, his period as a member of cabinet, and his membership in Masyumi. The religious socialists within Masyumi provided a bridge that made possible its cooperation with the Socialist Party led by Sjahrir. This was evidenced by Sjafruddin's serving as Vice Minister of Finance in Sjahrir's second cabinet (March 12-October 2, 1946) and Minister of Finance in his third cabinet (October 2, 1946-June 27, 1947), as well as being appointed Minister of Economic Affairs/Prosperity in the non-party cabinet of Mohammad Hatta (January 29-December 19, 1948).⁵⁰¹

Upon being appointed minister of economic affairs, Sjafruddin assumed a very crucial role in the struggle to defend Indonesian independence as head of the Emergency Government of the Republic of Indonesia (PDRI). On December 19, 1948 the Dutch launched their second military action intended to overrun Republican-controlled areas of Java by occupying Yogyakarta and arresting Indonesian leaders including President Sukarno, Vice President Hatta, and several ministers. Having anticipated such an attack, the Republican leaders agreed that Vice President/Prime Minister Hatta would move to central Sumatra, from where he would direct

⁴⁹⁹ Rosidi, "Kata Pengantar," viii-x. When explaining his choice of Masyumi rather than Sjahrir's Socialist Party, Sjafruddin said that his love to his parents (*pietas*) compelled him to choose Masyumi and because the strength of his religious upbringing prevented him from becoming a socialist materialist. Prawiranegara, "Recollections," 101; Prawiranegara, "Peranan Islam," 256.

⁵⁰⁰ I have not been able to locate the book. Some citations have been obtained here through direct quotations by Kahin and Anderson.

⁵⁰¹ Kahin, "In Memoriam: Sjafruddin Prawiranegara," 102. Cf. Kahin, *Nationalism and Revolution*, 232.

government operations. The beginning of December saw the two leaders set off for Bukit Tinggi in the west of Sumatra where they began to set up what would become the provisional Emergency Government. However, with the existing UN-sponsored negotiations on the verge of breakdown, Hatta was forced to return to Java to take part in the discussions. In his absence Sjafruddin was given complete control over leadership of the Emergency Government. Hatta was expected to return to Sumatra, but a renewed Dutch offensive thwarted this plan.⁵⁰² With the news of the assault in Java, Sjafruddin quickly moved PDRI to an isolated and secure region in the western/central part of Sumatra. A division ("Commissariat") was set up in Java, led by cabinet ministers and military leaders who had managed to evade Dutch incarceration. He also made contact with several Indonesian representatives abroad such as Mr. A.A. Maramis, Indonesian ambassador in New Delhi, and L.N. Palar, who headed the Indonesian observation mission in the UN. The ability and effectiveness of PDRI under Sjafruddin's leadership as a legitimate political voice representing Indonesian territory free of Dutch control, combined with the highly-visible guerrilla resistance of the Republican armed forces, made it possible for Sjafruddin to instruct the Republic's delegation to the UN to demand considerably stiffer concessions in negotiations with the Dutch compared to those which obtained before the second aggression. Sjafruddin's Emergency Government maintained its political pressure until, after prodding from the UN and Great Powers, the Dutch released Sukarno, Hatta, and other Republican leaders, who were able to return to a Republican-controlled Yogyakarta.⁵⁰³ The inability of the Dutch to impose a political settlement by military means, coupled with various international pressures, forced them to negotiate sovereignty with the United Republic of Indonesia and they eventually recognized Indonesian independence. Sjafruddin as head of PDRI had already

⁵⁰² Kahin, "In Memoriam: Sjafruddin Prawiranegara," 102; Rosidi, "Kata Pengantar," xi.

⁵⁰³ Kahin, *Nationalism and Revolution*, 338 and 392-393.

handed back his mandate to President Sukarno before negotiations started.⁵⁰⁴ Soon after an independent Indonesia gained recognition from the Dutch on December 27, 1949, Sjafruddin continued to work closely with Hatta, serving as Vice Prime Minister in his cabinet from January 1 to September 6, 1950, and as Minister of Finance in the cabinet of Mohammad Natsir from September 6, 1950 to March 20, 1951. He was then appointed president of De Javasche Bank by the cabinet of Prime Minister Soekiman Wirjosandjojo on July 14, 1951. Under Sjafruddin's leadership De Javasche Bank was transformed into the (Central) Bank of Indonesia of which he became the first governor on July 1, 1953. He held this position for a second term until 1958.⁵⁰⁵

Sukarno's response to a series of developments during 1957, including the Outer Islands' demand for considerably increased local autonomy and more rapid economic development, the instability created by the democratic parliamentary political system—or more precisely, its abuse⁵⁰⁶—and continued Dutch intransigence concerning control of the province of Irian Barat/West Papua, led to Sjafruddin's decision to break with Sukarno and with the head of his non-party cabinet, Djuanda Kartawidjaja. President Sukarno tried to remedy the troubles of the country by instituting in 1957 his concept of Guided Democracy. However, the program ultimately exacerbated political instability in the midst of rising tensions between Jakarta and regions outside Java as well as growing radical nationalist sentiment in the left wings of PNI and PKI. Sjafruddin strongly opposed Sukarno's program. Although he shared Sukarno's indignation toward Dutch obstruction of a

⁵⁰⁴ Kahin, *Nationalism and Revolution*, 432-433; Rosidi, "Kata Pengantar," xi.

⁵⁰⁵ Kahin, "In Memoriam: Sjafruddin Prawiranegara," 103; Rosidi, "Kata Pengantar," xii.

⁵⁰⁶ The system allowed for the change of cabinets in a short period of time. This conflict also spread to the military, prompting one faction of them to demand the dissolution of parliament. For approximately seven years, seven successive cabinets tried to improve economic conditions after the international recognition of Indonesian independence, but either they failed or were not fully successful in implementing the program because each cabinet just ruled for such a short span. Chalmers, "Introduction," 13; Higgins with Higgins *Indonesia*, 86.

UN discussion concerning the Irian Barat/West Papua dispute, Sjafruddin was nevertheless highly critical of certain actions taken by labour unions and later by the army, including seizures of Dutch enterprises and inter-island shipping companies, which were either initiated or approved by Sukarno. He deemed these actions rash and economically detrimental. Sjafruddin's strong criticism of this plan before Sukarno and the National Conference on Development in November 1957 set off a barrage of harassing phone calls and a campaign of abusive attacks against him in both Sukarno- and communist-aligned newspapers, accusing him of trying to protect Dutch interests.⁵⁰⁷

By the end of the month Sjafruddin had left Jakarta for Sumatra due to increasing intimidation. His stay in Palembang was marked by his correspondence with South Sumatra local rebel leader Colonel Barlian, in which economic and political concerns were discussed. It was also during this time that Sjafruddin sent Sukarno an open letter urging him to put an end to his totalitarian Guided Democracy system in exchange for a cabinet of experts led by ex-Vice President Hatta and the Sultan of Yogyakarta⁵⁰⁸.

This period proved to be the beginning of Sjafruddin's most controversial years. Reaching Padang, West Sumatra later in January 1958, he, along with Mohammad Natsir and Burhanuddin Harahap—both former prime ministers from the Masyumi Party—and Sumitro Djojohadikusumo from the Indonesian Socialist Party—who like Sjafruddin was a former minister of finance—came out as the most prominent civilian leaders in a military dissident movement for political autonomy,

⁵⁰⁷ Kahin, "In Memoriam: Sjafruddin Prawiranegara," 103; Higgins with Higgins, *Indonesia*, 86-89, and 93; Dick, "Formation," 184.

⁵⁰⁸ One of Sukarno's actions that was considered to be in violation of the constitution was when, on February 21, 1957, he appointed himself in the role of cabinet-formateur by assigning Djuanda Kartawidjaja as prime minister, replacing Ali Sastroamidjojo who led the last parliamentary cabinet based on election results in 1955. Kahin, "In Memoriam: Sjafruddin Prawiranegara," 103.

which covered most of Sumatra and parts of Sulawesi. They had reached a point where they were no longer able to compromise further with the central government. The movement emerged from mounting frustration over how things were run in Jakarta, most notably the Javacentricism of the state's economic policies in addition to the absence of any effective regional representation in government. The people's disenchantment stemmed largely from the government's poor state management, rampant corruption and excessive red tape. Furthermore, disillusionment with the government intensified with Hatta's resignation as vice president in 1956. Sukarno's decision to adopt the trajectory of Guided Democracy moved him further away from the parliamentary system. This move was reinforced by his sympathetic position towards the Indonesian Communist Party, so much so as to include them in the government.⁵⁰⁹ Lieutenant Colonel Ahmad Husein, one of several military commanders striving for increased autonomy in the region, declared the formation of the PRRI on February 15, 1958 with headquarters in Bukit Tinggi, West Sumatra. Sjafruddin was appointed prime minister of the newly-established counter-government.⁵¹⁰ Two days later Lieutenant Colonel Ventje Sumual announced the formation of the Permesta (Perjuangan Semesta, Universal Struggle) movement in Sulawesi/Celebes, and joined the PRRI in opposition to the central government.⁵¹¹

⁵⁰⁹ Kahin, "In Memoriam: Sjafruddin Prawiranegara," 103. The conflict between the outer islands and Jakarta was described by Benjamin Higgins and Jean Higgins as "the conflict between moderates and radicals." Higgins with Higgins, *Indonesia*, 118.

⁵¹⁰ Prawiranegara, M. Natsir, and Burhanuddin Harahap managed to prevent the formation of the Republic of Sumatra, which was planned by the military commanders in order to separate themselves from the Republic of Indonesia. Meanwhile the formation of PRRI was intended to be a rival government to pressure Jakarta. According to the PRRI, the government of Indonesia in Jakarta, led by Sukarno and Prime Minister Djuanda, was illegal because it was formed through a violation of the constitution. Sjafruddin originally envisaged that sufficient pressure could be exerted on Sukarno to exact concessions from him, which would provide for greater autonomy and a national government where the president's power would be diminished. Kahin, "In Memoriam: Sjafruddin Prawiranegara," 103-104; Rosidi, "Kata Pengantar," xii; Higgins with Higgins, *Indonesia*, 118-119.

⁵¹¹ Ricklefs, *A History*, 299-300.

Sjafruddin's resolve to join the PRRI-led movement calls into question his rationale for such a decision. As previously mentioned, he was well respected and considered by many to possess a very sensible and practical character. Sjafruddin was consistently realistic in his approach to a problem and keen to find the best long-term solution, an attitude exemplified in his economic and political policies in which all relevant factors and existing conditions were considered. Here we need to examine the situation with regard to the ultimatum prepared by the dissident colonels demanding that the central government in Jakarta give in to their demands. Sjafruddin opposed this, as he saw the ultimatum as a futile effort: he knew that if the central government chose to respond with military force, the PRRI would have little chance of success and he predicted its impending failure. He warned them that Colonel Barlian, without whose firm support PRRI would not succeed and whose control over resource-rich Palembang would be a huge advantage for the PRRI,⁵¹² had expressed that he would not support the formation of a counter-government; this despite the fact that Barlian was one of the dissident regional army commanders who signed the Palembang Charter on September 8, 1957 demanding the appointment of Hatta as prime minister and outlawing the Communist party.⁵¹³ Urging restraint, Sjafruddin asked them to abandon the ultimatum and instead to strive for a peaceful solution in order to avoid civil war, but the hawkish colonels

⁵¹² Colonel Barlian was in control of the resource-rich region of Palembang, abundant in oil fields and vital to Indonesia's economy. Had he supported the ultimatum, PRRI would have had substantial leverage over the central government and would have been able to force them to make concessions to PRRI's demands. However, Barlian's refusal to support PRRI meant that there was not enough incentive for the government to cooperate with PRRI. Audrey R. Kahin & George McTurnan Kahin, *Subversion as Foreign Policy: The Secret Eisenhower and Dulles Debacle in Indonesia* (New York: The New Press, 1995), 130; Kahin. "In Memoriam: Sjafruddin Prawiranegara," 103-104.

⁵¹³ Kahin & Kahin, *Subversion as Foreign Policy*, 131-132; Daniel S. Lev, *The Transition to Guided Democracy: Indonesian Politics, 1957-1959*, Monograph Series (Ithaca, New York: Modern Indonesia Project, Southeast Asia Program, Department of Asian Studies, 1966), 41. Colonel Barlian's last decision not to join with the formation of a counter government or any open rebellion against Jakarta seemed to be based on his tenuous position "because of his region's proximity to Java and also because of the large number of Javanese labourers working there and the contingents of Javanese troops stationed in the province."

went ahead with their plans. Despite his conviction that the movement was a lost cause, and against his own better judgement, Sjafruddin stood by the PRRI. His prediction regarding the events turned out to be true: the central government, with relative ease, deployed troops and attacked and seized Bukit Tinggi. The headquarters of the PRRI and other towns in West Sumatra were overrun in just two months. And although the PRRI continued to fight a guerrilla war from the jungles,⁵¹⁴ the PRRI/Permesta rebellion failed to achieve its goal. Hatta, Masyumi, and PSI were discredited.⁵¹⁵

The problems and events outlined above ultimately led to an increasingly dominant role for President Sukarno, the army, and the (later antagonistic) PKI.⁵¹⁶ In addition, the political stalemate in the Constitutional Assembly over the issue of the basis of the state provided extra ammunition for the army to disparage the credibility of the liberal democratic system. Eventually the president promulgated the Decree of July 5, 1959 for “the return” to the 1945 Constitution, dismantling the Constituent Assembly and, one year later, the elected parliament.⁵¹⁷

Why did Sjafruddin decided to join the PRRI movement when he had predicted that it would either fail or have little chance of successfully obtaining concessions from the central government? His decision seems to be completely out of character, and was perhaps an example of his own human weakness. Worried that he would be considered a coward, and feeling a strong sense of solidarity for the people involved, Sjafruddin was unable to turn his back on the dissident movement. Sjafruddin felt that his involvement with PRRI had already run too deep. There was, in his mind, no going back—it was a *fait accompli*. Ajip Rosidi argues that these

⁵¹⁴ Kahin & Kahin, *Subversion*, 132; Kahin, “In Memoriam: Sjafruddin Prawiranegara,” 103-104; Lev, *Transition*, 40.

⁵¹⁵ Kahin & Kahin, *Subversion*, 217.

⁵¹⁶ Kahin & Kahin, *Subversion*, 217-219.

⁵¹⁷ Ricklefs, *A History*, 303; Lev, *Transition*, 277; Dick, “Formation,” 186; Harvey, *Permesta*, 150.

sentiments were also shared by other leaders such as Mohammad Natsir and Burhanuddin Harahap. The extent of their involvement with PRRI was, as they saw it, at the point of no return.⁵¹⁸

Initially, Sjafruddin, Natsir, and Harahap came to Sumatra seeking safety from the intimidation and threats that they and their families had endured in Jakarta from leftist Communist elements. They failed to receive protection from law enforcement apparatus, either the police or army. At that time they did not yet know that the colonels and Dr. Sumitro Djojohadikusumo, the colonels' principal civilian agent, had already decided to act against the central government with the support of the CIA. Only in the next few weeks, following a gathering in Sungai Dareh, West Sumatra where the dissident colonels convened to discuss national political and economic problems, did they and Mr. Assa'at (former president of Indonesia 1949-1950) gradually learn the nature of the plan.⁵¹⁹ Natsir, Sjafruddin, and Harahap's participation in the Sungai Dareh conference had a number of important results. They successfully dissuaded the military from attempting a separatist movement, insisting that any emergency government consist of a broad representation of Indonesians so as not to appear separatist (thus delaying its formation) and stipulating that "the rebels must be prepared to rejoin the central government, if it succumbed to rebel pressure and changed its nature and composition."⁵²⁰ However, by their very presence at the Sungai Dareh meeting—their relatively restrained participation notwithstanding—Sjafruddin, Natsir, and Harahap were, in the words of Kahin, crossing "a Rubicon and [...] it would not be possible to return to Jakarta."⁵²¹ And despite these leaders' moderating influence, Sjafruddin ultimately

⁵¹⁸ Rosidi, *Sjafruddin Prawiranegara*, 208.

⁵¹⁹ Kahin & Kahin, *Subversion*, 128; Rosidi, *Sjafruddin Prawiranegara*, 198-202.

⁵²⁰ Kahin & Kahin, *Subversion*, 129; Kahin, "In Memoriam: Sjafruddin Prawiranegara," 103; Rosidi, *Sjafruddin Prawiranegara*, 201-202 and 213.

⁵²¹ Kahin & Kahin, *Subversion*, 129.

failed to convince the military representatives not to issue an ultimatum to the central government.⁵²²

The ultimatum was eventually issued by the military rebels without Sjafruddin's signature, demanding, *inter alia*, that "Sukarno resume his constitutional position and rescind his unconstitutional actions of the past year, that the Djuanda administration return its mandate, and that Hatta and the Sultan of Yogyakarta be appointed to form a new cabinet to hold office until new elections were held."⁵²³ Lieutenant Colonel Ahmad Husein gave the central government five days to respond. But such a direct challenge was impossible for the central government to accept. The cabinet promptly rejected the ultimatum and refused all PRRI demands. Even the rebels' supporters in Jakarta, who were trying to find a peaceful solution, were dismayed at Husein's ultimatum.⁵²⁴ In this situation, Sjafruddin, as did other civilian leaders, reluctantly went along with the rebels. He had nowhere to go except to join the rebellion he knew would fail. Here it is fitting to quote George McTurnan Kahin's view on Sjafruddin's standpoint:

No one can be sure what the outcome would have been if Sjafruddin had succeeded in blocking an ultimatum until Sukarno's return and discussions with him had been held. But if Sjafruddin and his supporters had prevailed, the outcome might have been less disastrous for the peoples of Sumatra and Sulawesi than was the uncompromising challenge represented the gauntlet which the colonels flung down. More clear-cut, and more fundamental, was the issue in which he, Natsir, and Burhanuddin did prevail, when they successfully opposed the inclination of some of the colonels to go for broke by forming a separate state of Sumatra. And thus PRRI was defined as an

⁵²² Kahin & Kahin, *Subversion*, 138; Rosidi, *Sjafruddin Prawiranegara*, 210. For Sjafruddin, the situation was more complicated than for Natsir and Harahap, since he sent an open letter to Sukarno, dated January 15, 1958 "that strongly criticized the president's economic and political policies [...and] called on Sukarno to abandon his 'fascist concept of guided democracy' and return to a constitutional position within a government led by 'national leaders of proven integrity' such as Hatta and Hamengkubuwono (Sultan of Yogyakarta)." Kahin & Kahin, *Subversion*, 131-132. Again the question remains: why did Sjafruddin return to Padang after meeting with Barlian in Palembang? Why did he not just take a neutral position similar to that of Barlian? Sjafruddin's decision to go back to Padang seems to be inconsistent of his rational character—or indicative of his strong confidence in his ability to convince the dissident military leaders to cancel their plan.

⁵²³ Kahin & Kahin, *Subversion*, 138-139.

⁵²⁴ Kahin & Kahin, *Subversion*, 139.

Indonesia-wide movement strictly opposed to any secessionist diminishment of Indonesia's territorial integrity.⁵²⁵

For around three years Sjafruddin, joined by his family, and his allies were able to lead a guerrilla resistance against the central government's troops in the forests of Sumatra. However the Papua campaign forced the army to negotiate with the PRRI rebels. Meanwhile the latter were running out of ammunition and other supplies, and with the promise of general amnesty from the president, Sjafruddin and other yet-uncaptured PRRI leaders gave themselves up in 1961. Sjafruddin also ordered his forces to surrender "well after the erstwhile bellicose dissident Sumatra-based colonels had worked out their own terms for doing so."⁵²⁶ Despite having been promised amnesty and pardon, he and other rebel leaders were detained without due process. Also jailed were a number of other anti-communist politicians from Masyumi and PSI who were not involved in the rebellion or in any illegal action but were against Sukarno's Guided Democracy; they included Sutan Sjahrir (the first prime minister of Indonesia), Subadio Sastro Satomo, Mochtar Lubis, and others from PSI, as well as Mohammad Roem, Haji Abdul Malik Karim Amrullah (Hamka), Prawoto Mangkusasmito, Kasman Singodimejo, Isa Anshori, E. Z. Muttaqien, and others from Masyumi. They were only released after the army took over power in 1966.⁵²⁷

During his time in the Military Prison (RTM) from 1963 to 1966,⁵²⁸ Sjafruddin came to assume a more traditional religious role as he was regularly

⁵²⁵ Kahin, "In Memoriam: Sjafruddin Prawiranegara," 104.

⁵²⁶ Kahin, "In Memoriam: Sjafruddin Prawiranegara," 104; Ricklefs, *A History*, 307.

⁵²⁷ Rosidi, "Kata Pengantar," xii-xiii.

⁵²⁸ Once emerging from the jungle in Sumatra in 1961 to surrender to the army of the Central Government, Sjafruddin, Natsir and their families lived on their own in Padang Sidempuan, North Sumatra. Those people who received amnesty were to become legally free citizens. But then in early 1962 through late March, all the PRRI leaders were placed in "political quarantine" and were assigned the status of "town prisoners" in the small town of Cipayung, Bogor, West Java. They were not allowed to leave the town without the permission of military officer assigned to watch over them. After that, Sjafruddin, along with his wife and two children, were separated from other prisoners and moved to a house in Colo, Central Java, under the same status. From

asked to give the Friday prayer sermon. Like many Dutch-educated leaders of the Masyumi Party, he had not been well-educated in the traditional religious curriculum and never took to the pulpit. Though he had frequently given religious speeches, he had never delivered an official ritually-prescribed sermon in a mosque, such as that of Friday prayers. However, during his time as leader in the PRRI (1958-1961), he received lessons on delivering sermons from Buya Malik Ahmad, a religious scholar from West Sumatra. This skill was put to use when he became a regular preacher for the prison congregation. He would always write down a draft in preparation for his sermon, notes which were intended to be the basis of a more extensive study for a later time. Each presented a self-contained topic that discussed his insights and observations on God, spirituality, and the fundamental tenets of upright behaviour.⁵²⁹ For instance, in a speech about the meaning of freedom, he observed that “[t]here are many people who live in society and who are thought to be free, but whose souls are actually cornered. The first because he has done wrong, the second because he was wronged, the third because he fears. Indeed, the more prisons we find in a country, and the more people are imprisoned [therein], the closer that society is to the state of a prison!”⁵³⁰ According to him, this kind of entrapment also exists as an inner psychological state, irregardless of external conditions of physical freedom. The only difference is that those who are actually imprisoned are forced to confront their problems directly because of the segregated space of the prison. Those who are outside the walls have the illusion of freedom, so they are never compelled to confront the causes of their inward imprisonment. He

September 1963 onward Sjafruddin, along with civilian leaders like Natsir and Harahap and other PRRI/Permesta military officers, were placed in Military Prison House (RTM), Jakarta in worse prison conditions. This time they were without their families. They were imprisoned until July 1966 until political changes in the national leadership. Rosidi, *Sjafruddin Prawiranegara*, 219-221; Ricklefs, *A History*, 307.

⁵²⁹ Rosidi, *Sjafruddin Prawiranegara*, 224-225.

⁵³⁰ Rosidi, *Sjafruddin Prawiranegara*, 226.

concluded that real freedom belongs only to God and that "the awareness that we are merely God's creatures and servants, and therefore we must live in accordance with its laws, rules, and decisions, that is where our true freedom lies".⁵³¹ Other topics included a moral discourse on fear and sadness as the cause of shameful and base thoughts and actions, and a philosophical discussion on rationality and spiritual intuition.⁵³²

Sjafruddin was released on July 26, 1966 after President Sukarno lost power to the army, although he still remained officially the president. The Masyumi leaders, who were released from prison earlier (May 1966) than Sjafruddin, were soon involved in the effort to rehabilitate the party.⁵³³ But Sjafruddin felt disheartened to be involved in politics again after it became clear that the army-dominated regime had decided to forbid the rehabilitation of Masyumi and PSI as political parties. The two parties had been banned by the Sukarno regime in 1960. Moreover, the army-dominated "New Order" regime also revoked the right of 2.500 former Masyumi members to vote in the 1971 election. Confronted with the oppressive political climate and the realities of his circumstances, Sjafruddin decided to spend the rest of his life engaged in religious, social, and economic activities away from formal politics. He wrote books and articles on Islamic issues and social, economic, financial, and development affairs. He gave sermons on Fridays and on the holidays of 'Īd al-Fiṭr and 'Īd al-'Aḏḩā, delivered lectures at university campuses and student forums, and presented papers at public meetings and discussions. Sjafruddin was active in the Dewan Da'wah Islamiyah Indonesia (DDII), the Council of Indonesian

⁵³¹ Rosidi, *Sjafruddin Prawiranegara*, 227.

⁵³² In the last topic he discussed Kant's concepts of *theoretische Vernunft*, *practische Vernunft*, and *Kategorische Imperative*. Rosidi, *Sjafruddin Prawiranegara*, 227-231.

⁵³³ Ward, *Foundation*, 24.

Islamic Mission, an Islamic missionary organization established by former Masyumi leaders on May 1967 and led by Natsir after his release from prison.⁵³⁴

Sjafruddin was also elected general chairman of Husami (Himpunan Usahawan Muslimin Indonesia, the Indonesian Association of Muslim Entrepreneurs), founded on July 24, 1967.⁵³⁵ As chairman, Sjafruddin had to face the New Order government on matters concerning *hajj* (pilgrimage) services. According to his calculation, the government service was overly expensive due to inefficiency, extensive fraud and corruption. Under his leadership, in 1969 the organization was able to provide better service at a reduced price for people who wanted to perform the pilgrimage to Mecca (25% lower than the cost demanded by the government), by virtue of a more efficient arrangement. However, the following year Sjafruddin was confronted with the New Order government's monopolistic regulation, as the government forbade all private *hajj* travel companies from delivering the service. In the end, the government put a stop to Sjafruddin's efforts by cutting off Husami's *hajj* services altogether, asking the Saudi government to deny landing permission to the airplanes used by Husami to transport the pilgrims.⁵³⁶

During the Suharto Era, Sjafruddin emerged as one of the most vocal and respected critics of the New Order government. Though he was known to be supportive of the economic measures of the New Order technocrats, he maintained a consistent and informed condemnation of government corruption and injustices. In the 1980s he was one of the members of the *Petisi 50* (Petition of 50) group, which consisted of the New Order's most prominent and esteemed opponents. His fierce political opposition during this era led to the regime's imposing restrictions on his

⁵³⁴ Rosidi, *Sjafruddin Prawiranegara*, 242.

⁵³⁵ Rosidi, *Sjafruddin Prawiranegara*, 242-243; Ward, *Foundation*, 52.

⁵³⁶ Rosidi, *Sjafruddin Prawiranegara*, 245-251; Kahin, "In Memoriam: Sjafruddin Prawiranegara," 105.

movement; he was banned from travelling abroad except for necessary medical reasons.⁵³⁷

The restriction of his freedom notwithstanding, Sjafruddin continued his sharp and resolute criticism of the government for its wrongdoings, including corruption and other abuses of power, until the end of his life. Benjamin Higgins was right when he described Sjafruddin in the 1950s as a man of profound spirituality. In his last letter to Prof. George McTurnan Kahin and his wife Audrey of Cornell University on December 5, 1988, just over two months before he passed away, Sjafruddin wrote:

After the death of Sultan Hamengku Buwono IX who was—and still is—very near and dear to us because of all the help he extended to Lily [Sjafruddin's wife] and our four children [at that time] while I was away in Sumatra, I am more than ever aware that the time is nearing that the Angel of Death will fetch me and join me with all other friends and comrades in arms who have preceded us to the other and hopefully better world.⁵³⁸

During the late 1980s, Sjafruddin's health deteriorated drastically. He passed away on February 15, 1989 in Jakarta, just short of his seventy-eighth birthday.

Sjafruddin was a controversial and almost tragic figure in the modern history of Indonesia. However, his name has been recently rehabilitated as of November 7, 2011, when the current Indonesian government conferred upon him, along with nine other national dignitaries, the status of national hero in recognition of his various contributions to the Republic of Indonesia.⁵³⁹ The elevation of Sjafruddin as a national hero was a very significant step in the process of reconciling divergent forces in the bitter history of Indonesian politics. However, this historical

⁵³⁷ Kahin, "In Memoriam: Sjafruddin Prawiranegara," 104-105.

⁵³⁸ Kahin, "In Memoriam: Sjafruddin Prawiranegara," 105.

⁵³⁹ The ceremony took place in Merdeka (Liberty) Palace in Jakarta. His oldest daughter, Aisyah Prawiranegara, and his son, Rasyid, received national hero medals of honour for him from President Susilo B. Yudhoyono. Kompas, "Syafuruddin Prawiranegara dan IJ Kasimo Pahlawan Nasional," Kompas.com, November 8, 2011, accessed September 22, 2011, <http://nasional.kompas.com/read/2011/11/08/11262714/Syafuruddin.Prawiranegara.dan.IJ.Kasimo.Pahlawan.Nasional>; Pikiran Rakyat, "Mr. Sjafruddin Prawiranegara Dianugerahi Gelar Pahlawan Nasional." *Pikiran Rakyat Online*, August 11, 2011, accessed September 22, 2011, <http://www.pikiran-rakyat.com/node/164901>.

reconciliation was not accorded to those political groups whose action and ideas were taken to be subsversive to the ideals of Indonesia's territorial integrity: this included members of PKI, those Muslims who tried to found a separate Islamic state by means of violence, and those who sought to have a separate state (Republic of South Moluccas) in the Christian-majority area of South Moluccas in eastern Indonesia.

4.2. Chapter Two: General Outlines and Patterns of Sjafruddin Prawiranegara's Thought

This chapter will explore the principal ideas and patterns in Sjafruddin's political and religious thought, beginning with a discussion of his method of interpretation of injunctions contained in the Qur'an and Hadith, which positioned him as a liberal-modernist Muslim thinker; and secondly, addressing his political and social ideas.

4.2.1. A Liberal Modernist Interpretation of Islam

Sjafruddin's ideological orientation can be characterized as liberal-modernist. However, this view of him is rarely acknowledged in intellectual and academic circles in Indonesia because his reputation has been associated mostly with his involvement with the PRRI movement and his opposition to Sukarno's Guided Democracy and the New Order authoritarian regime. While most of younger liberal modernist Muslims employed a generally accommodative attitude towards the New Order authoritarian regime, Sjafruddin's critical attitude toward the undemocratic army-dominated political system during its dominance from 1967 to 1998 meant that many failed to recognise his liberal-modernist views. Almost all Indonesian and foreign observers and academics in the New Order period confined their designation of Sjafruddin to his role as a civilian leader of PRRI or as a

prominent economic policy maker in the 1950s.⁵⁴⁰ A few writers discussed his writings on Islam very briefly in the context of modern Indonesian Islamic thought, mostly with respect to his response to the New Order economic policy, as well as to the issue of Pancasila as the state ideology and the New Order government's efforts to enforce it as the sole foundation of socio-religious organizations.⁵⁴¹ With the exception of Prof. M. Dawam Rahardjo, a well-known economist and socio-religious thinker with precise knowledge of Sjafruddin's liberal line of thought, no one seems

⁵⁴⁰ In a pioneering work on a new trend of Islam in the New Order period, Fachry Ali and Bahtiar Effendy cited Natsir six times and analyzed his ideas for approximately three pages. They only mentioned Sjafruddin once in the context of the influence of his ideas and policies—along with those of Hatta and Sumitro Djojohadikusumo—on the economic policies of the New Order regime. See Ali and Effendy, *Merambah Jalan Baru Islam*, 90-91 and 141-142. Similarly, in his study of Neo-Modernism Islam in Indonesia, Greg Barton did not discuss Sjafruddin's ideas, let alone the distinctiveness of his thinking among the old modernists (former Masyumi leaders) whose "old fashion of thinking" become the target of criticisms leveled by the younger modernists or neo-modernists. Had Barton read Sjafruddin's writings carefully, he would have found many similarities between Sjafruddin's opinions and those of the neo-modernists which he appreciated and praised lavishly. Barton mentioned Sjafruddin merely in terms of his involvement in the PRRI movement. Greg Barton, *Gagasan Liberal Islam di Indonesia: Pemikiran Neo Modernisme Nurcholish Madjid, Djohan Effendi, Ahmad Wahib, dan Abdurrahman Wahid, 1968-1980*, trans. Nanang Tahqiq, ed. Edy A. Effendi (Jakarta: Paramadina, Pustaka Antara, Yayasan Adikarya IKAPI and the Ford Foundation, 1999), 52. Likewise Luthfi Assyaukanie, a lecturer at Paramadina University in Jakarta and a co-founder of the Liberal Islamic Network, was apparently not aware of Sjafruddin's 1971 opinion questioning the existence and function of the Ministry of Religious Affairs or the possibility of changing its role, during Assyaukanie's discussion of suggestions made by certain liberal Muslims on the issue after the demise of the New Order regime. Similar to Sjafruddin's apprehension, they equated it with a "market" and charged that it had become an agent of the state, fulfilling a political agenda rather than serving people's religious interests. See Luthfi Assyaukanie et al, *Muslim Politics and Democratization in Indonesia* (Clayton, Victoria: Monash Asia Institute, 2008), 11-13; Prawiranegara, *Al-'Aqabah*, 10. The title of the book is inspired by Robert Heilbroner's book *The Great Ascent: The Struggle for Economic Development in Our Time* (New York: Harper & Row, 1963), and by the Qur'anic word *al-'aqaba* in Chapter al-Balad 90:11-12. *'Aqaba* literally means the uphill road, step, or path—close to the meaning of 'great ascent'—denoting a difficult affair. The meaning of this metaphor is explained by subsequent verses (13-17): "And yet he has not attempted the steep path. What will explain to you what the steep path is? It is to free a slave, to feed at a time of hunger, an orphaned relative, or a poor person in distress, and to be one of those who believe and urge one another to steadfastness and compassion." See Maulana Muhammad Ali, *The Holy Quran: Arabic Text with English Translation and Commentary* (Dublin, OH: Ahmadiyya Anjuman Isha'at Islam Lahore, 2002), 1214; M. A. S. Abdel Haleem, *The Qur'an: A New Translation* (Oxford: Oxford University Press, 2005), 595.

⁵⁴¹ See Hassan, "Contemporary," 91 and 241-246; Faisal Ismail, *Islam and Pancasila: Indonesian Politics, 1945-1995* (Jakarta: Badan Litbang Agama dan Diklat Keagamaan, 2001/1422), 18, 128, 174, 176, 213, 220, 228, 256, 274, 276, 280, 318.

to have discerned the latter's liberal orientation in interpreting Islam. Even Rahardjo confined his analysis too briefly to the issue of *ribā*.⁵⁴²

The patterns and methods of Sjafruddin's thought are best expressed by Fazlur Rahman in his characterization of Muslim modernists as "those who have made an articulate and conscious effort to reformulate Islamic values and principles in terms of modern thought or to integrate modern thought and institutions with Islam."⁵⁴³ They are immersed in the issues of the nature of reason and its relation to faith, social reform, education, the status of women, political reform, and constitutional and representative forms of government.⁵⁴⁴ Sjafruddin's religious understanding can be classified as a liberal-modernist position signified by an emphasis on *ijtihad* (individual interpretation based on rationality or reason) and the integration of modern ideas and institutions within the moral-social orientation of the Qur'an.⁵⁴⁵

When discussing various topics related to Islam, Sjafruddin always tried to refer primarily to the Qur'an rather than to the traditions of the Prophet. His method was similar to that of many other modernist Muslims such as Muhammad Abduh (1849-1905), Sayyid Ahmad Khan (1817-1898), Muhammad Iqbal (1877-1938) and Fazlur Rahman (1919-1988).⁵⁴⁶ He would often also refer to the opinions of the

⁵⁴² Rahardjo, *Perspektif Deklarasi Makkah*, 22. Nurcholish Madjid, a liberal modernist Muslim (1939-2005) in Indonesia, mentioned Sjafruddin once in his discussion of religious socialism. Madjid also expressed similar ideas to those of Sjafruddin, especially concerning his definition of *ribā* as the "exploitation de l'homme par l'homme" to acquire wealth. Nurcholish Madjid, "Prospek Sosialisme-Religius di Indonesia, in *Islam, Kemodernan, dan Keindonesiaan*, ed. Agus Edi Santoso (Bandung: Mizan, 1429/2008), 92 and 100. See Prawiranegara, "Apa yang Dimaksud, 286.

⁵⁴³ Rahman, *Islam*, 222.

⁵⁴⁴ Rahman, "Islam: Challenges and Opportunities," 320; Rahman, *Islam*, 214-234.

⁵⁴⁵ Rahman, "Roots," 27-28; Charles Kurzman, "Introduction: The Modernist Islamic Movement," in *Modernist Islam 1840-1940: A Sourcebook*, ed. Charles Kurzman (Oxford: Oxford University Press, Inc., 2002), 3-6; Charles Kurzman, "Introduction: Liberal Islam," 13-26. For a discussion on the emphasis on social justice in Muslim modernist thinking see Rahman, "Islam: Challenges and Opportunities," 319-321.

⁵⁴⁶ As Fazlur Rahman explains: "The essence of the classical method of the interpretation of Islam was to rely squarely on the Qur'an and the basic outlines of the 'historical Sunnah', that is,

Islamic reformist Indonesian scholars (*‘ulamā*), but would use them critically. Sjafruddin contended that the Hadith were bound by the conditions of the Prophet's lifetime. Therefore, in his opinion, many regulations in the Hadith were no longer suitable to the present situation. His understanding of Hadith could be compared to that of Ghulam Ahmad Parwez.⁵⁴⁷ Sjafruddin believed only the Qur'an to be the revelation of God. While Hadith were the Prophet Muhammad's explanation and application of the revelation as a human being—albeit a prophet and messenger of God—Sjafruddin's opinion was based on the Qur'an, Chapter al-Kaḥf 18:110: "Say, 'I am only a human being, like you, to whom it has been revealed that your God is One. Anyone who fears to meet his Lord should do good deeds and give no one a share in the worship due to his Lord.'" According to him, the epistemological value of a hadith, unlike that of the Qur'an, was relative, because as a human being the Prophet's view on worldly affairs was limited to a certain place and time.⁵⁴⁸ Sjafruddin also believed that *ijtihād* should not be limited to the methodologies of the four Sunni legal schools of thought. He did not agree that the opinions of past scholars should limit the *ijtihād* of today. Therefore the Prophet's rules about *zakāt*, for example, were, in Sjafruddin's opinion, only valid for the type of society in the seventh century CE. Similarly, the rules of *zakāt* in the classical *fiqh* works of past

the biography of the Prophet as it shows his historical conduct, as distinguished from the 'technical Sunnah' contained in Hadith works. The Modernists, in general, had been led to put little reliance on Hadith, for reasons not really based on scholarly criticism but related to the fact that the Hadith is self-contradictory on many important points and much of it is also incompatible with the Qur'an." See Rahman, "Islam: Challenges and Opportunities," 321-322; Sheila McDonough, *The Authority of the Past: A Study of the Three Muslim Modernists*, AAR Studies in Religion 1970:1 (Chambersburg, Pennsylvania: American Academy of Religion, 1970), 2 and 8; Ali Rahnama & Farhad Nomani, *The Secular Miracle: Religion, Politics & Economic Policy in Iran* (London: Zed Books Ltd., 1990), 103.

⁵⁴⁷ McDonough, *Authority of the Past*, 37-38. Parwez insisted that Hadith were not part of the religion as the people understood it. McDonough, *Authority of the Past*, 37-38.

⁵⁴⁸ Prawiranegara, *Islam Dilihat*, 13-14. However, Sjafruddin did not mean that Hadith could not be used in the interpretation of Islamic law. As we shall see, he incorporated Hadith into his interpretation of *ribā*, extracting the principle or goal contained within them and drawing a very interesting conclusion. His treatment of Hadith seems similar to that of Fazlur Rahman. See Fazlur Rahman, *Islam and Modernity: Transformation of an Intellectual Tradition* (Chicago: University of Chicago Press, 1982), 147.

scholars were only valid for the time and place in which they were produced. In other words, the application of *zakāt* at the present time must take a fundamentally different form in order to cope with the complex development of modern society.⁵⁴⁹ Therefore, Sjafruddin did not agree with the view that Hadith should be used as a delimiter in *ijtihad* or in giving an opinion on religious matters. It seemed that Sjafruddin used Hadith only insofar as they did not delimit or restrict his understanding of the principles of the Qur'anic stipulations. In his view, unlike Hadith, the principles stipulated in the Qur'an were not bound by the conditions and situations which obtained in the time of the Prophet. It could be said that for Sjafruddin what really mattered was the spirit of the stipulations. The stipulations regarding *zakāt* in the Qur'an should not be understood literally but should be taken as principles. Here, for Sjafruddin, the spirit or essence of the injunctions was the obligation to equalize distribution of wealth and income.⁵⁵⁰

Sjafruddin emphasized three main components in his reinterpretation of Islam: the rational approach, the social-humanitarian approach, and the ethical approach.⁵⁵¹ For the first, he stated that there were many teachings that were presented as Islamic but which were actually interpretations of scholars, whether or not they were based on prophetic Hadith. According to him, "the best interpretation of the Qur'an is not that which is based upon the the Hadith of the Prophet, peace be

⁵⁴⁹ For a discussion of the re-interpretation of *zakāt* in the context of modern Indonesian society, see Masdar F. Mas'udi, *Keadilan: Risalah Zakat (Pajak) dalam Islam*, pengantar Abdurrahman Wahid (1991; repr., Bandung: Mizan, 2005).

⁵⁵⁰ Prawiranegara, *Islam dilihat*, 13-15 and 18-19. See also Rahardjo, *Perspektif Deklarasi Makkah*, 19-22. Sjafruddin's opinion seems more or less paralleled Sheila McDonough's description of modernists in India who: "[...] want to go back to the pre-medieval to find norms with which to challenge the beliefs and practices of the present. In the pre-medieval phase, everyone could be considered to have been a layman, and that includes all those who were companions of the Prophet, those who developed the laws and theology of early Islam, and those who worked out devices which enabled the community to conquer and to survive." See McDonough, *Authority of the Past*, 3.

⁵⁵¹ Prawiranegara, *Islam dilihat*, 19-21 and 24-26.

upon him, even if those Hadith were authenticated; [rather] the best interpretation is that which works with the results and opinions of modern science, and which is appropriate to the conditions and needs of the modern society in which we live.”⁵⁵² Sjafruddin thus emphasized the need for religious scholars to understand modern knowledge so that their opinions were no longer narrow and defensive, such as denying that human beings could land on the moon.⁵⁵³ Although Sjafruddin noted the limitations of science in explaining every natural phenomenon, he nevertheless criticized religious authorities who held that the theory of evolution was against the teachings of Islam.⁵⁵⁴ On the other hand, Sjafruddin also called for modern scholars and scientists to realize that the world was created by God for a particular purpose, which was so that human beings not only would come to realize God’s freedom and power, but that they would also use their knowledge of the world to meet their needs.⁵⁵⁵ Religion and science had their own functions. Religion, according to Sjafruddin, sought to “connect human beings with God, their fellow human beings, and the environment.”⁵⁵⁶ Human beings must understand that life in this world is temporary, while life in the Hereafter was everlasting.⁵⁵⁷ Science, on the other hand, functioned to “fashion the environment in such a way that it can be used for the livelihood of human beings.”⁵⁵⁸ As such, “there is not conflict between Islamic teachings and science”⁵⁵⁹; rather, both complemented each other. However, it was clear to Sjafruddin that science would not always be able to control or understand

⁵⁵² Prawiranegara, *Islam dilihat*, 20. Sjafruddin’s opinion on religion and science, for example, was similar to Muhammad Abduh’s view on the subject. Prawiranegara, *Al-‘Aqabah*, 47. Fazlur Rahman comments that Abduh, “convinced that science and the faith of Islam cannot conflict, argues that Faith and scientific reason work at different levels.” Rahman, *Islam*, 217.

⁵⁵³ Prawiranegara, *Al-‘Aqabah*, 46. On this subject Sjafruddin’s view is similar to that of Sayyid Aḥmad Khān. See McDonough, *Authority of the Past*, 13.

⁵⁵⁴ Prawiranegara, *Al-‘Aqabah*, 54-56.

⁵⁵⁵ Prawiranegara, *Al-‘Aqabah*, 47 and 49.

⁵⁵⁶ Prawiranegara, *Al-‘Aqabah* 47.

⁵⁵⁷ Prawiranegara, *Al-‘Aqabah*, 47-48.

⁵⁵⁸ Prawiranegara, *Al-‘Aqabah*, 48.

⁵⁵⁹ Prawiranegara, *Al-‘Aqabah*, 54-56.

all the phenomena that occur in the world. Human reason was not a substitute for God.⁵⁶⁰

The second approach refers to Sjafruddin's belief that the social teachings of Islam must be able to fulfill justice and ties of kinship between fellow human beings, especially between those of the same faith.⁵⁶¹ In the third approach, he emphasized the need to abandon formal and legalistic approaches to Islam. Instead, what ought to be prioritized was ethical guidance in public life, not mere symbolism nor the worldly interests of the leaders.⁵⁶²

Why did Sjafruddin argue that there was no need to use the Hadith as the sole basis of interpreting the Qur'an, on the grounds that they were tied to the social conditions during the time of the Prophet? He believed that one of the main reasons why Muslims lagged behind in science, technology, and industry was because they did not foster freedom of thought which, along with the exchange of ideas, was important in developing creativity and increasing productivity. A society that did not widely nurture freedom of thought would not produce creative human beings.⁵⁶³ Assuming Islam to be a source of motivation and inspiration for Muslims in their lives, but faced with a situation where many amongst them did not accept freedom of thought, Sjafruddin concluded that the first step which needed to be taken was to prioritize the role of *ijtihad* in interpreting Islamic teachings, which in itself would lead to progress in many aspects of human life.⁵⁶⁴

⁵⁶⁰ Prawiranegara, *Al-'Aqabah* 56-57.

⁵⁶¹ Prawiranegara, *Islam dilihat*, 21.

⁵⁶² Prawiranegara, *Islam dilihat*, 25-26.

⁵⁶³ Prawiranegara, *Islam dilihat*, 12-13.

⁵⁶⁴ Prawiranegara, *Islam dilihat*, 12-13. Other than his writings on the need for freedom of thought in the context of religious opinions, he also emphasized in his 1971 work the importance of freedom of thought in politics. According to him, freedom of thought was a human right that would influence whether a country was able to develop harmoniously or not. If this human right were not recognized then, Sjafruddin argued, it would not only decrease the creativity of the people and give way to corruption; it will also cause deep social tension that on the surface might seem calm, but could erupt at any time. Sjafruddin justified the necessity of freedom of thought with the following verse of the Qur'an, Chapter al-Baqarah 2:256: "There is no compulsion in

The method of Qur'anic interpretation that Sjafruddin advocated would have radical consequences in its deconstruction and reconstruction of Islamic law as traditionally developed by classical scholars. It was not surprising, then, that he presented many innovative, progressive, and controversial ideas and was not hesitant to criticise them. Though he desired a reinterpretation of these issues in light of modern conditions, he was not always able to further elaborate on certain subjects in Islamic law, which shows in part his limited access to the classical Islamic intellectual tradition. For example, he expressed his agreement with the opinion of Munawir Syadzali (Minister of Religious Affairs 1983-1993) who from the beginning of his tenure incessantly emphasized the need for what he called a "re-actualization of Islamic Teachings".⁵⁶⁵ One issue that Syadzali raised concerned the need for Muslims to redefine the laws of inheritance described in detail in the Qur'an. He particularly questioned the provision that stated that the portion of the male should be equal to the portion of two females, which he considered no longer in line with the structure and context of modern society and culture. He proposed to modify the established traditional interpretation with a new interpretation in accordance with the modern Indonesian social context. In proposing this idea, Syadzali cited a number of precedents in Islamic history and the opinions of many classical Islamic scholars as well as principles of Islamic Jurisprudence, all of which supported his position.⁵⁶⁶ Nonetheless, his ideas were sharply criticised by scholars who argued

religion." He also quoted Chapter al-Ghāshiyah 88: 21-22: "So [Prophet] remind them: your only task is to remind, you are not there to control them. Prawiranegara, *Al-'Aqabah*, 42-43.

⁵⁶⁵ See, for example, Munawir Sjadzali, "Reaktualisasi Ajaran Islam dalam Konteks Realitas Baru dan Orientasi Masa Depan," in *Bunga Rampai Wawasan Islam Dewasa Ini* (Jakarta: Penerbit Universitas Indonesia, 1994), 42-48.

⁵⁶⁶ Sjadzali, for example, refers to the theory of *naskh* (abrogation) in the Qur'an as understood by many scholars, both classic such as Ibn Kāthir and modern such as Muṣṭafā Aḥmad al-Marāghī, to argue for a need for new interpretation of many injunctions in Islamic law to make them more suited to the contemporary time and place. The core of the theory of *naskh* is that certain laws in specific Qur'anic verses were abrogated and replaced by other laws in different verses. This concept was used by Islamic scholars to justify changes in the law concerning certain subjects, replacing it with new laws derived from different verses. and replace it with a new law contained

that the rules of Islamic inheritance law were so clear—unlike most other legal rules—that there were few differences in interpretation or few opportunities for re-interpretation apart from the explicit meaning within the text of the Qur’an.⁵⁶⁷ Sjafruddin, to the surprise of many circles, agreed with Syadzali's conclusion on the need to reinterpret the laws pertaining to inheritance as stipulated in the Qur’an.⁵⁶⁸ In a bold proposition, Sjafruddin also proposed reconsidering the existence of the Ministry of Religious Affairs. He was worried that this had become a means for the commercialization of religion and a political instrument for the government and ministry officials.⁵⁶⁹

Sjafruddin also agreed with the New Order family planning program. He criticized a *fatwā*, a formal religious legal opinion, that declared that the prevention of pregnancy should be limited to a case-by-case basis and only when there are hardships that force the decision. The *fatwā* did not approve of limitations on pregnancy being permitted on a massive scale. According to Sjafruddin, it was necessary to control birth rates through family planning in order to prevent poverty

in other verses. Sjadzali also pointed to a number of important decisions taken by Umar bin Khattab, the second caliph, and Umar bin Abd al-Aziz, “the Fifth Rightly Guided Caliph” (682-720 CE) on certain legal matters which seem to represent a departure either from the texts of the Qur’an or from the Sunnah of the Prophet. See Munawir Sjadzali, “Syariah: A Dynamic Legal System,” in *Bunga Rampai Wawasan Islam Dewasa Ini* (Jakarta: Penerbit Universitas Indonesia, 1994), 10-13.

⁵⁶⁷ Even Maulana Muhammad Ali, a modernist Islamic scholar from India/Pakistan and head of Anjuman Isha at Ahmadiyya, Lahore famous for his rational approach, did not present a new interpretation of the provisions of inheritance contained in the verses of the Qur’an that have been mentioned (Al-Nisā’ 4:7, 11-12, and 176). He said simply that Islam introduced reform to the rules relating to inheritance in the Arab society: that is, making the female a co-sharer with the male, and dividing “the property of the deceased person amongst the heirs on a democratic basis, instead of handing it all over to the eldest son, as is done by the law of primogeniture...a new law was given which put widows and orphans on a level of equality with those who fought for the defence of the tribe and the country.” See Maulana Muhammad Ali, *The Religion of Islam: A Comprehensive Discussion of the Sources, Principles and Practices of Islam* (Dublin, OH: The Ahmadiyya Anjuman Isha’at Islam, 1990), 517-518; Muhammad Ali, *Holy Quran*, 196-198 and 243. Another modern interpreter, Abdullah Yusuf Ali, has a similar interpretation. See Abdullah Yusuf Ali, *The Holy Qur’an: Text, Translation & Commentary*, vol. 1 (Lahore: Shaikh Muhammad Ashraf, 1938), 180-182 and 235-236.

⁵⁶⁸ Lukman Hakiem, “Pelajaran dari Pak Sjafr,” in George McTurnan Kahin et al, *Sjafruddin Prawiranegara: Penyelamat Republik* (Jakarta: Yayasan Asrama dan Pendidikan Islam and Panitia Peringatan Satu Abad Mr. Sjafruddin Prawiranegara (1911-2011), 2011), 77-79.

⁵⁶⁹ Prawiranegara, *Al-Aqabah*, 10.

and its dire consequences; and the population of certain regions in Indonesia had reached a density that made family planning an urgent necessity. In other words, Sjafrudin agreed with and even promoted family planning in accordance with the government's program. For him, there was no clear evidence from religious sources that prohibited controlling birth rates based on the mutual agreement of the couple in order to promote individual and social welfare. Furthermore, he believed that the *fatwā* should have elicited the expertise of economists in order to obtain a deeper understanding of the issue.⁵⁷⁰

Another of Sjafruddin's controversial opinions concerned *Porkas*, a national lottery operated by the government to raise funds for sports development. Contrary to the opinions of many Indonesian religious scholars, he argued that it was not gambling and therefore Muslims were not forbidden to buy it.⁵⁷¹ However, what is rather bizarre is that the aforementioned ideas did not provoke an outcry from Muslim conservatives and fundamentalists in Indonesia. What often occurred was only a surprised but quiet response, confusion, or at most a disgruntled feeling towards him on the part of many who did not agree with his opinions but nonetheless respected him. There has never been public criticism of Sjafruddin, unlike what has occurred with certain controversial ideas voiced by other Muslim scholars such as Nurcholish Madjid, Abdurrahman Wahid, and Munawir Syadzali.⁵⁷²

Sjafruddin also surprised all who knew him when in 1984 he congratulated Nahḍat al-'Ulamā' (NU), the Revival of Islamic Scholars (a socio-religious organization based mainly in rural areas and led by 'ulamā' who headed *pesantrens*, traditional Islamic boarding schools), for accepting the state ideology of Pancasila as

⁵⁷⁰ Prawiranegara, *Al-Aqabah*, 57-60. Sjafruddin's opinion in support of family planning programs was similar to that of Fazlur Rahman. See Rahman, "Islam: Challenges and Opportunities," 323.

⁵⁷¹ Hakiem, "Pelajaran dari Pak Sjafrudin," 76-77.

⁵⁷² Bahtiar Effendy, *Islam and the State in Indonesia* (Athens, OH: Ohio University Press and Institute of Southeast Asian Studies, 2003), 70-79.

its organizational basis.⁵⁷³ On July 17, 1983 Sjafruddin had sent a letter to President Suharto voicing his disagreement with the government's plan to enforce Pancasila as the sole foundation of all social organizations.⁵⁷⁴ In his understanding, shared by many others, Pancasila was intended to be the foundation of the state and the basis for the Constitution, but not the foundation of citizens' organizations, whether their character was political, social, or other. Initially, all Islamic, Christian, and other religious organizations opposed the government's passage of the bill, believing that it denied the distinct character of each religious organization and the pluralistic nature of Indonesian society, and contravened the Constitution and Pancasila itself. Moreover, in Sjafruddin's view, by forcing all societal and religious organizations to have a single foundation, Indonesia would become a "fascist" state.⁵⁷⁵ However, all organizations eventually submitted to the government's plan to impose Pancasila as their sole foundation, and adopted various ways to avoid contradictions with their religious teachings. For example, the Supreme Assembly of Indonesian Bishops (MAWI, Majelis Agung Wali Gereja Indonesia) changed its name to the Conference of Indonesian Bishops (KWI, Konferensi Wali Gereja Indonesia) in order to avoid violating the hierarchical structure and rules of the Roman Catholic Church; the Council of Indonesian Churches (DGI, Dewan Gereja Indonesia) changed its name to the Alliance of Indonesian Churches (PGI, Persekutuan Gereja Indonesia);⁵⁷⁶ and the NU accepted Pancasila as its foundation, but established Islam as *'aqīda* (faith or doctrine). In fact, there was almost no significant change to the nature of the latter

⁵⁷³ Hakiem, "Pelajaran dari Pak Sjaf," 72-75.

⁵⁷⁴ Sjafruddin's letter was an exercise in freedom of thought. At that time it was rare for people to dare to oppose President Suharto's policy directly. Sjafruddin argued that the expression of freedom of thought should be done in the right manner, exhorting people to respect other people's opinions. To support his argument he quoted a French saying, "du choc des opinions jaillit la verité," and verses from the Qur'an (16:125): "[Prophet], call [people] to the way of your Lord with wisdom and good teaching. Argue with them in the most courteous way, for your Lord knows best who has strayed from His way and who is rightly guided." Prawiranegara, *Al-'Aqabah*, 44.

⁵⁷⁵ Prawiranegara, "Pancasila as the Sole Foundation," 74-78.

⁵⁷⁶ Ismail, *Islam and Pancasila*, 242-244.

organization, except that it reiterated its commitment to the 1945 Constitution and Pancasila as the ideology of the state—something that all social organizations and political parties in Indonesia had already maintained since 1959. Other Islamic organizations emulated the NU's solution.⁵⁷⁷ Sjafruddin, admiring the flexibility and bravery of the NU's problem-solving strategy, congratulated the organization on its pioneering ways.⁵⁷⁸ While Sjafruddin's response surprised many people who had been acquainted with his previous views on the issue,⁵⁷⁹ this was just one example of his honest and open attitude in accepting other views which he regarded as right or better than his own opinion, a trait that permeated his involvement in economic, political, and social issues of his time.

While his views seemed progressive and liberal, Sjafruddin's stature and credibility were lessened in the eyes of traditional scholars because, like many Western-educated modernists, he lacked competency in the Arabic language and his access to classical Islamic sources was therefore limited.⁵⁸⁰ Sjafruddin began to learn Arabic only in 1950. He was eventually able to understand the Qur'an but not the Hadith collections, not to mention works on jurisprudence written by classical jurists and scholars. In fact, he never referenced these in any of his religious writings. Furthermore, while partial translations and commentaries of the Qur'an

⁵⁷⁷ See Effendy, *Islam and the State*, 131-133; Ismail, *Islam and Pancasila*, 248-250.

⁵⁷⁸ However, after the downfall of the New Order regime in 1998, NU changed its basis (*asas*) from Pancasila to Islam again, in its Mu'tamar (Congress) in 1999.

⁵⁷⁹ Hakiem, "Pelajaran dari Pak Sjaf," 72-76.

⁵⁸⁰ Sjafruddin's position is more or less consistent with Fazlur Rahman's description that "...modernism, in so far as it existed at all, has been the work of lay Muslims with a liberal education. But the lay modernist, although his services have been undeniable in keeping a psychological and moral balance between traditionalism and Westernism...could speak for himself only and, his credentials from the Islamic side being always somewhat questionable, he could not lay the foundations of a new Islamic theology." Rahman, *Islam*, 221. In Sjafruddin's side he sometimes criticized indirectly the opinions or conservatism of the 'ulamā', but Sjafruddin was not anti-clerical or hostile to them. He maintained that if it has been cleansed of the elements of pettiness and narrowness, then there was something useful in conservatism as a stabilization factor (*stabiliserende*) which was important for the development of the Indonesian state. See Sjafruddin Prawiranegara, "Islam dalam Pergolakan Dunia," 43; Sjafrudin Prawiranegara, "Isrā' dan Mī'rāj Ditinjau dari Sudut Filsafat, Psikologi, dan Ilmu Alam," in *Islam Sebagai Pedoman Hidup*, vol. 1 of *Kumpulan Karangan Terpilih*, ed. Ajip Rosidi (Jakarta: Inti Idayu Press, 1986), 69-71; Ajip Rosidi, *Sjafruddin Prawiranegara*, 183.

into Indonesian were already accessible in the 1920s,⁵⁸¹ Indonesian translations of the Hadith collection books were not yet widely available at that time.⁵⁸² A complete translation and commentary of the Qur'an into Dutch was published in 1934, adapted from the English translation and commentary by Maulana Muhammad Ali, the founder and leader of Anjuman Isha'at Ahmadiyya, Lahore.⁵⁸³ This translation was widely read by Western-educated Muslims like Sukarno and by students and youth involved in Islamic organizations like the Jong Islamieten Bond (JIB, Young Islamic Alliance) and the Studenten Islamische Studieclub (SIS, Islamic Student Study Club). Sjafrudin first learned to understand the content of the Qur'an from this translation.⁵⁸⁴ Muhammad Ali's interpretations and commentaries on the Qur'an, with their rational and spiritual bent, appealed to many Western-educated Indonesians. They offered an insightful response to the various allegations made by Western orientalisks against Islam and the Prophet, and provided a tolerant and open-minded understanding of Islam. Meanwhile, the Hadith collection book used by Sjafruddin was a translation of the *Bulūgh al-Marām* by Ibn Ḥajar al-ʿAsqalānī, translated into Indonesian in 1968 by Ustadh Ahmad Hassan, a prominent teacher in Persis (Persatuan Islam, Islamic Unity), a reformist-fundamentalist organization which emphasised education, *dā'wa* and *tablīgh* (missionary and preaching activities). Sjafruddin began quoting Hadith in his writings after his release from

⁵⁸¹ A complete translation and commentary of the Qur'an in Indonesian was first published in 1938, written by Mahmud Yunus and H. M. K Bakri. See Howard M. Federspiel, "Deepening Faith and Strengthening Behavior: Indonesian Muslim Studies of Qur'an and Hadith" (Jakarta, Indonesia: [s.n.], 1987?), 20 and 85-88.

⁵⁸² The translation of Sahih Bukhari by Zainuddin Hamidy et al, 'ulamā' from Persis (Persatuan Islam, Islamic Unity) was first published in 1937 and reprinted in 1983. Federspiel, *Deepening Faith*, 393.

⁵⁸³ Maulwi Moehammad Ali, *De heilige Qoer-an*, vervattende den Arabischen Tekst met ophelderende aantekeningen en voorrede; in het Nederlandsgh vertaald door Soedewo (Batavia: Hoofdcomité Qoer-an fonds onder de auspiciën van de Ahmadiyah-Beweging Indonesia [Centrum Lahore], 1934). The translator was Soedewo, a member of Jong Islamieten Bond (JIB), an Islamic Youth organization, and a prominent leader of Ahmadiyah in Jogjakarta (Lahore group).

⁵⁸⁴ Rosidi, *Sjafruddin Prawiranegara*, 27.

prison in 1966. This new approach appeared, for example, in a general lecture held by University of Indonesia on the subject of *Isrā'* and *Mi'rāj* in November 1966,⁵⁸⁵ whereas his writing on the same topic in the 1950s did not quote any Hadith. His articles on Islamic economy started to include Hadith support in 1968,⁵⁸⁶ while in his 1951 article on the same topic none were quoted to strengthen the arguments.⁵⁸⁷

In interpreting the texts of the two main sources of Islam, Sjafruddin deployed his knowledge and expertise in economics and finance as well as his general knowledge of world history, especially the intellectual history of Western society.⁵⁸⁸ As I have discussed briefly in Chapter 1, Sjafruddin's understanding of Islam was quite limited, since he started studying Islam only after joining the Masyumi Islamic political party in 1945. His duties as a high government official during the 1945-1949 War of Independence did not allow him many opportunities to fulfill his aspiration to learn the Islamic sciences. He studied Islam intensively after Indonesia received international recognition of its sovereignty in late 1949. As a result, Sjafruddin's early writings did not contain many quotations of Qur'anic verses or Hadith narrations. Instead, he frequently referred to the history of Western thought and to books and sources written by Western authors, as well as

⁵⁸⁵ Prawiranegara, "Isrā' dan Mi'rāj," 118-149.

⁵⁸⁶ Prawiranegara, "Apa yang Dimaksud, 260-295.

⁵⁸⁷ Sjafruddin Prawiranegara, "Motif atau Prinsip Ekonomi Diukur Menurut Hukum-hukum Islam," in *Ekonomi dan Keuangan: Makna Ekonomi Islam*, vol. 2 of *Kumpulan Karangan Terpilih*, ed. Ajip Rosidi (Jakarta: CV Haji Masagung, 1988), 26-39.

⁵⁸⁸ Among the books he used in many of his writing were: "The Christian Significance of Karl Marx" by Alexander Miller; "Handboek der Maatschappijleer" by Max van Pol; "The Development of the Soviet Economic System: An Essay on the Experience of Planning in the U.S.S.R." by Alexander Baykov (Cambridge: Macmillan, 1947); "Concise History of the Law of Nations" by Prof. Hussbaum; and Oswald Spengler, *Der Untergang des Abendlandes: Umriss einer Morphologie de Weltgeschichte* (München: Beck, 1922-23). Later, after his release from prison in 1966, he also referred to Samuel Eliot Morison, *The Story of the Old Colony of New Plymouth* (1956); Henry B. Mayo, *Democracy and Marxism* (New York: Oxford University Press, 1955); Richard Crossmann, *The God that Failed: Six Studies in Communism* (London: Hamilton, 1950); Anthony Nutting, *The Arabs: A Narrative History from Mohammed to the Present* (Mentor Book, 1965); Wilfred Cantwell Smith, *Islam in Modern History* (Mentor Book, 1961); and Thomas Arnold, *The Preaching of Islam: A History of the Propagation of the Muslim Faith* (London: Constable & Co. Ltd., 1913).

authors within other religious traditions.⁵⁸⁹ The events of Islamic history were increasingly visible in his writings only after 1950. Unsurprisingly, his Western education and relatively rudimentary introduction to the Islamic sciences accounted for his view of Islam as an ideological “system” that was in competition with other ideologies such as Marxism and capitalism. In the later period, he also came to recognize Islam as a moral and spiritual tradition. It was during this phase that we find many of his discussions on moral and spiritual subjects.⁵⁹⁰

Sjafruddin’s Western educational background and his rational character account for his liberal approach to interpretation, from which he advanced innovative assessments and solutions. He knew that his understanding of *ribā*, for example, did not conform with, nor was it bound by, traditional or conventional opinion. However, he was convinced that his understanding of the topic was in better accordance with the spirit of the Qur’an and the tradition of the Prophet because it was also based on proper assessment of modern economics and its current practice and implementation. Another instance of Sjafruddin’s liberal interpretation of Qur’anic verses was on the subject of religious pluralism. He asserted unapologetically that there was no religion more tolerant than Islam since it allowed for the possibility that adherents of other religions could attain salvation. He pointed to Chapter al-Baqarah 2:62 which reads as follows:

The [Muslim] believers, the Jews, the Christians, and the Sabians—all those who believe in God and the Last Day and do good—will have their reward with their Lord. There is no fear for them, nor will they grieve.

Another verse, Chapter al-Mā’ida 5:69, states that:

For the [Muslims] believers, the Jews, the Sabians, and the Christians—those who believe in God and the Last Day and do good deeds—there is no fear: they will not grieve.

⁵⁸⁹ He frequently quoted from Pope Pius XI’s *Encyclical Quadragesimo Anno*.

⁵⁹⁰ He often referred to ‘Abdul Raḥmān ‘Azzām Pāshā, *The Eternal Message of Muhammad* (New York: Devin-Adair, 1964).

Sjafruddin's commentary on this verse reads as follows:

[In those verses] it is affirmed that [religious people] who may be received at the hands of God were not only the followers of Muhammad (peace be upon him), but also Jews, Christians and Sabians, provided they were faithful to God, faithful to the Day of Judgement, and did righteous work. [... This is] not just given to Jews, Christians and Sabians before the birth of Prophet Muhammad (peace be upon him) but also applies now. Because the requirement for acceptance to the side of God really is to be faithful to the One God and the Day of Judgment and to do good works. Hence the term Sabian can be interpreted as all those who are not Christian, nor Jew, nor follower of the Prophet Muhammad.⁵⁹¹

Sjafruddin's commentary was similar to those of Maulana Muhammad Ali and Abdullah Yusuf Ali's, which he read.⁵⁹² However, in his interpretation Sjafruddin emphasized two points which the Qur'anic verse says only in a general way. The first was that God's eternal reward was not only given to the Jews, Christians, and others who believed in God and the Last Day and did good work who lived *before* the the coming of the Prophet, but also to those religious groups who came *after* the Prophet up until the present time. The second was expressed frankly by Sjafruddin: that "on the contrary, although there may be those who claim to be followers of the Prophet Muhammad, there is no guarantee that they would be accepted by God.... All, apart from our faith and good deeds, depends on God's decision. Only God knows who amongst us are deviant and who are on the right path."⁵⁹³

⁵⁹¹ Sjafruddin Prawiranegara, "Masa Depan Islam," in *Islam Sebagai Pedoman Hidup*, ed. Ajip Rosidi (Jakarta: Inti Idayu Press, 1986), 181.

⁵⁹² Muhammad Ali, *Holy Quran*, 33; Yusuf Ali, *Holy Qur'an*, 33-34.

⁵⁹³ Sjafruddin explained that Islam had two meanings: a specific one, which is the religion revealed by God to the Prophet Muhammad, and a general, more open one, which encompasses all religions that teach faith in God, the Day of Judgement, and enjoin their believers to good works. Prawiranegara, "Masa Depan Islam," 181. As a comparison, the Qur'anic commentary of Muḥammad Taqī al-Dīn al-Hilālī and Muḥammad Muhsin Khān states that "the provision of this Verse [along with the verse 5:69] was abrogated by the Verse 3:85" based on a hadith mentioned by Ibn 'Abbās and quoted by al-Ṭabarī in his commentary. They comment that "after the coming of Prophet Muhammad [Peace be upon Him] on the earth, no other religion except Islam, will be accepted from anyone." Muḥammad Taqī al-Dīn al-Hilālī and Muḥammad Muhsin Khān, trans., *Translation of the Meanings of The Noble Qur'an in the English Language* (Madinah, Saudi Arabia: King Fahd Complex for the Printing of the Holy Qur'an, 1417).

Sjafruddin presented his views on the salvation of non-Muslims during a ceremony for the commemoration of the Prophet Muhammad organized by the Himpunan Mahasiswa Islam (HMI, Islamic University Students' Association) in Pekalongan on May 17, 1970, and repeated it on May 31 of the same year in a speech before students of Airlangga University and the Surabaya Institute of Technology. Interestingly, this did not provoke a negative reaction amongst Muslims. Twenty-two years later Nurcholish Madjid, former General Chairman of HMI (1966-1971) and leader of a younger generation of Muslim modernists than that of Mohammad Natsir in Masyumi, conveyed a similar opinion in a lecture at the Jakarta Cultural Center, Taman Ismail Marzuki on October 21, 1992. His views soon attracted a backlash from many quarters, especially from the Dewan Da'wah Islamiyah Indonesia (DDII, Council of Indonesian Islamic Mission). It was the younger generation of the DDII which launched a vigorous campaign against Madjid. Most of them had not completed university-level education, and among them were those who had received a Wahhabi-style Islamic education in Saudi Arabia. On the whole, their educational pedigree lagged far behind the intellectual caliber of the former Masyumi leaders, especially those who had received Dutch higher education. These factors accounted for the reactionary and fundamentalist attitudes of the younger generation of modernists who were close to or joined the DDII.

4.2.2. Social and Political Ideas

In order to further contextualize Sjafruddin's social, political, and economic thought within his immediate intellectual milieu, I will now discuss the differences between Sjafruddin's thought and that of Sukarno, Hatta, Sjahrir, and fellow party members from modernist Islamic groups who joined the Masyumi Party.

In terms of economic policy, Sjafruddin's view was in sharp contrast to that of Sukarno. Owing to pragmatic-realistic considerations, Sjafruddin did not agree with the arbitrary nationalization of Western companies operating in Indonesia. National and foreign private companies, he felt, should be allowed to continue operating as long as they were proven efficient and productive. In his view, it was important for foreign capital to continue to play a role in the economic development of Indonesia. What mattered to him was not ownership but oversight through government regulation.⁵⁹⁴

The similarities between Sjafruddin and Sjahrir cannot be denied. For one, both adopted a non-xenophobic anti-colonialist nationalism. Sjafruddin did not view the struggle for independence from the Dutch as involving animosity against the Dutch people, the 'West', or 'capitalism'. Capitalism was resisted insofar as it caused colonialism through oppression and exploitation of the weak, and enmity was directed only against acts and not against the people or country that committed them. For this reason Sjafruddin supported the diplomacy of Sjahrir and Hatta over the strategies of groups whose sole focus was to counter the Dutch using armed resistance.⁵⁹⁵ Sjahrir and Hatta insisted on a diplomatic approach which took into consideration global realities in the struggle for independence.⁵⁹⁶ In addition, Sjafruddin's religious socialism, as with Sjahrir's socialism, was receptive to elements of capitalism as part of its ideology and economic agenda. Sjafruddin argued that it would take a long time before the state was sufficiently efficient and extensive to manage the country's economic life.⁵⁹⁷ As with Sjahrir and Hatta,

⁵⁹⁴ Sjafruddin Prawiranegara, *Politiek dan Revolusi Kita* (Politics and Our Revolution) (Jogjakarta, 1948), quoted in Kahin, *Nationalism and Revolution*, 310; Rahardjo, *Pragmatisme dan Utopia*, 47; Higgins with Higgins, *Indonesia*, 89-90.

⁵⁹⁵ Anderson, *Java*, 310-311.

⁵⁹⁶ Prawiranegara, "Islam dalam Pergolakan Dunia," 50-51; Christie, *Ideology and Revolution*, 108-110.

⁵⁹⁷ Kahin, *Nationalism and Revolution*, 311-321.

Sjafruddin therefore stressed heavily the importance of well-planned economic development based on real economic considerations rather than ideological demands.⁵⁹⁸ The difference between Sjafruddin and Sjahrir was that while the former regarded religion and morality as fundamental elements in development, Sjahrir was a materialist socialist whose spirit was very much that of secular humanism.⁵⁹⁹ Religious ethics were not part of Sjahrir's worldview at all, whereas Sjafruddin's ideological consciousness was that of religious humanism.⁶⁰⁰ In this respect, Sjafruddin, like many religious socialist groups within Masyumi, was much closer to Hatta's approach to development. Sjafruddin and Hatta, like Muhammad Natsir, based their understanding of politics, economics and social democracy on Islamic teachings⁶⁰¹. However, Hatta was more socialistic in his economic thinking—as reflected in his idea of the importance of cooperatives in development—while Sjafruddin was more capitalistic.⁶⁰²

Sjafruddin's thought differed not only from that of the three aforementioned leaders of non-Islamic nationalist movements, but also that of from his friends from the religious-socialist group within the Masyumi Islamic political party. The latter individuals shared a common background of Western-style education in the Dutch system, but while they were all active in the nationalist Islamic organizations before the Second World War, Sjafruddin was not. For example, Western-educated Muslim intellectuals such as Mohammad Natsir (future Prime Minister), Mohammad Roem

⁵⁹⁸ Higgins with Higgins, *Indonesia*, 87-88.

⁵⁹⁹ Sjahrir, *Out of Exile*, 144-146.

⁶⁰⁰ Sjafruddin Prawiranegara, "Memetik Pelajaran dari Iqbal," in *Islam Sebagai Pedoman Hidup*, vol. 1 of *Kumpulan Karangan Terpilih*, ed. Ajip Rosidi (Jakarta: Inti Idayu Press, 1986), 281-282.

⁶⁰¹ Kahin, *Nationalism and Revolution*, 310; Christie, *Ideology and Revolution*, 170-172.

⁶⁰² Rahardjo, *Pragmatisme dan Utopia*, 52. For more discussion of Sjafruddin's distinct ideological position among Indonesian Islamic and nationalist leaders, see Dr. Syed Hussein Alatas, *Kita dengan Islam: Tumbuh tiada Berbuah* (Singapura: Pustaka Nasional Pte. Ltd., 1979), 107-146. Concerning Sjafruddin, Alatas says: "Here is an example of how a new type of human being of the Islamic community guides Muslims toward advancement of a [modern] age", 146; Rosidi, *Sjafruddin Prawiranegara*, 274-275.

(future Minister of Foreign Affairs), Jusuf Wibisono (future Minister of Finance), and Prawoto Mangkusasmito (future Deputy Prime Minister) either joined the Jong Islamieten Bond (JIB, Young Islamic Alliance), an Islamic youth organization founded in January 1925,⁶⁰³ or were active in the Studenten Islamische Studieclub (SIS, Islamic Student Study Club), a university student organization established in December 1934.⁶⁰⁴ Meanwhile Sukiman Wirjosandjojo, the first General Chairman of Masyumi and future Prime Minister, held an important position in the Partai Sarekat Islam Indonesia (PSII, formerly SI; Indonesian Islamic Association Party), the first nationalist political organization, during the pre-independence era.⁶⁰⁵ They all embraced anti-colonialist and anti-imperialist views without adopting Marxist theory, even if in an adapted form, as did Sukarno, Hatta and Sjahrir.⁶⁰⁶ They studied Islam under the guidance of Haji Agus Salim,⁶⁰⁷ who also came to be a religious mentor for Sukarno and Hatta.

JIB was founded after the proposal to offer Islamic courses as part of the activities of Jong Java, the Javanese Youth Organization, was rejected by the organization's congress in 1924. This decision was rendered despite the fact that other religious courses from Protestant and Catholic denominations had long been running. In addition, Muslim students who studied in Dutch colonial government schools like MULO and AMS found gaining religious instruction in their faith to be similarly difficult. Hence the Chairman of Jong Java, Sjamsurizal, with the help of Hadji Agus Salim, founded JIB as a separate youth organization that aimed, *inter alia*,

⁶⁰³ Ridwan Saidi, *Kebangkitan Islam Era Orde Baru: Kepeloporan Cendekiawan Islam sejak Zaman Belanda sampai ICMI* (Jakarta: LSIP, 1993), 27-32.

⁶⁰⁴ Saidi, *Kebangkitan Islam*, 41-47.

⁶⁰⁵ Kahin, *Nationalism and Revolution*, 65-66 and 94-95.

⁶⁰⁶ The views of the latter three figures have been analyzed in part 2.3.

⁶⁰⁷ Hadji Agus Salim was a prominent ideologue of the Sarekat Islam (SI), Islamic Union, which in 1929 became Partai Sarekat Islam Indonesia (PSII), the Indonesian Islamic Association Party. He proclaimed that "the struggle for political independence would be followed by the struggle for economic sovereignty." Chalmers, "Introduction," 9.

to meet the needs of Muslim youth and students with respect to learning and practicing their religion.⁶⁰⁸ Similarly, SIS was founded in order to increase Muslim students' knowledge of their religion.⁶⁰⁹

As a part of the ethical policy, the Dutch government provided modern education for Indonesians. One of its stated aims was to keep them away from the influence of Islam, especially the influence of its political manifestations in pan-Islamism. The colonial government was afraid that it would strengthen anti-colonial sentiment.⁶¹⁰ The aim was partly achieved in that many Western-educated Muslims became hostile or indifferent to Islam.⁶¹¹ However, the presence of JIB and SIS offered the opportunity for religiously-inclined students to become more committed Muslims. Often coming from families who were nominally Muslim, these students had received Dutch education and were otherwise unacquainted with Islamic teachings and practice.⁶¹²

Moreover, these two organizations became training grounds for Indonesian nationalist movements. Many of those who joined JIB and SIS became prominent figures in the struggle for independence and played important roles in the government of the Republic of Indonesia and the leadership of the Masyumi Party following independence.⁶¹³ As Kahin wrote, the modern education which was provided by the colonial government eventually became the chief force of the

⁶⁰⁸ Saidi, *Kebangkitan Islam*, 26-30.

⁶⁰⁹ Saidi, *Kebangkitan Islam*, 40-42.

⁶¹⁰ Kahin, *Nationalism and Revolution*, 44-46.

⁶¹¹ Kahin, *Nationalism and Revolution*, 47. The Dutch were also partially successful in their efforts to alienate native administrators, most of whom came from aristocrat background, from Islam, by restricting public expressions of Islamic piety and de-Islamizing Java's courtly arts. Robert W. Hefner, "Social Legacies and Possible Futures," in *Indonesia: The Great Transition*, ed. John Bresnan (Lanham, Maryland: Rowman & Littlefield Publishers, 2005), 90-91.

⁶¹² Saidi, *Kebangkitan Islam*, 34-37, 42-47

⁶¹³ Saidi, *Kebangkitan Islam*, 32-40 and 50-54.

Indonesian nationalist movement. This applied to both secular intellectuals and Islamic-oriented ones.⁶¹⁴

The emergence of *bona fide* secular and Islamic nationalist groups that would form the core of the struggle for independence was the result of unintended consequences of colonial government policy during the beginning of the twentieth century.⁶¹⁵ The policy originated from an attempt to prevent the spread of pan-Islamism by providing Western education for Indonesians. However, the Dutch's preoccupation with the perceived dangers of pan-Islamism caused them to underestimate the dangers threatening the colonial regime that were part and parcel of the Islamic modernist movement initiated by Mohammad Abduh in Cairo. Indeed, as it turned out, the Islamic modernist movement would play a major role in the Indonesian nationalist movement.⁶¹⁶

Political activism and social justice causes were central aspects of Islamic modernism. This approach predisposed its adherents to participate in the awakening nationalist feelings of their fellow countrymen. According to Kahin, the nationalistic content of Islamic modernist ideas fostered strong anti-imperialist positions, and members of the movement developed ways to reconcile this view with socialist economic principles more successfully than in any other Islamic country.⁶¹⁷ Thus modernist Islamic teachings as they developed during the late nineteenth century and the first decades of the twentieth century in Cairo found a formidable response in Indonesia. Only gradually did the colonial government become fully aware of the dangers of the modernist-reformist movement, including

⁶¹⁴ Kahin, *Nationalism and Revolution*, 49.

⁶¹⁵ For further explanation of the emergence of the Dutch-educated Indonesian leaders, see Robert Van Niel, *The Emergence of the Modern Indonesian Elite* (The Hague: W. Van Hoeve, 1960), 72-100 passim.

⁶¹⁶ Kahin, *Nationalism and Revolution*, 45-47.

⁶¹⁷ Kahin, *Nationalism and Revolution*, 46.

Muhammadiyah with its educational and social programs⁶¹⁸ and Sarekat Islam with its “nationalistic, anti-imperialist, and socialistically inclined program”,⁶¹⁹ to the stability and continuity of Dutch colonial rule.⁶²⁰

Though the goals of providing the elite Indonesian population with a Western education—*viz.* to eliminate the importance of religion as a basis for political and social consideration and promote a cultural association with the Dutch—were partially fulfilled in that many of the students tended to assimilate and participate in the colonial cultural and political order,⁶²¹ at the same time the leaders of the emerging nationalist movement were all products of Dutch education.⁶²² The Western-educated elite such as Sukarno, Hatta, and Sjahrir assumed prominent leadership roles in the movement.⁶²³ On the other hand, Dutch education also fostered the learning of Muslim Indonesians who received a Western education but were more religiously-inclined in their social and political outlook, such as Sukiman Wirjosandjojo, Muhammad Natsir, Jusuf Wibisono, and Mohammad Roem. This modernist Islamic group was educated in Western and Islamic social and political thought, the formulation of which was antagonistic to the political and social arrangement of the colonial regime. Both these groups provided political leadership to the Indonesian masses.⁶²⁴

⁶¹⁸ Van Niel, *Emergence*, 85, 149-150 and 166-168.

⁶¹⁹ Kahin, *Nationalism and Revolution*, 48.

⁶²⁰ Kahin, *Nationalism and Revolution*, 46-48; Christie, *Ideology and Revolution*, 7-9; Ricklefs, *A History*, 205.

⁶²¹ To a certain degree Sjafruddin was among this group of students that fostered Western values of progress and secularity in opposition to Islamic ideals. In his years as a university student, his reading of Marxist-Socialist and other secular philosophical books, including Marx and Engels, shook his religious belief and almost led him to reject against the teaching of Islam and religion in general. However, Sjafruddin remained a Muslim because of his strong Muslim family background, like that of most people who came from Banten (Bantam), West Java. In addition, the death of his father caused him to renew his faith in the power of God and the belief in the afterlife. Rosidi, *Sjafruddin Prawiranegara*, 26-30 and 33-34.

⁶²² Kahin, *Nationalism and Revolution*, 47-49.

⁶²³ Kahin, *Nationalism and Revolution*, 48-49.

⁶²⁴ Kahin, *Nationalism and Revolution*, 49.

Another difference between Sjafruddin and the Masyumi leaders who were active in student or political organizations in the time of Dutch rule was that the latter showed more nationalistic policies than Sjafruddin when they became active in the government during the 1950s. This dissimilarity could be caused by their diverse orientation and activities aforementioned. This could be seen with regards to Prime Minister Sukiman Wirjosandjojo and Finance Minister Jusuf Wibisono. The latter implemented a policy that was consistent with those of Djuanda and Sumitro in giving privileges to indigenous entrepreneurs (including the members of parliament). This was part of a larger goal of gaining economic sovereignty in the form of establishing an indigenous entrepreneurial class, given the colonial regime's systematic marginalization of native Indonesians from full participation in economic life and the great disparity in income and economic clout between the 'natives' on the one hand and the Dutch and Chinese on the other. Sjafruddin, however, feeling less of the 'nationalistic' sentiments of his peers, considered the policy to be straightforwardly discriminatory and unconstitutional.⁶²⁵

We begin with Sjafruddin Prawiranegara's political ideas, especially the issue of the relationship and degree of interaction between Islam and the state. We must discuss Sjafruddin's point of view on this issue because his own party, Masyumi, of which he was one of its most prominent leaders, endeavoured to have the "teachings

⁶²⁵ See Sjafruddin Prawiranegara, "Kesulitan-kesulitan Masa Peralihan Ditinjau dari Sudut Ekonomi," in *Ekonomi dan Keuangan: Makna Ekonomi Islam*, vol. 2 of *Kumpulan Karangan Terpilih*, ed. Ajip Rosidi (Jakarta: CV Haji Masagung, 1988), 68; Rosidi, *Sjafruddin Prawiranegara*, 184. As an illustration of the difference of policy between Sjafruddin and Wibisono, Feith remarks: "But there were significant differences of emphasis between the economic policies of this cabinet and those of its predecessor, particularly with regard to importing and budgetary allocations. The Sukiman cabinet's Minister of Finance, Jusuf Wibisono (of the Masyumi), was a man of fairly intense policy commitments, but he was not as strict in his control of disbursements as Natsir's Finance Minister, Sjafruddin Prawiranegara. Favored by a continuing high level of export earnings and seeing that a fairly generous distribution of rewards would help to keep the politically divided cabinet together, Jusuf initiated an informal arrangement whereby government banks gave credit to firms whose directors were from particular government parties". Feith, *Decline*, 219 and 479.

of Islam be the basis of the Indonesian state”.⁶²⁶ The draft of the constitution proposed by Masyumi formulated two alternatives for the foundation of the state: “the Republic of Indonesia based upon Islam” or “[t]he Islamic Republic of Indonesia based upon the God the One.”⁶²⁷ The organization Nahḍat al-‘Ulamā’ (NU) also fought for the implementation of the Shari‘ah and the establishment of Islam as the basis of the state.⁶²⁸ The problem that the Islamic parties encountered was that they were not able to obtain majority representation in the Constitutional Assembly. Four of the Islamic parties obtained 228 combined seats (44.36%), while secular nationalist, communist, socialist, and Christian parties received a total of 286 seats (55.64%). These parties were against the idea of a state based on Islam, opting rather for Pancasila—though each had its own interpretation of what Pancasila meant. The two sides were thus unable to push for their respective agendas.⁶²⁹ By the end of 1958, however, they had managed to agree upon 90% of a draft of the constitution and to compromise on a draft of formulas for the basis of the state. The draft of one formula was as follows:

[The] State of the Republic of Indonesia is based on the resolve to establish a socialistic community that believes in God the One, with the understanding that complete social justice and equal prosperity would be guaranteed; one that would receive mercy from God most Compassionate and Merciful, in accordance with the teachings of Islam, [Protestant] Christianity, Catholicism, and other religions that exist in our homeland. [...] The next foundations of the state are: the unity of the nation realized through mutual assistance; humanism; and nationalism and democracy guided by the wisdom arising from consultation and representation.⁶³⁰

⁶²⁶ Yusril Ihza Mahendra, *Modernisme dan Fundamentalisme dalam Politik Islam: Perbandingan Partai Masyumi (Indonesia) dan Partai Jamā‘at-i-Islāmī (Pakistan)*, trans. Mun‘im A. Sirry (Jakarta: Penerbit Paramadina, 1999), 204.

⁶²⁷ Mahendra, *Modernisme*, 204.

⁶²⁸ NU’s constitution states that “the basis of the party is Islam and that its aim is the application of Shari‘ah, in accordance with one of the four madzhab as the laws of the State in the fields of worship, marriage, social relations, criminality and morality”. Harun Nasution, “The Islamic State in Indonesia: The Rise of the Ideology, the Movement for its Creation and the Theory of the Masjumi (master’s thesis, McGill University, 1965), 123; Ismail, *Islam and Pancasila*, 88-93.

⁶²⁹ Mahendra, *Modernisme*, 208.

⁶³⁰ Indonesian Constituent Assembly, *Risalah Sementara Sidang Konstituante*, Sidang I, 6 December 1957 [Minutes of the First Session of the Constituent Assembly, December 6, 1957]. Quoted in Mahendra, *Modernisme*, 212.

Islamic parties such as Masyumi and NU were in fact ready to accept a compromise.⁶³¹ Sarino Mangunpranoto, chairman of the PNI delegation in the Constituent Assembly, also signalled the possibility of an ideological compromise when he mentioned a “national state in which the Islamic law was guaranteed.”⁶³² But efforts at cooperation between those who supported Pancasila and the Islamic parties who advocated an Islamic foundation were defeated by political, economic, social problems such as rebellions, economic deterioration, and social ills; President Sukarno’s ambition to implement the Guided Democracy; and the Army’s desire to obtain more power in government.⁶³³ President Sukarno eventually issued a presidential decree on July 5, 1959 reinstating the Constitution of 1945 while at the same time abolishing the Constituent Assembly. This decision was made after the vote in the Assembly failed three times to obtain the two-thirds of the required votes needed to pass the motion calling for a return to the 1945 Constitution with or without amendments.⁶³⁴ Sukarno’s unilateral action came despite the fact that the

⁶³¹ Lev, *Transition*, 126. Djerman Prawiradinata, for example, a West Javanese Masyumi MP, said that “Masjumi had never argued that the Pantjasila was no good; it was only feared that in the hands of the wrong groups ‘the altogether neutral Pantjasila’ might swerve from the right ideas.” He welcomed former vice president Hatta as a future prime minister since he would, according to him, would naturally interpret Pancasila correctly.

⁶³² Lev, *Transition*, 127. 173-174.

⁶³³ Lev, *Transition*, 30, 129, 173-176.

⁶³⁴ Islamic parties proposed that the 1945 Constitution which was to be enacted should be amended to incorporate the Jakarta Charter in its preamble, as originally agreed upon in 1945, before Indonesian independence, in the meeting of the BPUPKI (Badan Penyelidik Usaha-Usaha Persiapan Kemerdekaan Indonesia, Investigatory Committee for the Efforts for the Preparation of Indonesian Independence), which later became PPKI (Panitia Persiapan Kemerdekaan Indonesia, Preparatory Committee for Indonesian Independence). Lev, *Transition*, 128, 267-268, 277; Effendy, *Islam and the State*, 28. The Djakarta Charter was a “gentlemen’s agreement” between the Islamic and Nationalist groups which endorsed Pancasila as the ideological basis of the state, with the addition in the first principle of Pancasila which read as “Belief in God with the obligation to carry out Islamic Shari’ah for its adherents.” The charter was signed on June 22, 1945 and became officially included in the constitution for the future independent Indonesia. In this version, Pancasila was part of the preamble of the 1945 Constitution. In addition, the original version of the 1945 constitution also included articles declaring Islam to be the state religion and stipulating that the resident of the Republic must be a Muslim. However, on August 18, one day after the declaration of independence and before the meeting of PPKI, a Japanese navy officer allegedly came to Hatta informing him that the Christians, most of whom lived in the eastern parts of the country, would not join the Republic unless elements of the Jakarta Charter (that is, the obligation to carry out Islamic Shari’ah for its adherents, Islam as the state religion, and the

Assembly had only ten percent of the remaining draft of the constitution still to go through and there remained ten months before the deadline to resolve the remaining issues.⁶³⁵

As many suspected, the return to the 1945 Constitution, with its presidential system, opened the road for the establishment of the authoritarian Guided Democracy regime which had been touted by Sukarno since 1957 and through which the role of the army in government would significantly increase.⁶³⁶ Indeed, a notion like Guided Democracy would never have been possible under the temporary Constitution of 1950 nor under the draft Constitution that had been being debated in parliament, since both followed a parliamentary system in which the president was a mere figurehead of the state.⁶³⁷ In the end, the Islamic parties relented. Recognising that the political situation was beyond their control, they decided to declare allegiance to the 1945 Constitution while also enjoining all parties—including the president—to hold true to the Constitution. All this occurred despite former Vice President Mohammad Hatta's assertion that the procedure to reinstate the 1945 Constitution was not legal.⁶³⁸

While the Constituent Assembly debated the issue of the State's constitution and as the presidential decree of July 5, 1959 neared, Sjafruddin was no longer active in party politics. Since December 1957, he had been living in Sumatra where he would eventually lead the PRRI movement until 1961. Furthermore, his most

requirement for a Muslim president) were deleted. In these tense and critical moments of the new nation and with the imminent arrival of the Allied Forces, Hatta proposed certain modifications as a solution to ensure the unity of the nation. The Islamic leaders finally agreed upon Hatta's suggestions to remove the aforementioned obligations. Now, Article 6 states only that "the president of the Republic of Indonesia should be a native-born Indonesian," and Article 29 came to read "the State based on Belief in the One and Only God". As for the first principle of the state ideology, Pancasila, it became "Belief in the One and Only God" instead of "Belief in God with the obligation to carry out Islamic Shari'ah for its adherents." Effendy, *Islam and the State*, 31-32; Ismail, *Islam and Pancasila*, 55-56.

⁶³⁵ Mahendra, *Modernisme*, 215.

⁶³⁶ Lev, *Transition*, 191-192 and 278-289.

⁶³⁷ Mahendra, *Modernisme*, 215.

⁶³⁸ Mahendra, *Modernisme*, 219-221; Lev, *Transition*, 277.

recent cabinet position had been in 1951, having been appointed president of the De Javasche Bank. Following the nationalization of the bank, he assumed the role of governor of the Central Bank of Indonesia (BI) until 1957. Due in part to these factors, we are left with no documentation that would indicate Sjafruddin's response to the developments in the Constituent Assembly. However, there are two known facts that may hint at where Sjafrudin might have stood in all this. The first was that the Masyumi Party he joined had as its mandate to carry out "the teachings and laws of Islam in the Republic of Indonesia."⁶³⁹ The official interpretation of this mandate was that "the teachings and laws of Islam" must "consider the situation of time and place."⁶⁴⁰ In accordance with the interpretation above, Sjafruddin stated in an interview with Mahendra in 1988 that the Islamic law that Masyumi intended to implement was "a modern Islamic law that is appropriate to the situation in Indonesia."⁶⁴¹ If such was indeed the case, then the shape of Islamic law championed by Masyumi—had they been successful in advocating the idea of "an Indonesian state based on the teachings of Islam"—would have been very different from the laws implemented during the time of the Prophet, those implemented during pre-modern times, and even those currently in force in other Muslim countries.⁶⁴² Furthermore, as Mahendra notes, Sjafruddin's view was still consistent with the draft of the Constitution formulated by Masyumi, of which he was one of the chief drafters. This draft stated that the highest source of law in the state was the laws of the Shari'a.⁶⁴³ Mahendra notes that the notion of "source of law" is intended specifically to distinguish it from having the "Shari'ah as law". As a source of law, the Shari'ah is not transposed directly onto state law but instead is used to derive

⁶³⁹ Article 2 of Masyumi statute (1952), quoted in Mahendra, *Modernisme*, 237-238.

⁶⁴⁰ Article 2 of Masyumi statute (1952), quoted in Mahendra, *Modernisme*, 238.

⁶⁴¹ Mahendra, *Modernisme*, 238.

⁶⁴² Mahendra, *Modernisme*, 238.

⁶⁴³ Mahendra, *Modernisme*, 238.

detailed legislation under a “certain justice system”.⁶⁴⁴ Furthermore, according to Mahendra, Masyumi’s draft of the constitution stated that “all legislations that are proposed must be approved by the legislative bodies.”⁶⁴⁵

Mahendra’s explanation of Masyumi’s proposal for the shape and implementation of Islamic law was indeed consistent with Sjafruddin’s view concerning the role of Islam in the state and the establishment of Islamic law in Indonesia, which he wrote long before the constitutional debates in the Constituent Assembly from 1957 to 1959.⁶⁴⁶ However, it was never clear whether Masyumi’s interpretation would be accepted by other Islamic parties such as NU, which based their interpretation on the four most prominent Sunni legal schools of thought (*madhāhib*), or other traditionalist or fundamentalist groups both within and outside Masyumi itself. As Daniel S. Lev noted, “among the university-trained Masyumi leaders, especially some of the lawyers, there was considerable doubt about the usefulness of the Islamic law in a modern state, though it was not a doubt that could be expressed easily in public.”⁶⁴⁷ Lev did not specify who these “lawyers” were, but many Masyumi figures were graduates of law schools, and Sjafruddin was one of them. Indeed, from reading his works it is clear that he would be considered amongst those Masyumi figures that would have had such doubts. Because of this, we can understand why Sjafruddin’s statement to Mahendra regarding the question of Islamic law was very qualified. In the following we will further discuss Sjafruddin’s view on the relation between Islam and the state as well as other

⁶⁴⁴ Mahendra, *Modernisme*, 238.

⁶⁴⁵ Mahendra, *Modernisme*, 239. It is relevant here to quote Kahin’s assessment that Natsir’s “approach to the place of Islam in politics was moderate and consistent with Indonesian realities and if ever fully understood would probably not have alarmed Indonesian Christians, Sukarno, or the members of the Indonesian Nationalist Party”. George McTurnan Kahin, “Indonesia,” in *Major Governments of Asia*, ed. George McTurnan Kahin (Ithaca: Cornell University Press, 1958), 554.

⁶⁴⁶ Prawiranegara, “Islam dalam Pergolakan Dunia,” 46; Lev, *Transition*, 127 and 227.

⁶⁴⁷ Lev, *Transition*, 129.

political issues. However, it is not possible to separate his political views from his economic thinking, as part of his holistic religious-socialist ideology.

Sjafruddin was the main speaker of the left-wing group within Masyumi termed “religious-socialist”. He wrote one of the clearest expositions of this ideology in a pamphlet, *Politiek dan Revolution Kita* (Politics and Our Revolution) in the middle of 1948. Some quotations from it below may help to highlight the viewpoint of that progressive faction of Masyumi:

What is the aim of our national revolution? The aim is the unity of the Indonesian people and the realization of social justice and prosperity for our people. Therefore the abolition of the colonial system alone is not enough. We need an economic and political structure which can guarantee the realization of social justice, and this could not be realized in the Dutch time which was colonialistic and capitalistic in nature.

Our constitution is also influenced by socialism, as is proved by Article 33. However, socialism in the constitution has no spiritual connection with Marxian socialism, because Article 29, Clause 1 stipulates that our state is based on religion. The followers of the constitution who are now following Marxian socialism unconsciously pursue a wrong path.

Collectivism without individualism is like a flock of sheep which can be dispersed easily. It is fascism if a certain ideology would impose collectivism upon the people by forcibly eliminating a class of people.

Islam forbids the forcible imposition of a certain ideology. Individualism is properly respected by Islam; each individual is responsible for himself to God. Islam calls for the reaching of agreement by means of discussion among the people. In our revolution many Moslems are forgetting the principles of Islam; they support Marxian socialism and participate in actions which merely create troubles and hamper the revolution.

Our national revolution needs an ideology which can guarantee the realization of social justice. However, I believe that Marxism cannot fulfill the need; in addition, Marxism is contrary to the constitution. The ideology which is suitable to our society is religious socialism, an ideology which is in harmony with the constitution. Religious socialism does not abolish individualism, individual initiative, and individual responsibility. Thus, not only the freedom of the whole nation is guaranteed but also the freedom of the individual, without closing the door for possible nationalization or socialization of certain vital enterprises. This is the ideal of our national revolution.

Therefore it is not correct to state that it is not yet the time to begin socialist revolution. On the contrary, our national revolution obviously indicates elements of socialism, which are similar to Marxian socialism. If the elements of socialism do not exist, the national revolution means nothing to us, as it does not give new hope. However, the basis of socialism in our revolution is not the historical materialism of Marx, but instead its basis is the duty of man towards man and the duty of man towards God.

Therefore the means of realizing socialism must be different from the means used by Marxian socialism with its class struggle. According to religious socialism, socialization is only a means to realize social justice and the people's prosperity. Therefore to achieve socialization it is not necessary to eliminate a certain class or groups, and it is also not necessary to introduce an overall socialization; it is enough if socialization is introduced when necessary...

Competition arising out of private initiative as such is not bad; in fact the contrary, because competition increases production and improves the quality of goods. We must not forget that the progress of production and economy in Europe and America was possible because of competition. Only at a certain stage does this liberal economy not increase production and is there a tendency to limit production. At that stage the government must intervene by nationalizing certain private enterprises or establishing enterprises itself.

Generally speaking limitations on competition and/or socialization should not be introduced merely because of a desire to realize a certain theory; the time and circumstances must also be taken into consideration. If the government organs are not yet organized well enough to carry out and supervise the regulations made by the state because of the lack of capable personnel, and if home production is not yet sufficient to supply the needs of the people, we must think twice before we introduce socialization or limit competition. Otherwise merely for the sake of realizing a certain theory, we will cause our people to die.⁶⁴⁸

This passage shows a number of important points. The first relates to the influence of a leftist socialist ideology on the economic and political thought of Sjafruddin and many other Indonesian leaders. Undoubtedly this came from the influence of literature circulating at the time and in reaction to colonial suppression and to the violent political developments resulting from Dutch insistence on re-ruling Indonesia after the Second World War.⁶⁴⁹ The second point concerns flexibility in ideological matters.⁶⁵⁰

Similar to other Indonesian nationalist leaders, Sjafruddin embraced socialist and anti-imperialist ideas. Before independence he was close to Sutan Sjahrir, the foremost leader of PSI, the Indonesian Socialist Party, although he did not consider

⁶⁴⁸ Prawiranegara, *Politiek dan Revolusi Kita*, quoted in Kahin, *Nationalism and Revolution*, 309-310.

⁶⁴⁹ Cribb and Brown, *Modern Indonesia*, 6-14; Chalmers, "Introduction," 6-7; Rasuanto, *Keadilan Sosial*, 202-203.

⁶⁵⁰ Rahardjo, *Pragmatisme dan Utopia*, 49; Chalmers, "Introduction," 9; Higgins with Higgins, *Indonesia*, 82.

himself one of his followers.⁶⁵¹ After independence, however, Sjafruddin joined the Masyumi Party instead of choosing PSI, probably because of his family's devout Islamic background. Within Masyumi, Sjafruddin belonged to a group called the religious socialists that, according to Kahin, wielded tremendous influence—more so than any other party members combined—over Masyumi policy.⁶⁵²

How did socialism fit within Sjafruddin's ideology? His understanding of socialism involved an emphasis on principles of social justice in economic planning to achieve prosperity. However, for Sjafruddin, this emphasis should not at all compromise the role of private initiatives and the importance of individual responsibility. Furthermore, socialism was not to be implemented through class struggle but rather through sound economic programs and policies based upon the principles of efficiency and economic rationality and designed to cause the least amount of economic suffering to the lower classes.⁶⁵³ The religious aspect of the ideology was clear: moral and spiritual values should underlie efforts to realize social justice and prosperity. Belief in One God should be the moral foundation of socialism in order to achieve not only material prosperity but also spiritual happiness.⁶⁵⁴

⁶⁵¹ Legge, *Intellectuals and Nationalism*, 141.

⁶⁵² Kahin, *Nationalism and Revolution*, 306-307. Kahin summarized the party's "Urgency Program" as follows: "(1) Realization of the Islamic ideology in matters concerning the state in order to be able to establish a state based on popular sovereignty and justice in harmony with teachings of Islam; (2) Enactment of laws which guarantee to workers minimum wages, maximum working hours, accident and old age allowances, protection as to security, health, and housing; and (3) Enactment of laws which guarantee for the peasant private ownership of land sufficient to support him and his family, protection in the sale of his products, and the general enhancement of his status." With regard to the general organization of the economy, the program stated: "(1) The principal duty of the state must be to open the possibility to work and to have a job to all citizens; (2) The economy should be based upon collectivism in which individual initiative may not be detrimental to the general interests and should be directed towards the general prosperity; (3) The right of private ownership is recognized, limited by the provisions laid down in religion (taxes, charity, etc.); and (4) Capitalism which obviously consists of individual interest alone must be opposed [i.e., socially harmful capitalism is to be opposed]."

⁶⁵³ Kahin, *Nationalism and Revolution*, 310.

⁶⁵⁴ Sjafruddin Prawiranegara, "Peranan Agama dan Moral dalam Pembangunan Masyarakat dan Ekonomi Indonesia," in *Kumpulan Karangan Terpilih*, jilid 1, Islam Sebagai Pedoman Hidup, ed. Ajip Rosidi (Jakarta: Inti Idayu Press, 1986), 116-117.

We can further discern Sjafruddin's thought on the relation between Islam and the state from an article he wrote in 1949 in which he discussed in brief his understanding of a famous legal term in Islamic Law, *Dār al-Islām* (the Abode of Islam). According to him, this concept was vague and was never satisfactorily explained by religious scholars, especially in light of the complexity of the modern state. For instance, various countries with majority-Muslim populations had different political and social systems. Which of these were to be considered part of *Dār al-Islām*? Some or all? And what were the criteria to allow us to make distinctions? For Sjafruddin, it was useless to try to outline the formal requirements of *Dār al-Islām*. Instead he argued that

[...] it is not the theory of *Dār al-Islām* that is important, but rather the practice, which is the conduct and deeds of Muslims that are motivated by pure intentions towards God, such that these actions benefit the community, whether Muslims or non-Muslims. What is the benefit to make an issue out of *Dār al-Islām* if in practice a state allows Muslims the greatest freedom to practice their religion? [...] Before we demand the establishment of *Dār al-Islām*, whose shape and content is not yet clear to us, we should rather Islamicize ourselves through doing good deeds. We should not prioritize mere name."⁶⁵⁵

He concluded by saying that "as long as Muslims receive the opportunity to realize their aspirations and perform their duties, free from an oppressive regime, this is enough."⁶⁵⁶

Sjafruddin also denounced the aspiration to establish a kind of 'Pakistan' in Indonesia, especially when those who advocated this also justified the use of violence. He called such an aspiration a delusion.⁶⁵⁷ He called upon Muslims to use legal and constructive means in their struggle to realize their aspirations:

It is the obligation of each citizen with Islamic consciousness to continue his/her jihad through the correct channels and the ones justified by the law,

⁶⁵⁵ Prawiranegara, "Islam dalam Pergolakan Dunia," 46.

⁶⁵⁶ Prawiranegara, "Islam dalam Pergolakan Dunia," 45.

⁶⁵⁷ Prawiranegara, "Islam dalam Pergolakan Dunia," 46.

by not forgetting the situation of our country which is climbing the stairs of its development and growth toward a well-ordered and perfect level.⁶⁵⁸

Sjafruddin was more concerned with the spiritual and moral substance of Islam than with its formal or outward appearance. He also emphasized the importance of meritocracy in state governance. He enjoined Muslims not to demand that all government positions be held by them. The most important thing, Sjafruddin emphasized, was that the officials who carried out state affairs be just, honest and capable. If Muslims demanded that fellow Muslims hold all government positions, this was no more than an imposition of Islam upon Indonesians of other religious traditions. That kind of attitude, for him, was contrary to the will of God, who decrees in the Qur'an that there is no compulsion in religion. In fact, it would damage Islam itself.⁶⁵⁹

Sjafruddin was also critical of Islamic parties and organizations. As a result of colonialism the Indonesian people, especially Muslims, were mired in conservatism, disunity, personal cults, and superstition. All these were, in Sjafruddin's opinion, forbidden by Islam.⁶⁶⁰ Opinions and ideas were often rejected not on the basis of their content, but because of the people who advocated them. Political parties were not administered through the participation of an informed and critical membership, but were run rather by their "gods or representatives" (wordplay on the similarity between *dewa* [Sanskrit: deva] and *dewan* [Arabic: *dīwān*]), who were concerned more with their personal interests than with the interests of the party. According to Sjafruddin, Islam was used by these leaders as an accessory, not a way of life. He therefore enjoined Muslims and Indonesians to focus on contributing positive and constructive ideas in an independent Indonesia. The period after independence

⁶⁵⁸ Prawiranegara, "Islam dalam Pergolakan Dunia," 46.

⁶⁵⁹ Prawiranegara, "Islam dalam Pergolakan Dunia," 47.

⁶⁶⁰ Prawiranegara, "Islam dalam Pergolakan Dunia," 40-41.

required not only the courage shown during the struggle for independence by both secular and religious leaders but also science and skills in state-building. Sjafrudin here was taking a jibe at the old guard of religious leaders who still insisted on being active in politics. He recognized, however, that many of them wanted out but stayed because they had been put on a pedestal by their supporters.⁶⁶¹ Sjafruddin also criticised conservatism, such as suspicion of all things Western, for having prevented progress. However he appreciated a conservatism that functioned as a stabilizing force (*zakelijkheid* and *nuchterheid*), was capable of withstanding social upheaval, and which would prevent people from aspiring to things which could not be realized. Sjafruddin here seemed to be referring to communism and radical nationalism.⁶⁶²

After the transfer of sovereignty from the Netherlands on December 1949, Sjafruddin became Minister of Finance in the third Hatta cabinet (December 1949-September 1950) and in the Natsir cabinet (September 1950-April 1951). During that period he was preoccupied by his immediate ministerial tasks and produced no writings related to politics; however, he published an article discussing political issues again after he was no longer a minister. In the article, entitled “Indonesia di Persimpangan Jalan” (“Indonesia at the Crossroads”),⁶⁶³ Sjafruddin took to task not only the government of Prime Minister Sukiman Wirjosandjojo—who like Sjafruddin also came from Masyumi—but also other national leaders who did not decisively reject the establishment of new ministries as part of the political horse-trading between political parties. In his opinion, this practice presented a heavy burden for the government budget.⁶⁶⁴

⁶⁶¹ Prawiranegara, “Islam dalam Pergolakan Dunia,” 41-42.

⁶⁶² Prawiranegara, “Islam dalam Pergolakan Dunia,” 43-44.

⁶⁶³ Rosidi, *Sjafrudin Prawiranegara*, 167.

⁶⁶⁴ Rosidi, *Sjafrudin Prawiranegara*, 167-168.

He consistently urged the government to follow the guidelines set down in the “right person in the right place” policy of Hatta and Natsir’s cabinets. In his opinion the policy required moral courage, as he saw that many political leaders in charge had a tendency to succumb to demands, in order to avoid conflict, especially when faced with bluster and threats. Sjafruddin argued that the slogans of “unity” and “peace” were often only used to hide weaknesses. In his opinion, many leaders tended to seek the easiest path, either to maintain popularity or to avoid the pains of making an unpopular decision. “People were encouraged to maintain unity, because those who suggest it,” Sjafruddin asserted, “had no courage to act and must look for reasons to hide their flaws.”⁶⁶⁵

In Sjafruddin’s view, democracy required policies made by a responsible government and leaders. Policy needed courage, especially moral courage, and unity had true meaning if there were opportunity for difference of opinion and a readiness to make sacrifices. Sjafruddin detected, within the attitude of the leaders who lacked moral courage, the dangers that threatened Indonesia: “democracy drowned in a coalition and then coalition eaten by anarchy, and anarchy overcome by armed factions or groups who control the armed factions.”⁶⁶⁶ Sjafruddin’s advice failed to convince most other political leaders. They continued to be preoccupied with maintaining the interests of their respective powers, signified by frequent cabinet changes. They condoned corruption and cronyism rather than fostering responsible policy and efficiency. Sjafruddin’s prediction would prove true in the next few years later when the misuse of parliamentary democracy incited the army to begin intervening in political and civilian affairs. Military involvement culminated in the New Order period (1967-1998) in which the New Order regime exercised dual official functions, as political leaders as well as leaders of the armed forces.

⁶⁶⁵ Rosidi, *Sjafrudin Prawiranegara*, 168.

⁶⁶⁶ Rosidi, *Sjafrudin Prawiranegara*, 168.

In fact, Sjafruddin had long foreseen the possible instability of the system of parliamentary democracy that would disrupt the government program. After the dissolution of the Republic of the United States of Indonesia (RIS) and the re-inauguration of the unitary State (Republic of Indonesia) in the 1950, members of the RIS cabinet met to draft a Provisional Constitution.⁶⁶⁷ There was a prolonged and sharp debate on the system of state and government to be adopted in the constitution. As Hatta told us, two different opinions existed at the time. One was the proposal by the Masyumi to have a Presidential Cabinet, with Hatta as concurrently Vice President and Prime minister to ensure political stability and economic reconstruction. The other proposal came from the PNI, supported by the PSI and others, which suggested that Hatta should choose between being a Prime Minister and Vice President in a parliamentary system. Hatta and Masyumi maintained that the country needed a calm period to be able to develop. Sjafruddin, representing Masyumi, based his proposal on past experience when the country defended independence against the opposition and aggression of the Dutch. According to him, it was clear that under Hatta's leadership, with the support of Sukarno, the cabinet proved to be strong and able to withstand critical periods. Also when Sjahrir led the cabinets, the President and the Vice President protected them rather than the other way around, which was actually the original intention (of assigning Sjahrir to be Prime Minister). At this point, Sjafruddin argued, the State was still facing difficulties which required a direct role of Sukarno and Hatta in a presidential cabinet led by Hatta. In other words, Sjafruddin proposed that the President and Vice President have executive powers rather than merely a ceremonial function and be a symbol of the nation's unity. However, representatives of other parties continued to reject Sjafruddin's proposal. Eventually, after hours and days of lengthened debates,

⁶⁶⁷ Feith, *The Decline of Constitutional Democracy*, 148; Rosidi, *Sjafrudin Prawiranegara*, 164.

Sjafruddin accepted other parties' proposal that Hatta became Vice President but not Prime Minister. However, Sjafruddin demanded that the Constitution include "an escape clause" stating that if times should become difficult, then, at the right moment, Hatta would be asked to resume the post of Prime Minister, and would still be responsible to Parliament. His proposal was accepted by Wilopo of the PNI but not by other figures of the party and members of other parties except members of Sjafruddin's party, Masyumi. After long deliberations and since the issue was not settled, Sukarno offered a solution, i.e. not to include Sjafruddin's escape clause in the constitution and have Hatta become Vice President in a Parliamentary cabinet. But should difficulties arise later on, Sukarno promised implicitly, he would ask Hatta to be Prime Minister, as this happened in the past. According to Hatta, all those present at the time had the same interpretation.⁶⁶⁸ But as we know, the parliamentary system was used irresponsibly as Hatta and Sjafruddin predicted, and the statement was never implemented when the country was facing political crises and an emergency situation in the second half of the 1950s. In this case, Ajip Rosidi did not exaggerate when he wrote that had "Sjafruddin's escape clause" been accepted and included in the Constitution of 1950, perhaps the regional complexities and other political problems could have been solved and the PRRI tragedy could have been avoided.⁶⁶⁹ Moreover, it is probable that Indonesia would be a better country nowadays.

Sjafruddin was primarily a person of rational character. Therefore, in formulating his economic policies, he based his assessment on a rational and realistic consideration of the Indonesia's situation at the time. This pragmatic disposition was also apparent in his politics. At the beginning of the New Order

⁶⁶⁸ Mohammad Hatta, "Bung Hatta's Answers: Interview Dr. Mohammad Hatta with Dr. Z. Yasni" (Singapore: Gunung Agung [S] Pte. Ltd.; Jakarta: PT Gunung Agung, 1981), 22-23.

⁶⁶⁹ Rosidi, *Sjafrudin Prawiranegara*, 165.

regime, Sjafruddin avoided participating in party politics when it became clear that efforts to rehabilitate the Masyumi Party⁶⁷⁰ were rejected by the regime.⁶⁷¹ Rather, he chose to focus his energy on other, non-political activities. He did not allow his disappointment to last long, arguing that there were still many opportunities for Muslims to make significant contributions in the realms of economics, education, socio-cultural initiatives, and others.⁶⁷² Hence, in accordance with his expertise in economics and finance, Sjafruddin established with his friends an organization named Husami (Himpunan Usahawan Muslim Indonesia, Association of Indonesian Muslim Entrepreneurs) on July 24, 1967 that aimed to “learn and develop doctrines and rules of Islam in the financial and economic fields, assist and strengthen the economic efforts of Indonesian Muslims, and serve and contribute to the economic development of the state and the people of Indonesia.”⁶⁷³

Sjafruddin argued that religion and morality could not and should not be separated from political and economic activity.⁶⁷⁴ He also disagreed with those who understood religion narrowly. He wrote: “Until now there are still too many leaders

⁶⁷⁰ The Army-dominated New Order regime also rejected the proposal presented by PSI leaders to re-establish the party. Masyumi and PSI were dissolved by President Sukarno in 1960 for refusing to denounce and dismiss certain of their leaders who were involved in the PRRI movement and the opposition to Sukarno’s Guided Democracy. Ricklefs, *A History*, 300 and 306.

⁶⁷¹ On January 6, 1967, the Army-dominated New Order government formally rejected the rehabilitation of Masyumi and PSI based on legal, constitutional and psychological considerations. This came in spite of the issuance, at the Army’s second seminar in Bandung on August 1966, of a statement that members of the banned parties (PSI, Masyumi, and Murba) should be allowed to participate in political life as Indonesian citizens, bearing rights and responsibilities similar to other citizens. Similarly Persahi (Persatuan Sarjana Hukum Indonesia, Association of Indonesian Scholars of Law) on December 3 1966, concluded that the dismantling of Masyumi and PSI by the Guided Democracy regime was illegal and unconstitutional. The association recommended the rehabilitation of the two parties to help the development of democratic life. Hassan, “Contemporary,” 119; Ward, *Foundation*, 25; Ismail, *Islam and Pancasila*, 130-131.

⁶⁷² This statement of Sjafruddin and his following attitudes were different from those of many other political leaders who were excluded from political life during the period of the New Order regime. Sjafruddin was much less embittered than his colleagues, retaining his vigour, rationality, sensibility and reasonability in responding to policies, programs or opinions presented by government officials or to new political situations in general, as already shown in Chapter 2 of this part.

⁶⁷³ Rosidi, *Sjafruddin Prawiranegara*, 242-243.

⁶⁷⁴ Sjafruddin Prawiranegara, “Memperkenalkan Asas dan Tujuan HUSAMI,” in *Ekonomi dan Keuangan: Makna Ekonomi Islam*, vol. 2 of *Kumpulan Karangan Terpilih*, ed. Ajip Rosidi (Jakarta: CV Haji Masagung, 1988), 250-252.

who think that our country can be prosperous only with the Qur'an and Hadith. On the other hand, there are a great number of leaders who think that to be prosperous Indonesia does not require the help of religion, although they claimed to be Pancasilaist (adherents of Pancasila)".⁶⁷⁵ Sjafruddin here chided conservative Muslims who understood religion purely through textual and normative approaches, ignoring the need for religious teachings to be interpreted with respect to their real-world socio-historical context. In his view, they only emphasized religious obligations and forgot to address how these should be implemented (with the help of modern sciences) in real life.⁶⁷⁶ However, he also implicated a certain number of secular Indonesian leaders who regarded religion as playing no role in the life of society and the state; whereas the first principle of Pancasila, the belief in One Infinite God, implied that religious teachings should be taken into consideration in formulating government policies, especially those related to ethical-moral issues and which carried social consequences. Sjafruddin criticized the group for arguing that religion should be separate from the state or have no public role, as suggested by some elements within the New Order government. Sjafruddin assumed that religion, particularly Islam, could and must provide moral and ethical foundations for social, political and economic development by way of consistently implementing Pancasila and the Constitution of 1945.⁶⁷⁷ He clearly espoused modernity without secularism.

Although realistically Sjafruddin chose to focus on non-political fields, accepting the new political reality in which civilian leaders of political parties during

⁶⁷⁵ Prawiranegara, "Isrā' dan Mi'rāj," 149.

⁶⁷⁶ Prawiranegara, *Islam dilihat*, 15. Prawiranegara stated: "But to apply the principles written in the Qur'an into life in the world, it is not enough that we only know the Prophet's Hadiths, for today we must even sometimes leave aside the Prophet's Hadiths, if we want to uphold the principles in the Qur'an... The matter is: Prophet Muhammad did not know what would happen in our era, more than thirteen centuries since his passing."

⁶⁷⁷ Prawiranegara, "Peranan Islam," 260-261. Prawiranegara, "Memperkenalkan," 249-252.

the 1950s were blamed for the political and economic disarray, he still maintained his critical stance towards various army involvements and regime policies which he considered to have deviated from the principles of justice, democracy and rule of law. After describing the political atmosphere in which Islamic and other civilian and political leaders were removed from political life, he made the following remarks:

Such circumstances are not surprising. Since the "political leadership" is held by the Armed Forces, then finally all the state officials and members of the House of Representatives, in the central and local governments, are treated as they are members of the Armed Forces. ... If they are not asked their opinion by their superiors, then subordinates should shut up. ... Criticism against superiors is forbidden and viewed as evil. In short, if we see that democracy in Indonesia is not running, error [according to the Indonesian Armed Forces] should not be attributed to the Armed Forces, but to all political parties because their actions [in the past] were undemocratic, and have gradually led to the Armed Forces being charged with the task to lead the state and nation in the political field. Whereas the Armed Forces are the last organization worth being burdened to hold political leadership in a state. ... Why are the Armed Forces not really the most suitable agent to hold the charge of the political leadership of the state? Because according to their role, the Armed Forces are an organization that is dictatorial. If the Armed Forces' nature does not prevail and they do not maintain a strong, steel-like discipline, then they cannot carry out their duties: to defend and destroy the enemies' forces from the outside, sometimes also from the inside. The issuance of orders by supervisors, and the hearing and obeying of these orders on the part of subordinates, is a natural tendency of every good armed force.⁶⁷⁸

Sjafruddin next asserted that the situation in Indonesia could be called 'normal' if the political leadership, namely the power of government, were returned from the hands of the Armed Forces to civilian leaders. But he also realized that the situation at that time (1970s) was not right for civilian groups to take back political power. However, according to him, the political leadership of the Armed Forces must be declared a state of emergency, implying that sooner or later it must end. Sjafruddin worried that if the leadership of the Armed Forces continued without a deadline, the creative power of the people would be weakened and they could be

⁶⁷⁸ Prawiranegara, "Peranan Islam," 258.

easily colonized, politically, economically, and culturally, by more powerful nations. Likewise, if the Armed Forces themselves were constantly busy taking care of civilian affairs such as government, economy, industry, commerce, agriculture, and tourism, among others, their mental strength and strict discipline would lapse and their combat power would be reduced. Sjafruddin asserted that the conditions which would allow for the transfer of political power back into the hands of civilians must be cultivated in a systematic and programmatic way. Therefore, he argued, the New Order government's development plan should address not only the economy but also social, political, and educational fields.⁶⁷⁹

4.2.3. Sjafruddin Prawiranegara's Rational and Independent Character

Although Sjafruddin was rational in dealing with religious belief, political and economic affairs, and life in general, he was not a rationalist in the sense of rationalism defined as "the principle or habit of accepting reason as the supreme authority in matters of opinion, belief, or conduct", or in its philosophical or theological meanings. So although Sjafruddin believed in reason and humans' ability to improve their lives, he was aware of the limitations of human reason and science in understanding phenomena in the universe and in controlling the course of history. This belief can be seen in his articles about the events of Isrā' and Mi'rāj (the Prophet Muhammad's night journey from the Holy Mosque in Mekkah to al-Masjid al-Aqṣā in Jerusalem and his ascension to heaven). Sjafruddin believed that the event could only be understood fully by those who had received revelation or inspiration, such as a prophet or mystic. Those who had never received a revelation or inspiration, in his view, inevitably could only take one of two attitudes, either to believe or reject it. For the believers, there were two approaches: to accept it without reserve or to do so with a dose of scepticism. A scientific attitude neither a

⁶⁷⁹ Prawiranegara, "Peranan Islam," 261.

priori rejected the truth of Isrā' and Mi'rāj, nor did it *a priori* accept it; rather, it would try to approach the question from a variety of perspectives. If, having completed this process, there were reasonable grounds to hold that such an event could conceivably have taken place, then the belief in the events of Isrā' and Mi'rāj becomes more robust rather than if one were to accept it without reserve and questioning.⁶⁸⁰ Based on that proposition Sjafruddin carefully and systematically discussed the Isrā' and Mi'rāj from the point of view of philosophy, psychology, and natural science.⁶⁸¹

An interesting aspect of Sjafruddin's exploration of the topic from a scientific angle is his meticulous examination, practical, down-to-earth conclusions, and frank criticism of Muslims. This kind of discussion was rarely carried out by Islamic leaders in the 1950s and 1960s. Before raising his own opinion Sjafruddin first explained the views of Western scientists—including, for example, those who embraced Marxism—as well as those of Muslim scholars, whether he approved of them or not. Only then did he comment on and critique those opinions.⁶⁸² The following excerpts from the conclusion of his description of Isrā' and Mi'rāj show

⁶⁸⁰ Prawiranegara, "Isrā' dan Mi'rāj," 119-120. This article originally was a speech delivered in University of Indonesia, Jakarta on November 10, 1966.

⁶⁸¹ In his exposition of the topic Sjafruddin quoted JWN Sullivan's book entitled *The Limitations of Science* on the subject of electrons, to demonstrate his point about the function of belief in human life, including in the field of science. According to Sjafruddin, for people who were not proficient in the science of nuclear physics and mathematics—though he was a scientist in another field—there was only one of two roads available: to trust the experts on nuclear physics about the subject in their field, or to reject their opinion. With this case, Sjafruddin wanted to demonstrate that not only some aspects of religious belief like Isrā' and Mi'rāj but also many scientific matters could be accepted without empirical evidence. Sjafruddin also discussed George Berkeley's opinion on empirical phenomena and perception, William James on religious experiences, Sigmund Freud's dream and distorted picture of reality, Jose Ortega Y Gasset on reason and belief, and Suzanne K. Langer on symbol and being. From Islamic sources he discussed the opinions of Ahmad Hasan and K. H. Munawar Chalil, two reformist 'ulamā' in Indonesia. Sjafruddin Prawiranegara, "Akal dan Kepercayaan," in *Islam Sebagai Pedoman Hidup*, vol. 1 of *Kumpulan Karangan Terpilih*, ed. Ajip Rosidi (Jakarta: Inti Idayu Press, 1986), 58-66. This article was originally a speech delivered in Jakarta in May 1951. Prawiranegara, "Isrā' dan Mi'rāj," 118-149.

⁶⁸² Prawiranegara, "Akal dan Kepercayaan," 58-66; Prawiranegara, "Isrā' dan Mi'rāj," 67-83. The latter article was originally was a speech delivered at the Bandung Institute of Technology on April 3, 1954 at an occasion held by HMI (Association of Islamic University Students).

that methodology: “The story of Isrā’ and Mi’rāj gives a broad space of fantasy and it has been widely used by religious scholars who, in their burning desire to show the greatness of Allah SWT (*subhānahū wa ta’ālā*, may God be glorified and exalted) and the uniqueness of Prophet Muhammad SAW (*sallā Allahu ‘alayhi wa sallama*, may God bless him and bestow peace upon him), have added to the story of Isrā’ and Mi’rāj an assortment of fairy tales, so it is very difficult to separate the original ones from the additions.” In Sjafruddin’s opinion, the story of Isrā’ and Mi’rāj sufficed to be a miracle even without the additions.⁶⁸³ Yet Sjafruddin also criticized the Muslim scholars who wanted to prove the truth of Isrā’ and Mi’rāj in a “scientific way”. According to him, having just received a basic or intermediate Western education but not its philosophy and methodology, they did not realize that many things were beyond the ability of the ordinary mind or scientific knowledge to comprehend. They forgot that human reason was limited in scope. No matter how advanced human knowledge, according to Sjafruddin, there still remained much *terra incognita*, areas that were not and would not be known through human reason.⁶⁸⁴ Hence, although Sjafruddin discussed Isrā’ and Mi’rāj from the perspectives of various branches of science and philosophy as explained above, he did not intend to prove their truth by modern scientific methods based on human reason, sensory experiences, and physical experiments. Instead the discussion was intended to demonstrate the limitations of modern science in understanding such vast and incalculable natural phenomena: that even methods of modern science could not guarantee absolute truth.⁶⁸⁵

Sjafruddin also discusses extensively the issue of epistemology in economics and religion. Economists viewed the desire for material or monetary profit at the

⁶⁸³ Prawiranegara, “Isrā’ dan Mi’rāj,” 144.

⁶⁸⁴ Prawiranegara, “Akal dan Kepercayaan,” 57-58; Prawiranegara, “Isrā’ dan Mi’rāj,” 67-70.

⁶⁸⁵ Prawiranegara, “Isrā’ dan Mi’rāj,” 67-78.

least cost as a basic principle of economics, on which were founded the law of supply and demand (wet van vraag en aanbod), the theory of value (waardeleer), and so forth. To economists, therefore, economics was a science no different from natural sciences such as physics, chemistry, biology, etc., all of which presumed objective knowledge through posited laws. Sjafruddin disagreed with these claims, because in his view, economic laws could only make relative claims about reality. He acknowledged that there were economic motives to human endeavors, but held that the strength of their influence was very dependent on the situation at hand. At times the economic motives which formed the basis of human actions were affected by other considerations. Though possible motivators are numerous, he had in mind in this article those considerations that were unique to Indonesian Muslims, such as the notion of the Sunnah; that is, the emulation of the lives of the prophets, saints, and scholars, all of whom based their actions on spiritual and otherworldly purposes rather than the economic imperative. Moreover, according to Sjafruddin, despite economists' claims that their field allowed for a rapprochement of views since it was based on universal laws, there has been no shortage of disagreements throughout the history of economics-as-science due to the ideological, philosophical, and historical circumstances of the various thinkers and experts in the field. Hence, these differences are caused not simply by a lack of data (as it is often claimed), but rather are due to the fact that the laws the economists posit as universal are not universal at all, but rather contextual. One of these contextual factors is ideology, based on a particular worldview. Yet unlike religious traditions that consciously engage a hermeneutic tradition to draw out meaning from their sources—recognizing thereby that aspects of religious doctrines and practice are not 'objective' in the scientific sense—the ideological impulse of some economists is to reject the uncertainty of hermeneutics and assert a scientific correspondence between theory

and reality. Sjafruddin maintained that even the acquisition of ‘facts’ is predetermined by our subjective dispositions and motives. All sciences were based on facts acquired by human beings who had feelings, desires, beliefs, and interests. Though these subjective factors could be minimized, they remained nonetheless, and any science, including economics, was still largely driven by them.⁶⁸⁶ Sjafruddin seemed to consider the physical/natural sciences to be relatively neutral,⁶⁸⁷ but as for social sciences like economics, especially political economics, he argued firmly that they involved subjectivity and personal interest and were value-oriented and therefore not neutral.⁶⁸⁸ His conclusion was in line with that of Gunnar Myrdal in his discussion of economists’ systematic endeavor to solve practical and political problems and their belief in objective scientific knowledge of the facts. He wrote:

⁶⁸⁶ Prawiranegara, “Motif,” 32-34 and 38. It is important to note that Sjafruddin’s opinion is similar to that of Gunnar Myrdal, who wrote: “Every economist is painfully aware that there exists widespread doubt about the supposed ‘scientific’ character of economics. The distrust is, indeed, well founded. A branch of knowledge which works with a whole set of premises missing is hardly reliable. To the ordinary citizen this methodological defect is not apparent; it actually conforms with his own ways of thinking. But what he can notice, whether he is versed in modern scientific methods or not, is the conspicuous lack of agreement among the various writers on the economic aspects of practical and political problems.” See Gunnar Myrdal, *The Political Element in the Development of Economic Theory*, trans. Paul Streeten (New York: Simon and Schuster, 1969), xiii.

⁶⁸⁷ Prawiranegara, “Isrā’ dan Mi’rāj,” 77-78. Sjafruddin’s opinion is similar to that of Joan Robinson, who wrote: “I think Professor Popper is wrong in saying that the natural sciences are no better than the social sciences. They have in common the human weakness to develop patriotism for one’s own work [...] But on top of that, in the social sciences, first, the subject-matter has much greater political and ideological content, so that other loyalties are also involved; and secondly, because the appeal to “public experience” can never be decisive, as it is for the laboratory scientists who can repeat each other’s experiments under controlled conditions, the social scientists are always left with a loophole to escape through [...]” Joan Robinson, *Economic Philosophy* (Penguin Books: 1962/1976), 27.

⁶⁸⁸ Concerning the inability of economists to agree and the difference between economics and the natural sciences Sjafruddin’s opinion is similar to those of Myrdal and Hjalmar Branting, the great Swedish socialist leader who had a background in astronomy. On this subject, Myrdal quotes the Branting’s assertion: “Economics is not like the natural sciences, in which what one investigator has demonstrated to be true cannot be questioned by another authority, since the critic would then simply show that he is ignorant of the facts. In the field of economic science we still see school ranged against school; while the number of authentically recognized general truths is, unfortunately, still very small”. In Myrdal opinion, although Branting’s last statement was grossly exaggerated if it was intended to include purely scientific economic research, his indictment was a perfectly accurate description of the political doctrines foisted onto economics. See Myrdal, *The Political Element*, xiii.

“[t]his implicit belief in the existence of a body of scientific knowledge acquired independently of all valuations I soon found to be naïve empiricism.”⁶⁸⁹

For Sjafruddin, science was not the only way to understand nature. He wrote that the spiritual ‘heart’ (*qalb*)⁶⁹⁰ was an organ sensitive to intuition and revelation, which were other ways of experiencing reality.⁶⁹¹ While Sjafruddin appreciated the relative truth of modern science as it was displayed by numerous technological advances,⁶⁹² he also argued that the benefit of science and technology should be employed for the protection of human beings and their natural environment rather than for their destruction. We see here Sjafruddin’s emphasis on the importance of moral and ethical values in the application of science and technology.⁶⁹³

⁶⁸⁹ Gunnar Myrdal, *Objectivity in Social Research: The 1967 Wimmer Lecture* (New York: Pantheon Books, 1969), 9.

⁶⁹⁰ Prawiranegara, “Isrā’ dan Mi’rāj,” 79-82. *Qalb* literally means heart. The Arabic verb form *qalaba yaqlibu* means “to turn, return, turn a thing upside down, change, change direction, turn it about to its face and back, turn inside out, change condition”. See Abdul Mannan Omar, *Dictionary of the Holy Qur’an: Arabic Words – English Meanings (With Notes)*, 5th ed. (Hockessin, DE: Noor Foundation – International, 2008), 464. This is a very important concept in Islam. *Qalb*, and its plural form *Qulūb*, are found in many places in the Qur’an as well as the Hadith. Al-Ghazālī (1058-1111 CE) wrote *Kitāb Sharḥ ‘Ajā’ib al-Qalb* [The Book of the Marvels of the Heart]. According to al-Ghazālī, human beings were predisposed to knowledge of God simply by reason of their hearts. “It is the heart which knows God, which draws near to God, which strives for God, which speeds toward God and which discloses what is in and with God. The other members are simply subordinates and servants and instruments which the heart employs and uses as a master uses a slave and a shepherd uses his flock and a craftsman use a tool.” Al-Ghazālī in Richard Joseph McCarthy, S.J., trans., “Appendix V: Kitāb Sharḥ ‘Ajā’ib al-Qalb,” in *Deliverance from Error: An Annotated Translation of al-Munqidh min al-ḍalāl and Other Relevant Works of al-Ghazālī* (Louisville, KY: Fons Vitae, 1980), 309. Chapter al-A’rāf 7:179 of the Qur’an reads: “And certainly We have many of the jinn and people who are destined for hell, with hearts they do not use for comprehension, eyes they do not use for sight, ears they do not use for hearing. They are like cattle, no, even further astray: these are the ones who entirely heedless.” In a hadith the Prophet said: “[...] Verily, every king has a sanctuary, and Allah’s sanctuary is His prohibition. In the body there is a piece of flesh which, if it is sound, all of the body is sound, and which, if it is diseased, all of the body is diseased. This part of the body is the heart” (Recorded by Bukhārī and Muslim).” See Al-Ḥāfiẓ Zayn al-Dīn ibn Rajab al-Ḥanbalī, *Jāmi‘ ‘l-‘ulūm wa ‘l-Ḥikam: fī Sharḥ khamsīn Ḥadīth min Jawāmi‘ al-Kalim* (Al-Qāhira: Dār al-Bayān al-‘Arabī, 2005), 89.

⁶⁹¹ Prawiranegara, “Isrā’ dan Mi’rāj,” 132-140.

⁶⁹² Prawiranegara, “Isrā’ dan Mi’rāj,” 80.

⁶⁹³ Prawiranegara, “Isrā’ dan Mi’rāj,” 75-81; Prawiranegara, “Motif,” 32-39; Sjafruddin Prawiranegara, “Hakikat Ekonomi Islam,” in *Ekonomi dan Keuangan: Makna Ekonomi Islam*, vol. 2 of *Kumpulan Karangan Terpilih*, ed. Ajip Rosidi (Jakarta: CV Haji Masagung, 1988), 371.

The belief in science as an objective, neutral, and value-free enterprise has been questioned within and outside of the scientific community.⁶⁹⁴ In Islamic circles, the issue has been taken into consideration by Ziauddin Sardar, among others.⁶⁹⁵ He examined the epistemology of modern science as based on an assumption which “raises reason to a level where it became the sole arbitrator of all human thought and actions, values and norms.”⁶⁹⁶ Consequently, “knowledge and values are kept in isolated, watertight compartments. The pursuit of knowledge becomes the arch value to which all other values, including the sacredness of life itself, are sacrificed.”⁶⁹⁷ However, according to Sardar, objective epistemology was no longer tenable. As human beings, scientists were not able to “exclude their values, biases and preferences from what they do.”⁶⁹⁸

In his research, Sardar also found Muslims scholars who, despite taking a more critical attitude toward science, still upheld claims of its neutrality and universality. These included Z.A. Hashmi of the Pakistan Academy of Sciences and Waqar Ahmed Husaini, a visiting scholar at Stanford University and the Founder-President, Institute of Islamic Sciences, Technology, and Development.⁶⁹⁹ Another group of scholars including Sardar himself, Munawar Ahmad Anees, and Seyyed Hossein Nasr proposed the idea of an Islamic science that “seeks to serve and promote the values of the world-view and civilization of Islam.”⁷⁰⁰ They believed that Islamic science had a unique character that “stems from its all-embracing emphasis on the unity of religion and science, knowledge and values, physics and

⁶⁹⁴ Ziauddin Sardar, “Islamic Science: Reclaiming a Heritage,” in *Islamic Futures: The Shape of Ideas to Come*, ed. Ziauddin Sardar, Islamic Futures and Policy Studies Series (London: Mansell Publishing Limited, 1985), 160-165.

⁶⁹⁵ Sardar, “Islamic Science,” 166.

⁶⁹⁶ Sardar, “Islamic Science,” 158.

⁶⁹⁷ Sardar, “Islamic Science,” 159.

⁶⁹⁸ Sardar, “Islamic Science,” 161.

⁶⁹⁹ Sardar, “Islamic Science,” 169-170 and 180.

⁷⁰⁰ Sardar, “Islamic Science,” 174.

metaphysics.”⁷⁰¹ Islamic science, according to Sardar, “can be used as the framework of a critique of modern science—a critique that would highlight the fact that the inhuman rationality of modern science can be tamed, indeed synthesized, with a humane vision of knowledge to the benefit of all mankind.”⁷⁰² Hashmi argued that “for Muslim scientists to be in a position to eradicate the unwanted elements of Western science and technology, they must be trained in history and philosophy of science and have awareness of the future developments of science and technology.”⁷⁰³ His goals for a science-oriented policy in an Islamic polity included, among others, ensuring that science and technology systems were “directed towards the achievement of socio-economic goals, in particular the welfare of the people, economic growth, national security and cultural development.”⁷⁰⁴ Similarly, Husaini asserted that “Islamic environmental engineering and its associated technology paid particular attention to the proper use of natural resources, fulfilling the rights of natural habitats and wildlife, and promotion of socially desirable activities and cultural flowering.”⁷⁰⁵ However, he suggested that “Muslims can and should borrow and adopt from contemporary developed non-Muslim nations the material and technological culture more thoroughly and with greater freedom from concern for compatibility with Islamic ideological culture.”⁷⁰⁶ Although Sjafruddin was very critical of claims of the ‘objectivity’ of science, he did not share the idea of a so-called Islamic science espoused by scholars like Husaini and Sardar.

Sjafruddin’s rational character also extended to the way he conducted politics, the result of which was his reputation as an independent leader and thinker.

⁷⁰¹ Sardar, “Islamic Science,” 174.

⁷⁰² Sardar, “Islamic Science,” 176-177.

⁷⁰³ Sardar, “Islamic Science,” 170.

⁷⁰⁴ Sardar, “Islamic Science,” 170.

⁷⁰⁵ Sardar, “Islamic Science,” 180.

⁷⁰⁶ Sardar, “Islamic Science,” 179-181.

For example, although he was close to Sjahrir, the first Indonesian Prime Minister, and Hatta, he nonetheless did not hesitate to take issue with certain of their views with which he did not agree. He criticized Sjahrir's opinion regarding efforts to remedy the trouble and turmoil affecting the Indonesian nation. In Sjahrir's 1957 lecture at Bandung, he maintained that prosperity, justice, safety, and the eradication of poverty in Indonesian society could be achieved if the Indonesian people relied on reason and formed regular plans and organizations. While supporting Sjahrir's goals of upholding justice by eradicating poverty, and recognizing them as noble ideals, Sjafruddin nonetheless considered Sjahrir's opinions and recommendations to be incomplete. According to Sjafruddin, the eradication of poverty and the building of a just and prosperous society must be preceded by the development and purification of the inner soul. Those able to eradicate poverty were those who had first freed their inner selves from the temptations of material comforts. Thus, in order to eradicate poverty people must be able to carry the burden of poverty if necessary and be capable of giving and sacrifice. Prescriptions for how to develop and purify the soul could only be provided by religion. This, according to Sjafruddin, was not covered by Sjahrir's recommendations as per his materialistic socialist ideology, and was rarely found in the nomenclatures of other intellectual leaders.⁷⁰⁷

Sjafruddin's criticism of Hatta, meanwhile, was not fundamental. Sjafruddin criticized the attitudes of Hatta and other Indonesian leaders, including Sukarno, who collaborated with Japan. He saw them as having been so indoctrinated by Japanese propaganda that they were confident that the Japanese, thanks to their resilience, *bushido* spirit, and *kamikaze* forces, would not be defeated by the Allies. When the Japanese lost the war, Hatta and other Indonesian leaders continued to

⁷⁰⁷ Prawiranegara, "Peranan Agama," 112-113.

have confidence that Japan would uphold its promise to grant Indonesia its independence in accordance with their *samurai* spirit even when they were facing their collapse. Sjafruddin regarded this attitude as naive, and ultimately, as instructed by the Allies, the Japanese military authority forbade any change to the status quo, which meant forgoing efforts towards Indonesian independence and a planned meeting of the Committee for Preparation of Indonesian Independence (PPKI) formed by the Japanese authority.⁷⁰⁸ Sjafruddin also criticised Hatta for his overly-cautious attitude in making decisions. For example, Sjafruddin proposed to President Sukarno and Hatta that they issue a national Indonesian currency as a substitute for Japanese currency and Dutch-East Indies currency (issued by De Javasche Bank) to signify a new, independent nation-state. At first Hatta firmly rejected the proposal for the issuance of currency, though he eventually approved it after being swayed by Sjafruddin's various sensible arguments.⁷⁰⁹ The above criticisms notwithstanding, Sjafruddin agreed with Hatta and Sjahrir on many points including Indonesian foreign policy, advocating maintaining a balance between the Soviet Union and Western democratic countries in the early years of independence.⁷¹⁰ On the whole, Hatta and Sjahrir were two leaders who were highly respected by Sjafruddin.⁷¹¹

Sjafruddin was also among the few politicians during the 1950s who were able to avoid parochialism in party politics. He criticized leaders and members of his own party, Masyumi, who suggested that a number of Masyumi's entrepreneurs

⁷⁰⁸ Fortunately a high-ranking Japanese officer, Admiral Mayeda, allowed PPKI to hold the meeting in his house in Jakarta from midnight August 16 to the early morning of August 17, 1945. Admiral Mayeda and his staff eventually were arrested by the Japanese authorities on that day. Sjafruddin Prawiranegara, "Sejarah Sebagai Pedoman untuk Membangun Msa Depan," in *Islam Sebagai Pedoman Hidup*, vol. 1 of *Kumpulan Karangan Terpilih*, ed. Ajip Rosidi (Jakarta: Inti Idayu Press, 1986), 219-223.

⁷⁰⁹ Prawiranegara, "Recollections," 101-102.

⁷¹⁰ Prawiranegara, "Islam dalam Pergolakan Dunia," 51.

⁷¹¹ Prawiranegara, "Recollections," 101-102.

should receive licenses from the government for the export and import of goods—standard practice in other parties—the profits from which would be shared and used to finance the party’s activities. According to Sjafruddin, this would surely lead to corruption, collusion, and a client state, and would eventually split and ruin the party. He stressed that the party should be financed voluntarily by its members so that the party itself would become independent in performing its functions and achieving its ideals; it should not become a tool in the hands of a few rich contributors, something that Sjafruddin saw as a common occurrence in democracies. Finally, according to Sjafruddin, if the party could not survive on the contributions of its members and the party’s functionaries were looking for a solution that violated the law and ethics, then it was better to simply disband the party.⁷¹² What Sjafruddin feared in the year 1951 has been and continues to be a reality in many democratic countries, including Indonesia today. Most political parties are primarily a tool in the hands of a small group of their wealthy leaders by which to gain power and even more money. Most party financing is obtained from conglomerates and large companies, both foreign and domestic, or through corruption such as bribery. Contributions from members usually do not function so as to afford members a strong role in determining the direction and policies of the party.

In addition, Sjafruddin often had differences of opinion with Natsir.

Sjafruddin observed:

I feel I now belong to the past, but nevertheless my ideas may be helpful in the future, especially my interpretation of Islam. Even with Natsir I often differ. He was brought up in an environment where the Dutch had come to be regarded as enemies not so much because of colonialism, but because of their religion. Sadly, most Muslims in Indonesia were taught to identify other religions, especially the Christian faith adhered to by the Dutch, with

⁷¹² Sjafruddin Prawiranegara, “Keuangan Partai,” in *Ekonomi dan Keuangan: Makna Ekonomi Islam*, vol. 2 of *Kumpulan Karangan Terpilih*, ed. Ajip Rosidi (Jakarta: CV Haji Masagung, 1988), 12-17.

oppression. In other parts of the world where Muslims were once colonized by a Western power, they are also affected by this misconception.⁷¹³

The differences between Sjafruddin and Natsir have been briefly described in Part One, but it is a point worth further emphasizing here. One of these differences was that Sjafruddin was able to sustain the cosmopolitan and inclusive characters of Western-educated leaders of Masyumi in the 1950s.⁷¹⁴ Sjafruddin was also more willing to contribute his thoughts, not only in the form of criticism of the New Order regime policy, but also in the form of constructive and detailed suggestions, especially in economic development affairs. While Natsir was more concerned with the question of "Ummah Unity", moral condition of society, and as such was preoccupied with the spread of Christian activity, Sjafruddin talked more about the problems facing the nation in general and provided advice and criticism for the Muslim community. He suggested that Muslims needed to have a more rational view of religion and be practical in their social programs. Sjafruddin was also more sober in his response to the spread of Christianity from Catholic and Protestant churches in the aftermath of the 1965 communist purge. He suggested that Muslims should simply be running the same active mission (*da'wa*) and needed to work harder. He also criticized the attitude of Muslims who only protested and complained of the vigorous missionary activities to spread Christianity in poor and isolated communities and former members or sympathizers of PKI, and condemned Muslims who took the law into their own hands by way of destroying churches. According to him, "protest without being accompanied by counter-missionary activity and real deeds, only to be interpreted as Muslim impotence and emptiness of teachings of Islam. Acts of violence without being based on a decision of a judge or another competent legal authority will be interpreted as the barbarity of Islam and its

⁷¹³ Prawiranegara, "Recollections," 107.

⁷¹⁴ Hefner, *Civil Islam*, 105.

people. Although their case was strong from a legal perspective, but vigilante actions will easily bring us to the limit which is prohibited by Islam. Taking their own actions will only increase the conviction of people who view Islam as an orthodox and destructive force ...".⁷¹⁵ Such criticism is rarely leveled by the leaders of Islam openly. Similarly, his response to the renewal movement of understanding Islam brought up by the "young modernists" pioneered by Nurcholish Madjid was not critical, nor did he demonstrate a reactionary attitude toward it. He saw it as a normal affair.⁷¹⁶

Emphasizing his humanistic understanding of Islam, Sjafruddin said that he regretted that many Muslims still viewed Christianity as an enemy of Islam. Then he said: 'This attitude changed after independence, but still has its adherents. I think many mistakes in economics and politics are due to a lack of understanding by many Muslims about what Islam really stands for. I know, because of my religious education, that humanity is ultimately the purpose of all things.'⁷¹⁷

In conclusion, Sjafruddin's pattern of political, social, economic, and religious thought could be understood in terms of modern values such as rationality, constitutionalism, rule of law, and human equality. He called on Muslims and Indonesians to pay more attention to matters with long-term benefit such as education, public goods investment, and other practical programs in accordance with existing conditions, needs, and available resources.⁷¹⁸ This pragmatic, realistic

⁷¹⁵ Prawiranegara, "Masa Depan Islam," 176.

⁷¹⁶ Prawiranegara, "Peranan Islam," 260.

⁷¹⁷ Prawiranegara, "Recollections," 101.

⁷¹⁸ As a rational person and a realist, he rather emphasized the need to deal with practical matters, such as having religious teachers assigned to provide Islamic religious education at schools. At that time there were only a small number of teachers who were qualified to teach Islam in a modern way. Similarly, in his view, the newly-independent nation needed skillful engineers, medical doctors, nurses, and technicians to build houses, offices, plants, and irrigation channels, regulate the economy, and maintain public health. Therefore, he suggested that Muslims send their children to study to Washington [i.e. the US], London [i.e. the UK], Moscow, and Nanking, not only to Egypt and Mecca. In this matter Prawiranegara was ahead of his time in

approach led him to eschew many of the romantic aspirations of the revolutionary period, such as the popular sentiment that Indonesian independence could be defended solely through armed resistance without requiring the politics of diplomacy or negotiations with international forces.⁷¹⁹ Later, he called upon Muslims to resist grandiose longings for external or material pride, such as the desire to establish a Muslim country or to make Indonesia a great military power. Rather, he enjoined them to take Islam primarily as a spiritual and moral force.⁷²⁰ There were in his writings a strong concern for humanity, an absence of xenophobic anti-foreign feelings, a deep tolerance of and sensitivity toward non-Muslims,⁷²¹ and a persistent call to uphold social justice and freedom of opinion and to promote an open and critical attitude.⁷²²

PART FIVE: SJAFRUDDIN PRAWIRANEGARA ON ISLAM, SOCIAL JUSTICE AND DEVELOPMENT

The purpose of this part of the dissertation is to map out the nature, development and stages of Sjafruddin's thoughts on Islam, social justice, and economic development. His engagement with the issues spanned his career in various government positions during the post-independence period. During his life in prison

suggesting a new direction of education among Muslims in Indonesia. Prawiranegara, "Islam dalam Pergolakan Dunia," 47.

⁷¹⁹ Anderson, *Java*, 310-311.

⁷²⁰ Prawiranegara, "Motif," 39.

⁷²¹ Sjafruddin's humanist attitudes were reflected both in personal relationships as well as in his idea of economic development. See, for example, his comments on his personal relationship with his Dutch friends. "I still had confidence in the judgment and sincerity of the Dutch. I felt I had fought not against the Dutch but against their regime. I didn't hate them—I never hate anyone. That is against my religious principles. You see human nature is remarkable. The most fierce enemy can become close friends if they approach one another as individual human beings...But Holland is much more prosperous today without Indonesia, so we can become friend again—like normal human beings with the same God although our religion may be different. So I still have many Dutch friends. After all my education was basically Dutch." Prawiranegara, "Recollections," 103-104. He and his wife maintained a friendship with Dr. A. Houwink, Sjafruddin's predecessor as president of De Javasche Bank; Dr. A. Oudt, general advisor in the Indonesian Ministry of Finance in 1950s; and Prof. Logemann, Sjafruddin's teacher in RHS (Rechts Hoge School, High School of Law). Rosidi, *Sjafruddin Prawiranegara*, 43-44, 171-174, and 183.

⁷²² Prawiranegara, "Kesulitan-kesulitan," 71; Prawiranegara, "Dasar Politik Kemakmuran," 104; Prawiranegara "Recollections," 107.

and after his release on July 1966, he continued to address them as a widely-respected public leader. This part consists of four chapters. Chapter one will discuss Sjafruddin's view of social justice in the context of the debate between capitalism and socialism. Although with the demise of communist states in Eastern Europe this issue seems no longer relevant to contemporary developments, it was a popular ideological debate among Muslim leaders and thinkers during the twentieth century. They tended to believe that Islam occupied the middle position between, and was an alternative to, the two dominant ideologies, namely socialism and capitalism. Chapter two discusses Sjafruddin's view of the meaning of development. Here I explore how Sjafruddin argued for a concept of development that involved more than just the achievement of material prosperity. This chapter also addresses how the pursuit of freedom of opinion and the realization of social justice are often compromised for the sake of economic development. Chapter three discusses Sjafruddin's view on *ribā*, usury, which is prohibited by the teachings of Islam. At issue is whether bank interest is *ribā* or not. To provide a clearer understanding of the issue, it also presents the opinion of Muslim scholars who have developed a conception of Islamic economics of which one of the pillars is the lack of use of interest in the financial and banking system. Chapter four discusses in greater detail Sjafruddin's policies, proposals, and ideas concerning economic development from 1946 to the 1980s. Was there a consistent pattern of ideas? Which of his policies and ideas on economic development were related to the issue of social justice, given the prominence of this discourse both before and after independence? Was there any notable change in his views on economic development when he was no longer a government official? Finally, what lessons can be drawn from Sjafruddin's ideas about economic development and social justice for Indonesians and Muslims today?

5.1. Chapter One: Social Justice in Islam between Capitalism and Socialism

Sjafruddin's thinking on social justice in Islam, capitalism, and socialism was part of Muslim thinkers' responses to the problems being faced by the newly-independent Indonesia and the economic and political conditions of modern society. Many Muslim intellectuals and leaders during the Dutch colonial era, most of whom generally adhered to religious socialism, attempted to identify an Islamic position on socio-economic matters in a way that offered a viable alternative to both exploitative capitalism and materialistic socialism. This line of thought has been articulated in the writings of H. O. S. Tjokroaminoto, H. Agoes Salim, and Mohammad Hatta.⁷²³ Similarly, in post-independence Indonesia several writers such as Jusuf Wibisono, Kahrudin Yunus, and H. M. Rasjidi, as well as the later generation of Muslim intellectuals such as Nurcholish Madjid, M. Dawam Rahardjo, and Fachry Ali, produced notable studies on the issue.⁷²⁴ Not all of them were called or called

⁷²³ Tjokroaminoto, *Islam dan Sosialisme*. Salim was a prominent leader of Sarekat Islam (SI), beside H. O. S. Tjokroaminoto, serving as vice president of the organization as well as its chief ideologue opposing communists in SI. He was also a mentor on Islam for many Indonesian nationalist leaders including Soekarno, Hatta, and Mohammad Roem. See Deliar Noer, *The Modernist Muslim Movement in Indonesia, 1900-1942* (Singapore: Oxford University Press, 1973), 119, 122-124; Anwar Abbas, *Bung Hatta dan Ekonomi Islam: Menangkap Makna Maqashid al Syari'ah* (Jakarta: Kompas, 2010), 157; Mohammad Hatta wrote many articles on economic topics and their relationship with Islam and Indonesian economic development, including "Sosialisme Indonesia" [Indonesian Socialism], in *Karya Lengkap Bung Hatta, Buku 3, Perdamaian Dunia dan Keadilan Sosial* [Complete Works of Bung Hatta, Book 3, World Peace and Social Justice], ed. Emil Salim (Jakarta: LP3ES, 1998), 556-564, and "Islam dan Pembangunan Masyarakat" [Islam and Societal Development], in *Kumpulan Pidato* [Collected Speeches], vol. 2, ed. I. Wangsa Widjaja and Meutia F. Swasono (Jakarta: Gunung Agung, 2002), 150-181.

⁷²⁴ Jusuf Wibisono, *Islam dan Sosialisme* (Jakarta: Pustaka Islam, 1950); Rasjidi was the first Minister of Religious Affairs of the newly independent Indonesia (1945-1946). He obtained his Ph.D. from the Sorbonne University and became a professor at the Institute of Islamic Studies, McGill University, in the 1960s. After the aborted Communist coup in 1965 he wrote a pamphlet entitled *Islam dan Sosialisme* (Jakarta: Jajasan Islam Studi Club Indonesia, 1966); Nurcholish Madjid (1940-2005) was Rector of University of Paramadina (1998-2005), Jakarta, and a well-known Neo-Modernist thinker in Indonesia. He very much appreciated the idea of religious socialism. He asserted in 1974 that the organization he once led, HMI, was "growing in the direction of the pattern of thought within Masyumi in the year 1948; namely, socialism and religiousness in accord with Pantja Sila and the Constitution of 1945... as well as non-exclusivism in socio-political intercourse." Madjid's declaration, according to Hassan, was confirmation of religious socialism as the unproclaimed ideology of HMI in the near future and its (as well as Majid's) commitment to social justice. See Hassan, "Contemporary," 210-211. See also Madjid's articles, "Cita-cita Keadilan Sosial dalam Islam" [The Ideals of Social Justice in Islam], "Prospek Sosialisme-Religius di Indonesia" [The Prospect of Religious Socialism in Indonesia]; and

themselves religious-socialists. However, the central concern of all these writings was the desire to improve the lives of Muslims through the realization of social justice based on the teachings of Islam, rather than submitting to what they considered to be an exploitative capitalism and a materialist socialism. The older generation of Muslim intellectuals, especially those who were active before independence and before the banning of PKI in 1966, also engaged with the issue of social justice in an attempt to fend off Communist influence and reclaim control through an Islamic framework.

This context is particularly important to keep in mind when we examine one of Sjafruddin's most important contributions during the early period of his engagement with the issue of social justice: an essay entitled "Islam dalam Pergolakan Dunia" [Islam in the World's Turbulence]. He wrote the work under special circumstances, completing it on May 31, 1949 while presiding over the Emergency Government of Republic of Indonesia (PDRI) in the jungles of Sumatra. At that time, the Indonesian nation was struggling to defend its independence proclaimed in 1945. Many Republican leaders, including the president and vice president, were under the custody of the Nederlandsch Indië Civil Administratie (NICA), Netherlands Indies Civil Administration, the civil authority established by the Dutch government to regain control of Indonesia after Japanese capitulation to the Allied forces in 1945.⁷²⁵

"Keprihatinan: Suatu Jalan Menuju Keadilan Sosial" [Concern: A Path to Social Justice], in Madjid, *Islam, Kemodernan, dan Keindonesiaan*, ed. Agus Edi Santoso (Bandung: Mizan, 1429/2008), 87-108; M. Dawam Rahardjo is Chairman of Board Director of Lembaga Studi Agama dan Filsafat (Institute for the Study of Religion and Philosophy, LSAF), Jakarta and Professor of Economics at Muhammadiyah University, Malang, in East-Java. See Rahardjo, "Ekonomi Islam: Mendukung di antara Dua Karang Sosialisme dan Kapitalisme," in *Perspektif Deklarasi Makkah: Menuju Ekonomi Islam* (Bandung: Mizan, 1987), 121-129; Fachry Ali is director of the Institute for the Study and Development of Business Ethics. See Fachry Ali, *Islam, Ideologi Dunia dan Dominasi Struktural* (Bandung: Mizan, 1984).

⁷²⁵ Kahin, *Nationalism and Revolution*, 337-339 and 391-428; Ricklefs, *A History*, 265-269.

In addition, the essay was written in the midst of the turbulent international situation following the end of the Second World War. Renewed tensions between the Soviet Union, which controlled Eastern Europe, and the United States, with its allies in Western Europe, spread to various parts of the world including Asia, the Middle East and Africa. In China, the Communists had just won a war against Western-backed Chinese nationalists in 1949. In 1950 the Korean War would break out, involving alliances and oppositions familiar from the Second World War. Many nations, including Muslim ones, were dragged into the ideological and military conflicts. In Indonesia, the global rivalry between the capitalist West and the communist Soviets also had an impact on the struggle for independence (1945-1949). The Sukarno, Hatta, and Sjahrir governments, backed by Islamic, socialist-democrat and nationalist parties, adopted a strategy of diplomacy and negotiations with international forces and countries including the UN, the United States, Britain and Australia, to face the Dutch. In contrast, PKI and several other leftist groups rejected diplomacy and emphasized armed resistance with the help of Moscow. A rebellion spearheaded by PKI on September 18, 1948 took place less than two months after veteran Indonesian Communist leader Muso returned from Moscow with the intention of implementing the so-called Gottwald Plan: to duplicate in Indonesia what Czechoslovakian Communist leader Klement Gottwald had just accomplished in Czechoslovakia.⁷²⁶ The tumultuous world situation inspired Sjafruddin to give his essay the title "Islam in the World's Turbulence".

According to Sjafruddin himself, his writing was an expression of his sense of responsibility to the struggle, suffering, and sacrifices of the Indonesian people in their fight for independence. These writings included his reflections on Indonesia's struggle for independence and were introspective and critical of Indonesians and

⁷²⁶ Kahin, *Nationalism and Revolution*, 272-275 and 290-294.

Muslims.⁷²⁷ Hence his writings, as he himself revealed, “are not [intended] to show the greatness of Islam—[something] we don’t need to preach, because Islam does not require it—but this book was written primarily to show the insularity and conservatism of the Muslims which have degraded Islam. This book is not meant to exacerbate *zelfgenoegzaamheid*, a self-satisfied feeling [of smugness or superiority] that prevails in the Islamic *ummah*.”⁷²⁸

In this article, Sjafruddin did not attempt to discern the fine theoretical differences between socialism, Marxism, and communism. Rather, his goal was to examine why these ideologies were embraced by many of his Muslim compatriots before independence as well as during the struggle to defend the newly-independent nation. Sjafrudin observed that adherents both of these ideologies and of Islam held in high esteem the ideals of social justice and the elevation of the poor, downtrodden, and oppressed classes of society. That the capitalist order was seen as largely responsible for these inequalities further brought together activists of both persuasions. Sjafruddin also reminded readers that in the national struggle against Dutch colonialism, communists and Muslims fought side by side, almost as one bloc.⁷²⁹ In the period from 1926 to 1927, communists and many Islamic scholars, ‘ulamā’, joined the uprising together against the Dutch colonial government in western Sumatra and western Java, provoking the colonial government to impose regulations on religious instruction and to increase surveillance and repression of oppositions to Dutch rule in general.⁷³⁰ During that time the distinction between communist and Muslim was not clear, and most probably did not truly understand

⁷²⁷ Prawiranegara, “Islam dalam Pergolakan Dunia,” 1-3.

⁷²⁸ Prawiranegara, “Islam dalam Pergolakan Dunia,” 3-4.

⁷²⁹ Prawiranegara, “Islam dalam Pergolakan Dunia,” 7.

⁷³⁰ Noer, *Modernist Movement*, 176-177; Lindblad, “The Late Colonial State,” 122.

the fundamental differences between the two.⁷³¹ Therefore, Sjafruddin realized the importance of the initial growth of communism in Indonesia and that many Muslims—even at the time of the writing of this essay—were interested in and had even joined the communist ranks because of that lack of understanding.⁷³²

Sjafruddin wrote this essay on May 1949, less than a year after PKI, the Indonesian Communist Party, and other leftist groups launched a rebellion to take over power and establish a Soviet state in September 1948. Many ‘ulamā’ and landlords in the villages of East Java were massacred by the communists because they were considered to be part of the bourgeois class.⁷³³ Sjafruddin saw that Muslims were becoming victims at the hands of the increasingly-powerful communists. For many years the latter had been successful in recruiting many people to PKI through the propagation of revolutionary slogans, populist fervor, and the utopian promise of socio-economic equality.⁷³⁴ All these were exacerbated by the ignorance of many Islamic leaders regarding the teachings of communism. Sjafruddin thus felt the need to explain in detail the differences between Islam and Marxism/communism, in hopes that Muslims would be able to discern Islamic

⁷³¹ Many of Sjafruddin’s relatives whom he knew to be religious people, including Islamic scholars ‘ulamā’, involved in the uprising. They were arrested on the accusation that they were Communists and were banished to Boven Digoel (Upper Digul) in New Guinea/Papua. These events made him question the communist doctrine which had led him to study communism and socialism in a relatively young age. See Rosidi, *Sjafruddin Prawiranegara*, 26-27.

⁷³² Prawiranegara, “Islam dalam Pergolakan Dunia,” 7.

⁷³³ Ricklefs, *A History*, 459-461.

⁷³⁴ Ricklefs, *A History*, 209; Kahin, *Nationalism and Revolution*, 315. A similar tactic was also employed by the Murba Party, founded on November 7, 1948 by supporters of Tan Malaka (Datuk Ibrahim Gelar Sutan Malaka), a nationalist-communist group which was a bitter enemy of PKI. In an effort to attract the masses as much as possible, a number of formulas were prepared to make prospective members feel content with the party, either on religious ground or due to doctrinal ideological attitudes. Its secretary-general, Sjamsu Harja Udaja, stated that the party was “based upon religion, nationalism, and socialism, with the purpose of strengthening the independence of the Republic [and that] prior to the attainment of full Indonesian independence the party would not lay too much stress on ideology.”

teachings and principles from the secular Marxist and communist ideologies, and thereby become less susceptible to their influence.⁷³⁵

Though this article addresses the political situation in Indonesia during the early period of independence, it also reveals some of Sjafruddin's early thought on the issue of social justice. In what follows, I shall highlight some of the important discussions in the article and extract some basic ideas that would continue to characterize Sjafruddin's thought in later works. Sjafruddin argued that the difference between Marxism and Islam on the issue of social justice originated from a more fundamental disagreement over human nature and worldview. Given this, they would necessarily differ regarding the sort of things that were achievable by human action in the world, the proper manner in which these were to be achieved, and, more importantly, for what purpose.⁷³⁶

Three things become the target of Sjafruddin's criticism of Marxism and communism: the failure of Marxism to justify the objective line it drew between the proletariat and the capitalist and its call for class struggle,⁷³⁷ communism's simplistic view of human beings and society,⁷³⁸ and the utopian nature of

⁷³⁵ Kahin, *Nationalism and Revolution*, 70-74; Ricklefs, *A History*, 206-209. The success of the Indonesian Communist Party, PKI, founded in 1924, in mobilizing the masses, was determined by the radicalism of its ideology, its infiltration of ISDV (Sociaal-Democratische Indies Vereeniging, the Indies Social-Democratic Association) which was the precursor to PKI, to Sarekat Islam, the largest nationalist mass organization at that time. Even PKI's early leadership came from within the leadership of Sarekat Islam. For many ordinary people, differences between Islam and communism became blurred or unclear. Haji Misbach, "the red Haji", was the leader of the Islamic Communism movement which taught that Islam and communism were synonymous.

⁷³⁶ Prawiranegara, "Islam dalam Pergolakan Dunia," 8-9.

⁷³⁷ According to Marxism, capitalists are the class of people who possess and control the means of production (capital) in the society. But according to Sjafruddin, this measure actually has no objective meaning because capital is every tool that can generate or add to necessities of human life. In this sense no one will escape being considered a capitalist. He concluded that Marxism failed to provide a theoretical basis to justify the class struggle for communists unless they abuse Marxism itself. Prawiranegara, "Islam dalam Pergolakan Dunia," 9-10.

⁷³⁸ Sjafruddin asserted that communism ignored human individuality, whereas in reality each human being owned his or her own unique body, will, and feelings. However, human individuals also had a "feeling of unity" amongst themselves in the form of family, class, nation, or even the unity of humankind. The feeling of unity among all human beings was dismissed by the communists who only emphasized the conflict and difference between the two classes, the proletariat and the capitalist. Conflicts between other social collectives such as nation-states

Marxism.⁷³⁹ From these criticisms arose one fundamental difference between Marxism and Islam on the question of how social justice was to be achieved. For the latter, differences of class could not be entirely eradicated since these were preordained by God and were consequently part of the natural condition of the created order. Therefore, the Islamic approach to inequality would be one that did not encourage or intensify disparities, let alone justify class antagonism as a means to establish social justice.⁷⁴⁰ In Sjafruddin's view, because of its determinist vision and simplistic understanding of human beings and society, Marxist socialism could not avoid adopting a utilitarian principle to achieve its goal of a classless society. Sjafruddin's criticism was based on the writings of Alexander Miller, who wrote more extensively on the totalitarian structure of a Marxist utopia and its inherent incompatibility with religion—in his case, Christianity.⁷⁴¹ Sjafruddin agreed with Miller's argument that if the highest human, moral, or social end has an absolute, historically-immanent form as a classless society, all worldly means to achieve it can be justified.⁷⁴² Marxist socialism did not consider individual human beings to be ends in themselves; humans were valued only insofar as was determined by the interests of their respective class structures. For Sjafruddin, the pattern of purges,

were either disregarded or considered to be less compelling, despite the fact that, of the wars fought in the past centuries until modern times almost all of them were between nations. Sjafruddin concluded that communism overlooked many realities of human life. Prawiranegara, "Islam dalam Pergolakan Dunia," 10-11.

⁷³⁹ Sjafruddin explained of the utopian nature of Marxism as follows: "... [A]ccording to Marxism, ultimately, as a result of the proletarian revolution, classless society will rise in the world. A *heilstaat*, 'paradise' in which there will be no longer groups who oppress and groups who are oppressed. On the contrary, according to the Islamic teaching, as long as there are human [society] in this world, it will still be various groups, there will still be poor and wealthy classes. According to Islam 'rich' and 'poor' was just *relatieve begrippen* [relative terms], the words that indicate the circumstances are always changing, not fixed, do not have certain limits. Therefore, the way Islam tries to realize social justice, the Islamic way to improve the lot of the poor, are in principle different with the way that used by the communists". Prawiranegara, "Islam dalam Pergolakan Dunia," 8.

⁷⁴⁰ Prawiranegara, "Islam dalam Pergolakan Dunia," 8 and 10-11; Kahin, *Nationalism and Revolution*, 270.

⁷⁴¹ Rosidi, *Sjafruddin Prawiranegara*, 91.

⁷⁴² Alexander Miller, *The Christian Significance of Karl Marx* (London: S.C.M. Press, 1946), 9 and 39-40.

violence, and intimidation (read: class struggle) in the pursuit of the Marxist utopia was a natural consequence of its inability to consider individual agency as separate from class and at times not conforming to expectations of the Marxist theory of class system. Sjafruddin was witness to such purges when, on September 1948, PKI and other leftist groups that were incorporated into the People's Democratic Front (FDR) attempted to seize power. Many Muslims, including 'ulamā', were massacred because they were considered to be part of the bourgeoisie. Sjafruddin wrote that PKI and its supporters attacked a category of people that existed only in the imagination, constructed out of a simplistic view of how human society was organized and how individual agency operated therein. In fact, those who suffered and became victims were not a "class" but were simply fellow human beings. The incident deeply affected Sjafruddin and prompted him to warn his audience away from the extreme consequences of Marxist-communist ideology.⁷⁴³

Sjafruddin argued that unlike the structural utopia of communism that sought to abolish the suffering of the weak and oppressed classes, Islam focused on the more realistic goal of alleviating people's burdens by way of redistribution of wealth from the well-off through the mechanism of the obligatory alms tax, the *zakāt*.⁷⁴⁴ Sjafruddin's point was that whatever efforts were made to achieve social justice, inequality and poverty would never be completely eradicated, even in a society that has prospered. The idea, however, was not to focus on the fact of inequality *per se*, which was inescapable, but to address that problem by increasing prosperity, both material and spiritual. Although not exactly identical, Sjafruddin's position was thus closer to the liberal model of social welfare where inequalities were tolerated if it meant the general elevation of people's standard of living. The liberal model is described in Peter L. Berger's observation that though it is true that

⁷⁴³ Prawiranegara, "Islam dalam Pergolakan Dunia," 9-12.

⁷⁴⁴ Prawiranegara, "Islam dalam Pergolakan Dunia," 8.

industrial capitalism is not necessarily linked with equality, and that the rich have been the principle beneficiaries of this system, the working class in industrial countries nonetheless enjoy a greater standard of living than ever before and this has egalitarian consequences.⁷⁴⁵ Sjafruddin was, of course, less sure about the egalitarian possibilities based on a thoroughly material standard. He believed that spiritual intelligence was also required if the people were to be truly independent and prosperous, rather than being enslaved by the ideals of a materially-good life. In addition, Sjafruddin, as we shall see in his criticisms of New Order economic development, did not attempt to justify an extreme or increasing gap between the rich and the poor or among other segments of society. The important thing for Sjafruddin was that in the midst of material inequalities, efforts at distributive justice of personal income and wealth be made continually and systematically, in order to improve the living conditions of society and elevate people's standards of living. This realization of social justice, according to Sjafruddin, was the way of Islam.⁷⁴⁶ Another fundamental difference was that whereas Islam held that

⁷⁴⁵ Peter L. Berger, "Introduction: America and the Myth of Inequality," in *Modern Capitalism*, vol. 1 of *Capitalism and Equality in America*, ed. Peter L. Berger (Lanham, MD: Institute for Educational Affairs and Hamilton Press, 1987), 3-4.

⁷⁴⁶ Prawiranegara, "Islam dalam Pergolakan Dunia," 8-9. Sjafruddin did not elaborate further on this point due to his recently-acquired and limited knowledge of Islam as well as the fact that this tract was written in the midst of guerrilla warfare in the jungles of Sumatra. On the issue of distributive justice in Islam, see, for example, Munawar Iqbal, 'Introduction', in *Distributive Justice and Need Fulfilment in an Islamic Economy*, rev. ed., ed. Munawar Iqbal, (Islamabad: International Institute of Islamic Economics, International Islamic University and the Islamic Foundation, 1988), 16-17 and 22-23. Iqbal summarized distributive justice as consisting of three points: guaranteed fulfilment of the basic needs of all; equity but not equality in personal income; and elimination of extreme inequalities in personal income and wealth. All authors in this book agree on the following points, among others: that an Islamic view of justice permits interpersonal differences in income due to natural differences in human talent and capacity which would affect each person's earning and contribution; that *zakāt* is one of permanent and compulsory schemes of distributive and redistributive measures; and that there are spiritual purposes of economic distribution such as mutual love and brotherhood. See also Ahmad H. Mustafa and Hossein G. Askari, "The Economic Implications of Land Ownership and Land Cultivation in Islam," in *Distributive Justice and Need Fulfilment in an Islamic Economy*, rev. ed., ed. Munawar Iqbal (Islamabad: International Institute of Islamic Economics, International Islamic University and the Islamic Foundation, 1988), 91- 95. The followings are several Qur'anic verses which highlight this idea: (Al-Naḥl 16:71): "God has given some of you more provision than others..." Another verse (Al-An'ām 6:165): "It is He who made you successors on the earth and raises some of you

happiness was achieved through spiritual goods, Marxism as well as capitalism measured happiness through material criteria. He singled out Marxism from other materialist doctrines because it developed a normative system that fostered a feeling of hatred and resentment towards a class of people based on the structural imbalance of material possession.⁷⁴⁷ Sjafruddin did not deny that this imbalance was often unjustified, but maintained that the search for human happiness should be sought in spiritual or non-material deeds, such as the sincere practice of altruism and devotion to God.⁷⁴⁸

For Sjafruddin, the Marxist normative system was a result of its doctrine of historical-materialism that viewed human beings as results of society's means of production. Higher spiritual values, if any, were based solely on, and determined by, the state of the material. According to this understanding there was nothing outside the material world: no power, authority, *geest* (spirit), or God, and so forth. Knowledge, art, religion, and morality were rooted in and determined by material causation.⁷⁴⁹ For Sjafruddin, historical-materialism not only presented a limited understanding of human nature and the world, but was also internally inconsistent. According to him, "...if the 'dialectical' materialism is true, then historical materialism should lead to determinism, [the] belief that human beings have no will

above others in rank, to test you through what He gives you. [Prophet], your Lord is swift in punishment, yet He is most forgiving and merciful." Another verse, al-Hashr 59:7, reads: "Whatever gains God has turned over to His Messenger from the inhabitants of the villages belong to God, the Messenger, kinsfolk, orphans, the needy, the traveller in need—this is so that they (properties) do not just circulate among those of you who are rich..."

⁷⁴⁷ Prawiranegara, "Islam dalam Pergolakan Dunia," 9.

⁷⁴⁸ Prawiranegara, "Islam dalam Pergolakan Dunia," 9. Many verses of the Qur'an state this view, for example: Chapter al-Hashr 59:9: "Those who were already firmly established in their homes [in Medina], and firmly rooted in faith, show love for those who migrated to them for refuge and harbor no desire in their hearts for what has been given to them. They give them preference over themselves, even if they too are poor; those who are saved from their own souls' greed are truly successful'. Another verse in Chapter al-Insān 76:8-9 reads: "[T]hey give food to the poor, the orphan, and the captive, though they love it themselves, saying, 'We feed you for the sake of God alone: We seek neither recompense nor thanks from you.'"

⁷⁴⁹ Prawiranegara, "Islam dalam Pergolakan Dunia," 12.

of their own; that all things, their actions, their fate, have been determined in advance according to a law that cannot be avoided (nature or karma).⁷⁵⁰ But in his view, contrary to the requirement of its consistency, "...historical materialism produces an *ism* and confidence in the ability and the power of the proletariat which gave a resolute *élan* to the followers of Marx, an ability to do (*daadkracht*) and activity that for long time have shaken and amazed the whole world! Strength of will to dismantle the old structure of society could only happen to human beings who are fully convinced of the sanctity and truth of their goal, an ability to sacrifice free from any affinity to material objects."⁷⁵¹ For Sjafruddin, a Marxist view of history did not make space for individual agency; yet the sort of individual agency that could affect historical and social structures seemed to be assumed in the call for a proletariat movement. Furthermore, he argued here that though ostensibly the proletariat was moved by the material, their assuredness and passion resembled a desire for transcendence beyond material determinations. Indeed, Sjafruddin observed that the ability of Marxism to evoke such a strong spirit of revolution and confidence among its followers was similar to the strength and conviction generated by the past prophets. The difference was that the starting point from which religions evoked the spirit of their followers was the worship of God and the feelings of love and affection towards fellow human beings. Marxism, on the other hand, aroused resentment and feelings of revenge against a particular class of people.⁷⁵²

This line of thought in refuting historical materialism has been echoed by many Muslim scholars such as Muṣṭafā Maḥmūd and Murtazā Mutahharī. Maḥmūd, for example, asserted that Marxism's past successes—the fact that millions had adopted it—was by no means evidence of its validity. Marxism had managed to

⁷⁵⁰ Prawiranegara, "Islam dalam Pergolakan Dunia," 13.

⁷⁵¹ Prawiranegara, "Islam dalam Pergolakan Dunia," 13.

⁷⁵² Prawiranegara, "Islam dalam Pergolakan Dunia," 13-14.

arouse the resentment of the lower class against their oppressors and offered the possibility to settle their grievances. They responded to an ideology that offered very concrete and material instruments with which to change their fate. In Maḥmūd own words: “As an idea, Marxism was purely an invitation to revenge.”⁷⁵³ Muṭahharī had a similar opinion when he explained why materialism became so attractive for many youth who aspired to participate in the struggle against colonialism, exploitation and despotism. The youth, he said, watched “the supporters of materialism [...] lead uprisings, revolutions, battles and struggles, while theists or religious people are mostly static and neutral.”⁷⁵⁴ For him, the spread of materialism was not due to its logical or convincing arguments, but to the fact that its propagation employed new techniques that provided an ideology of resistance and struggle for the oppressed and lower classes.⁷⁵⁵ Clearly, Mutahhari’s primary concern was the spread of materialism among the Iranian youth in the 1960s and 1970s which often resulted in their becoming atheists or leaving Islam.⁷⁵⁶

Sjafruddin wrote that the deep conviction and confidence that inspired those who endeavored to realize Marxist ideology in society reminded him of the fervor often displayed by followers of religious movements.⁷⁵⁷ It was through these

⁷⁵³ Mustafa Mahmoud, *Marxism and Islam*, trans. M.M. Enani, 2nd ed. (Jeddah, Saudi Arabia: Tihama, 1985), 39. Dr. Mahmoud is an Egyptian physician and public intellectual born on December 27, 1931. His weekly articles on science and philosophy, *Midnight Journals*, attract large sections of the reading public in the Arab world. He is also the founder and Chairman of the Board of the Mahmoud Mosque Society, a charity organization in Egypt. See Mustafa Mahmoud, *Understanding the Qur’an: A Contemporary Approach*, trans. M. M. Enani (Beltsville, Maryland: Amana Publications, 2004/1425), 269.

⁷⁵⁴ Davari, *Political Thought*, 64-65.

⁷⁵⁵ Davari, *Political Thought*, 65.

⁷⁵⁶ For more comprehensive discussions by Muṭahharī of Marxism, see Muṭahharī, *Social and Historical Change*.

⁷⁵⁷ Prawiranegara, “Islam dalam Pergolakan Dunia,” 13-14. One example of a person filled with blazing passion for and deep conviction of Marxist ideology was the great Polish-born leader of the German and European revolution, Rosa Luxemburg. Miller described how “[s]he lived as an ascetic, was content to be without nationality, left her lover and married a man for whom she had no personal affection, all in the service of revolutionary strategy.” Lenin also showed the same traits in the course of his lifetime, such as selflessness and disinterestedness. Miller writes that Lenin’s life “was shortened by the ceaseless labour of Communist leadership and he died burnt-out by the struggle to provide the necessary theoretical guidance for the Russian Revolution.”

analogical observations that he came to agree with the opinion that Marxism was a sort of religious movement. Similarly, the communists' adoration of Marx was similar to the veneration shown by followers of religions towards their founders or past prophets.⁷⁵⁸ A comparable assessment was presented by Robert L. Heilbroner, who observed that at least until the collapse of the Soviet Union, "... Marx was widely considered a religious leader to rank with Christ or Mohammed, and Engels thus became a sort of Saint Paul or John."⁷⁵⁹ Heilbroner saw it as ironic how in the Marx-Engels Institute in Moscow, "...scholars pored over their works with the idolatry they ridiculed in the antireligious museums down the street."⁷⁶⁰ Marxism was being perceived as similar to religious doctrine, exemplified by their often uncritical understanding and acceptance of the teachings,. Hence Sjafruddin considers Marxism more a form of religious feeling (*religieuse uitdrukkingsvorm*) and belief (*geloof*) rather than *wetenschappelijk socialisme* (scientific socialism).⁷⁶¹

Sjafruddin's conclusion that Marxism was more akin to religious belief than a scientific ideology was not only a criticism against communist groups, but was also an admonition against Indonesian intellectuals and leaders from the non-communist Marxist-socialist groups who felt proud to embrace a "scientific ideology". Indeed, even outside the communist group, many Indonesian leaders of the independence movement were influenced in one way or another by Marxism. This was the case with those who joined the Indonesian Socialist Party (PSI) led by Sutan Sjahrir or Murba Party led by Tan Malaka, a nationalist-communist (somewhat independent from the Moscow trajectory). Both of them were bitter opponents of PKI. Early on,

Miller, *Christian Significance*, 41-42. See also Roland Boer, *Criticism of Religion: On Marxism and Theology, II* (Leiden: Brill, 2009), 59-64.

⁷⁵⁸ Prawiranegara, "Islam dalam Pergolakan Dunia," 13-14.

⁷⁵⁹ Robert L. Heilbroner, *The Worldly Philosophers: The Lives, Times, and Ideas of the Great Economic Thinkers*, 7th ed. (New York: Touchstone, 1999), 139.

⁷⁶⁰ Heilbroner, *Worldly Philosophers*, 139.

⁷⁶¹ Prawiranegara, "Islam dalam Pergolakan Dunia," 14.

Sjafruddin considered Marxism an ideological competitor, as did Ali Shari‘ati in Iran, rather than an “enemy”. But the communist’s attempt to take over power in 1948 and subsequent tragedies, such as the massacre of many ‘ulamā’ by the communists in East Java, traumatized him. From that time on he seemed to consider Marxism to be a dangerous ideology for Indonesians,⁷⁶² along the lines of the Iranian thinker Muṭahhari.⁷⁶³ Despite this, however, Sjafruddin expressed an appreciation for the success of Marxist movements in forcing European capitalists to enact social legislation protecting workers and other vulnerable groups.⁷⁶⁴

Sjafruddin was keen on reminding Indonesian intellectuals of what was at stake in embracing Marxist doctrines: that they must forgo all forms of religious and spiritual beliefs if they are to follow through earnestly. This was in response to the argument of a number of these intellectuals that Marxism was not against religion *per se*, but was simply against the hypocrisy of religious institutions. For Sjafruddin, this was a clear misunderstanding of Marxist historical materialism that rejected *a priori* any sort of non-material causation in history. He admitted that in many instances religious doctrine served and justified the structure of religious institutions, which in turn served the interests of the ruling classes as had happened at the time of the French revolution or when the socialist-communist movement arose in Europe.⁷⁶⁵ The hypocrisy and tyranny of these institutions was therefore, according to Marxism, inherent in all religious beliefs. Emancipation from this oppressive structure necessarily required the abolition of those beliefs that supported and justified it, and as such, for emancipation of the oppressed classes to

⁷⁶² When commenting on Muslims who fought alongside Communists in China, Sjafruddin said: “The cooperation between the Communists and the Muslims was not surprising, because Islam is not hostile to communism, as long as the Communists want to cooperate honestly with the Islamic group. But alas, honesty usually is not present in the Communist group.” Prawiranegara, “Islam dalam Pergolakan Dunia,” 36.

⁷⁶³ Davari, *Political Thought*, 63.

⁷⁶⁴ Prawiranegara, “Islam dalam Pergolakan Dunia,” 26.

take place, religion must be abolished. Therefore, Sjafruddin concluded, there was no way for a Muslim to embrace communism or historical materialism. His explanation was standard amongst Muslim intellectuals such as Mustafa Mahmoud, who likewise argued for the inherent incompatibility of Marxism and Islam.⁷⁶⁶

Having discussed Marxism, Sjafruddin then turned his attention to capitalism. He was inclined to think that capitalism was more natural economic system that could be applied by all human groups, but certain regulations were necessary to prevent the excesses of individual freedom in economy. He discussed past efforts to improve capitalism by such thinkers as John Maynard Keynes, who learned from the mistakes and shortcomings of the system and took advantage of the merits and faults of Marxism-socialism. The result was a new ideology that Sjafruddin identified as the neo-capitalism of Franklin D. Roosevelt's New Deal politics and the British government's economic policy after the Second World War.⁷⁶⁷ Capitalism thus had developed into what he identified as the third phase of its history.⁷⁶⁸ He further explains:

In this third phase, starting since the end of the First World War, capitalism in its nature and pattern is very similar to capitalism before the French Revolution. Only now it is more tailored to the circumstances and needs of the age (individual freedom in the economic field is limited; various monopolies deliberately held by state or private entities under state supervision; for the public interest, economy is "regulated" as in mercantilism era, only now for the interest of whole society).⁷⁶⁹

Like many other Muslim writers such as Khurshid Ahmad, Maḥmūd Taliqānī, Muhammad Bāqir al-Ṣadr, Murtaḍa Muṭaḥharī, Muhammad Abdul-Rauf, M. Umer Chapra, and others,⁷⁷⁰ Sjafruddin saw Islam as occupying a middle position between

⁷⁶⁶ Mahmoud, *Marxism and Islam*, 72-73.

⁷⁶⁷ Cf. Stilwell, *Political Economy*, 261-268; James Fulcher, *Capitalism: A Very Short Introduction* (Oxford: Oxford University Press, 2004), 66-68.

⁷⁶⁸ Prawiranegara, "Islam dalam Pergolakan Dunia," 22-23.

⁷⁶⁹ Prawiranegara, "Islam dalam Pergolakan Dunia," 23.

⁷⁷⁰ Khurshid Ahmad, "Islam and the Challenge of Economic Development," in *Islam in Transition: Muslim Perspectives*, ed. John Donohue and John L. Esposito (New York: Oxford University Press,

capitalism and socialism with regards to the concept of individual liberty. Furthermore, when the practice of capitalism in the West did not preclude a belief in God, and was also capable of integrating social justice and the renewal of Christian (religious) ethics, this was a sort of capitalism which could be consistent with Islamic ideals and values. Sjafruddin recognized that theoretically there were limits to individual liberty in capitalism. In Rousseau's formulation of the Social Contract, these limits were the prescribed laws that were the expression of the "common will" of individuals in society. However, despite this, powerful groups of people in society could still enforce their will, as long as they used the mediation of law.⁷⁷¹ The law became a blanket to oppress common citizens or weak groups who, according to Christianity, had to obey it.⁷⁷² Thus, Sjafruddin concluded, liberal capitalism in practice did not help the poor and was not capable on its own of preventing oppression on the part of the privileged class and thus perpetuating a condition of

1982), 217-222; Seyyed Mahmood Taleqani, *Islam and Ownership*, trans. Ahmad Jabbārī and Farhang Rajaei, 1st ed. (Lexington, KY: Mazdā Publishers, 1983); Muḥammad Bāqir aṣ-Ṣadr, *Iqtisādunā*, 1st ed. (Tehran: World Organization of Islamic Services, 1982-1984); Muḥammad Bāqir al-Ṣadr, "The Psychological Role of Islam in Economic Development," in *Islam in Transition: Muslim Perspectives*, 2nd ed., ed. John Donohue and John L. Esposito (New York: Oxford University Press, 2007), 249-259; Davari, *Political Thought*, 86-120; Muhammad Abdul-Rauf, "The Islamic Doctrine of Economics and Contemporary Economic Thought," in *Capitalism and Socialism: A Theological Inquiry*, ed. Michael Novak (Washington, D.C.: American Enterprise Institute for Public Policy Research, 1979), 127-149; M. Umer Chapra, *Islam and the Economic Challenge* (Leicester: The Islamic Foundation and the International Institute of Islamic Thought, 1992/1412), 17-112.

⁷⁷¹ With such a legal concept, according to Sjafruddin, the Dutch were opposing Indonesian independence and even attempting to re-colonize the territory through formal or legal methods. See Prawiranegara, "Islam dalam Pergolakan Dunia," 23-24.

⁷⁷² Sjafruddin here might simply show one interpretation embraced by certain Christians of Jesus' words: "Then render to Caesar the things that are Caesar's, and to God the things that are God's" (Matthew 22: 21) that was used by the Church to obey the government in power even though it was oppressive or wrong. It could be such an interpretation that was seen by Marx in Christian Europe: "The social principles of Christianity preach cowardice, self-contempt, abasement, submission, humility, in short, all the qualities of the *canaille*, while the proletariat, not wanting to be treated as *canaille*, needs its courage, pride, and sense of independence much more than its daily bread'. Quoted in Svetozar Stojanovic, "The Ethical Potential of Marx's Thought," in *Modern Interpretations of Marx*, ed. Tom Bottomore (Oxford: Basil Blackwell, 1981), 173. See also Prawiranegara, "Islam dalam Pergolakan Dunia," 18-20 and 24.

tyranny which had always existed.⁷⁷³ On the contrary, Marxism paid no heed to the individual, emphasising only group or class.⁷⁷⁴

Sjafruddin then outlined Islam's middle way between these two extremes:

Islam does not encourage its followers to love our fellow human beings with no limits, nor does it tell them to hate fellow human beings and allow eradicating a faction with all the tools that can be obtained by human reason. Islam tells human beings to love, to honor and to respect their fellow human beings, but it does not require forgetting the interests and rights to live, to be valued and respected as well. Islam does not encourage hatred, but nor does it forbid its followers to fight and, if necessary, to kill fellow human beings who want to violate their rights and interests. In addition to giving rights, Islam has always put duties on its followers so that there is always a balance.⁷⁷⁵

⁷⁷³ Sjafruddin's comment was directed at liberal capitalism before the *New Deal* of President Roosevelt in the US or before the Second World War in England/Great Britain. This type of capitalism was different from that of Keynesian economics. In the Keynesian view the state is a necessary and central player. "Government intervention is warranted, according to this perspective, because of the basic flaws of a free-market economy." Stilwell, *Political Economy*, 59 and 357. However, in a discussion on post-Keynesian economics, a body of theory that is used by economists to construct the workings of contemporary capitalism, Frederic S. Lee writes: "The state is not a neutral social organization but one that carries out the interests of the dominant political groups. Consequently, given the dominant political position the business community occupies in a capitalist economy, it is not possible for the state to adopt and maintain full employment economic policies, since to do so would fundamentally alter the relationship between the business community and the workers whom they control." See Frederic S. Lee, "Post Keynesian Economics (1930-2000): An Emerging Heterodox Economic Theory of Capitalism," in *Understanding Capitalism: Critical Analysis from Karl Marx to Amartya Sen*, ed. Douglas Dowd (London: Pluto Press, 2002), 109 and 129. Similarly, John Isbister writes on capitalism and social justice: "Democratic governments are the best source of power to face capitalist power and mold it in ways that can enhance rather than diminish justice, but capitalist power typically breaks through the boundaries of the political sphere, exerting influence that diminishes the power of democracy [...] Voters are bombarded with messages from one side and find it hard to hear messages from the other; this hardly creates the conditions for unbiased decision making in a democracy." See Isbister, *Capitalism and Justice*, 41 and 43.

⁷⁷⁴ Prawiranegara, "Islam dalam Pergolakan Dunia," 25.

⁷⁷⁵ Prawiranegara, "Islam dalam Pergolakan Dunia," 25. The theme of Islam as the middle position is often expressed by Muslims. Islam is believed to be a just witness bringing the light of reason to bear on extravagant claims. In the Qur'an the term for middle position is *wasat*. For example, Chapter al-Baqarah 2:143 reads: "We have made you [believers] into a middle/justly balanced community, so that you may bear witness [to the truth] before others and so that the Messenger may bear witness [to it] before you [...]." *Wasat* also carries several other meanings: to be in the midst, to penetrate into the midst, good and exalted, to occupy the middle position, best, midmost, middle, justly balanced, most excellent. Omar, *Dictionary of the Holy Qur'an*: 608. On the meaning of word, Abdullah Yusuf Ali comments: "The essence of Islam is to avoid all extravagances on either side. It is a sober, practical religion...So the mission of Islam is to curb, for instance, the extreme formalism of the Mosaic law and the extreme 'other-worldliness' professed by Christianity". Yusuf Ali, *Holy Qur'an*, 57. Another word used to describe middle way is *qist*. Similar to *wasat*, *qist* also means 'justly balanced', 'justice' or 'equitable'. Omar, *Dictionary of the Holy Qur'an*, 454. For example, Chapter al-Isrā' 17:35 reads: "Give full measure when you measure, and weigh with a balance that is straight: that is better and fairer in the end." In the above quotation, Sjafruddin did not mean that anyone freely has the right to kill people who violate their rights. In another article he emphasized that only a judge assigned by a government

In discussing economic development, Muslim economists and thinkers often presented the balanced nature of the Islamic economic system as distinct from existing systems, notably capitalism and socialism. In Muhammad Abdul Mannan's view, the balanced nature of the Islamic concept of economic development lay in its concern not only with one dimension of human life but with the totality of existence, both spiritual and material. Therefore, for theoreticians of Islamic economics, a fundamental goal was the well-being and happiness of human beings not only in this world but also in the hereafter.⁷⁷⁶ The concept required a concern for the comprehensive development of the human being in all its dimensions, i.e. "a balance between material developments on the one hand and moral and spiritual developments on the other."⁷⁷⁷ It also demanded an investment of resources in a manner that harmonizes the relationship between human beings and their environment.⁷⁷⁸ In his discussion of the importance of religious and spiritual values to the formation of public policy, Muhammad Abdul-Rauf admits that "Islam has some affinities with both socialism and capitalism"⁷⁷⁹ But Islam also differed from the two ideologies in certain basic elements. Rauf showed Islam's balanced intermediary position, writing that "the Islamic system [...] aims at satisfying immediate material needs and maximizing production within the available means, as well as at meeting the spiritual needs of the individual."⁷⁸⁰ This balance is also found in the equal emphasis between private ownership and common ownership,

is allowed to use violence through court process by, for example, sentencing a murderer to death. See Sjafruddin Prawiranegara, "Persamaan dan Perbedaan antara Ekonomi Islam dengan Ekonomi Barat," in *Ekonomi dan Keuangan: Makna Ekonomi Islam*, vol. 2 of *Kumpulan Karangan Terpilih*, ed. Ajip Rosidi (Jakarta: CV Haji Masagung, 1988), 406.

⁷⁷⁶ Muhammad Abdul Mannan, "Introduction," in *Economic Development in an Islamic Framework*, ed. M. A. Mannan and Mehboob Ahmad (Islamabad: International Institute of Islamic Economics, International Islamic University, 1996), 3.

⁷⁷⁷ Mannan, "Introduction," 4.

⁷⁷⁸ Mannan, "Introduction," 4.

⁷⁷⁹ Abdul-Rauf, "The Islamic Doctrine," 145.

⁷⁸⁰ Abdul-Rauf, "The Islamic Doctrine," 145-146.

between the role of state and human freedom, between individual liberty and entrepreneurial initiative. Thus it appears that the Islamic concept of development occupies a moderate, middle and balanced position between conceptions of economic development in capitalism on the one hand and socialism on the other.⁷⁸¹

Although Muslim leaders and scholars all claim that the Islamic doctrine of economics occupies such an intermediate position between capitalism and socialism, offering an alternative supposedly consistent with an Islamic outlook, they nonetheless differ from each other in the interpretation of the concept, some ending up closer to capitalism, others closer to socialism. Ali Rahnema and Farhad Nomani discuss these various interpretations among Shīite ‘ulamā’ and scholars in their book on religion, politics, and economic policy in Iran.⁷⁸²

For Sjafruddin, there was already an inbuilt completeness to Islamic normative values and legal provisions for upholding social justice and equality. Meanwhile in capitalism, these provisions developed outside the system and against the will of its custodians, the capitalists. According to him, concern for these issues derived ultimately from Christian ethics. Furthermore, workers eventually organized themselves into strong unions and accepted the Marxist revolutionary principle of class struggle to achieve a better society.⁷⁸³ Yet in Islam, according to Sjafruddin, the basis of mandatory provisions for social justice and equality had already existed since the early period of the religion,⁷⁸⁴ found in the rules of the *zakāt*, alms, contribution which represents the minimum obligation of those in

⁷⁸¹ Abdul-Rauf, "The Islamic Doctrine," 146.

⁷⁸² Rahnema and Nomani, *The Secular Miracle*, 42 and 48-50. See also Nomani and Rahnema, *Islamic Economic Systems*, 72-73.

⁷⁸³ Prawiranegara, "Islam dalam Pergolakan Dunia," 25-26.

⁷⁸⁴ Normatively, Sjafruddin was probably right. Historically, however, the principle has not been always applied by Muslim rulers such as the Umayyads (661-750) whose rule was denounced by other Muslim groups of the time as contrary to the Islamic message of egalitarianism and simplicity. See John L. Esposito, *Islam and Politics*, 4th ed. (Syracuse: Syracuse University Press, 1998), 16-17.

better and more stable economic conditions.⁷⁸⁵ The recognition and consecration of property rights in Islam did not preclude the idea of regulating its use to alleviate the burdens of the less fortunate. Absolute ownership lay only with God, while individual ownership was conditioned upon a whole set of normative values that the owner must perform to claim his stake, one of which included the upholding of social justice.⁷⁸⁶

In the concluding parts of the article, Sjafruddin expressed his optimism for the future of Islam vis-à-vis capitalism and communism. Despite the ideological battle being waged during the period of his writing, and notwithstanding Muslims' own shortcomings, Sjafruddin was optimistic that the future would bring better days. But his futuristic vision of Islam seemed to be more spiritual than material:

Therefore, Islam, after such a long time of its "death" and has lived in an atmosphere of death, surely will rise again. After seeing the consecutive rise of Christian spirit in *Hervorming* [reformation], Humanism and the Renaissance and subsequent development in Western culture and capitalism, and after watching the rise of Israeli spirit in the Marx communism, then according to the rotation period, Islam will eventually "close" the history of capitalism and communism as a "final" religion... so also can be predicted that over the collapse of one and the victory of another would grow a new culture which is a synthesis between the two antitheses earlier: the synthesis between capitalism and communism. Islam will carry back what has been its historic task: to unite Christians and Jews in a single humanity who serves God the One ... Islam was born as a synthesis between Christianity with Judaism. [It is] not hostile, even [Islam] always looks for brotherhood with those groups.⁷⁸⁷

Yet the sort of Islam that would be able to re-establish peace among the nations of the world was not Islam as it then stood, but another type of Islam:

⁷⁸⁵ Sjafruddin wrote this essay in the atmosphere of guerilla war against the Dutch in the jungles of Sumatra Island. For this reason, he did not list quotation from sources he used, including the verses of the Qur'an and Hadith: he wrote from his memory alone. Qur'anic verses referring to the charity he means are many. Two of them read: "Charity [*zakāt*] is only for the poor and the needy, and those employed to administer it, and those whose hearts are made to incline (to truth), and (to free) the captives, and those in debt, and in the way of Allah and for the wayfarer—an ordinance from Allah, and Allah is Knowing, Wise" (Al-Barā'ah 9:60). Also in al-Barā'ah 9:103: "Take alms out of their property—thou wouldst cleanse them and purify them thereby—and pray for them. Surely thy prayer is a relief to them. And Allah is Hearing, Knowing". *Zakāt* is obligatory charity, not voluntary alms. See Muhammad Ali, *Holy Quran*, 413 and 423.

⁷⁸⁶ Prawiranegara, "Islam dalam Pergolakan Dunia," 27.

⁷⁸⁷ Prawiranegara, "Islam dalam Pergolakan Dunia," 31-32.

“probably the new culture will not call itself Islam, but in its expression will reflect purely the soul of Islam”.⁷⁸⁸ Sjafruddin did not elaborate further upon his meaning. Perhaps what he intended was to remind Muslims to be more concerned with the spirit or substance of Islam rather than with its formalities or outward appearance. He mentioned in passing that Muslims themselves did not quite comprehend the renewal of Islam, nor did they completely understand the spirit or substance of their own religion.⁷⁸⁹ It is interesting that Sjafruddin in 1987 launched a quite

⁷⁸⁸ McLeod, “Survey,” 183-184. Sjafruddin’s statement would have been controversial even if it were declared in the present time, now that Muslims have mixed and interacted with many pluralistic or multicultural societies which include adherents of other religions as well as those who do not profess any religion. It is possible that this statement could spark denunciations and protests, such as what happened recently to followers of the Ahmadiyya and Shī’a. When Sjafruddin wrote this in 1949, Indonesians Muslims were involved in the struggle for independence and might not have regarded it as something to be questioned. There were more urgent issues to deal with in the struggle for independence in which all people suffered, and religious-theological issues were less important than the current situation. Today Indonesians are experiencing socio-political transition and dislocation. Since independence, the euphoria of democracy and freedom—often held back for more than thirty years—have been excessively released, violating boundaries of law and consequently eliminating their real meaning. The increasing socio-economic gap between different segments of society, globalization, and the spread of communication technology help information and ideas—including religious radicalism—to spread quickly and take root. American foreign policy in the Middle East has often been the flash point for acts of violence. Most Islamic organizations, including the moderate ones, demanded that the Indonesian government either dismantle the Ahmadiyya brand of Islam, which had the freedom to run its religious activities during the New Order period, or ask it to declare itself legally non-Muslim, as applied in Pakistan.

⁷⁸⁹ Prawiranegara, “Islam dalam Pergolakan Dunia,” 28-32. Sjafruddin’s vision was that in the future, Islam would be represented in a culture which was a synthesis between capitalism and socialism. This could be compared to the concept of a future human society developed by Murtaḍa Muṭahharī, an Iranian Islamic jurist-scholar. Muṭahharī’s description of the future culture was as follows: “According to the theory of the substantive reality of the primordial nature— [...] societies, civilizations, and cultures are moving toward unification, uniformity, and fusion and the future of human societies is a single, evolved world society in which all of humanity’s potential values will be actualized and man will attain his real perfection, happiness, and, finally, genuine humanity”. See Muṭahharī, *Social*, 27. There are several key elements which suggest similarities between Sjafruddin and Muṭahharī’s visions of an ideal society. In Sjafruddin’s conception the imagined future culture was a synthesis of capitalism and socialism; it was based on peace and universal brotherhood; and it was a spiritual rather than a material condition (a single humanity that served the One God). Muṭahharī’s vision consisted of unification, uniformity, and fusion among different societies, cultures and civilizations; it was an ideal or perfect situation (happiness and genuine humanity); it signified a more spiritual than material state (victory of the Truth and the end will belong to piety and the pious). Sjafruddin seems to draw his vision of Islam in the future, as a synthesis of capitalism and socialism, from the Qur’anic notion of the “middle community” (al-Baqarah 2:143) which depicts the Muslims as people of the middle position, synthesizing Judaism and Christianity while not inclining to either extreme. It is also probably inspired by the Qur’an, Āli ‘Imrān 3:140 which reads: “...And We deal out such days among people in turn[...].” Abdullah Yusuf Ali’s comments may highlight Sjafruddin’s conviction that Islam would emerge again after its long “death”, as he writes: “Success or failure in this world comes to all at varying times: we must not grumble, as we do not

controversial idea that may have provoked accusations of anti-nationalism or, at least, lack of nationalistic feeling in Indonesia. In his opinion, "...the sovereignty of nation states is out of date with the advance of science and technology. If we had one world stage consisting of autonomous, instead of the present sovereign states, much of the capital now wasted on arms could be used to improve living standards and boost education."⁷⁹⁰ It seemed Sjafruddin was among those who were optimistic about "the globalization of the international economy and the growing economic interdependence among all nations."⁷⁹¹ However, for now this vision of the globalized world as one of great promise seems to be still too far away to be realized. As Todaro and Smith assert, "[p]oor nations are now and will remain considerably more vulnerable to the economic events and policies of rich nations than vice versa."⁷⁹² A less optimistic view of globalization has the more stable ground since many of the most advanced industrial countries, despite their understanding of the

see the whole of God's plan." See Yusuf Ali, *Holy Qur'ān*, 158. On this verse, the most important thing for Muslims, according to Maulana Muhammad Ali, another commentator of the Qur'an, is to prove themselves to be true believers, to strive hard in His way, and to be steadfast under trials. See Muhammad Ali, *Holy Quran*, 174. The spiritual meaning of the "triumph" of Islam in the Qur'an, al-Faṭḥ 48:28 which reads, "He it is Who has sent His messenger with the guidance and the Religion of Truth that He may make it prevail over all religions. And Allāh is enough for a witness," is commented by Muhammad Ali as follows: "The prevalence of Islam does not, however, mean the political supremacy of its adherents at all times, nor does the prophecy signify that other religions would at any time entirely disappear. It only indicates that the superiority of the religion of Islam over all other religions will at last be established, and Islam will be the religion of the majority of the nations of the earth." See Muhammad Ali, *Holy Quran*, 1002. Muṭahharī's concept of a single future society was based on the interpretations of several verses of the Qur'an such as al-Mā'idā 5:57, al-Nūr 24:55, and al-Anbiyā' 21:105, by 'Allāmah Muḥammad Husayn Ṭabaṭabāī, a great Qur'anic commentator from Iran, found in his translation, interpretation and commentary on the Qur'an, al-Mīzān. Ṭabaṭabāī comments on three verses that were quoted by Muṭahharī to support his notion that "the ultimate government will be that of the Truth, in which falsity will be altogether swept away, and the end will belong to piety and the pious". Muṭahharī, *Social*, 27-28. Muṭahharī also quoted Ṭabaṭabāī's exposition of the Chapter al-Rūm 30:30-41, arguing that the border of the Islamic nation consisted of belief, not geographical or treaty boundaries, and that the religion of the Truth would be in the end victorious. Muṭahharī, *Social*, 28-29. In principle, Muṭahharī's vision of a single society in the future was based on the unique concept of Mahdī belief in Shī'a Islam. Muṭahharī, *Social*, 34. However, we do not know precisely the sources of Sjafruddin's conception of a future Islamic society. One can only conjecture.

⁷⁹⁰ Prawiranegara, "Recollections," 107.

⁷⁹¹ Michael P. Todaro and Stephen C. Smith, *Economic Development*, The Addison-Wesley Series in Economics, 9th ed. (Boston: Pearson, 2006), 801.

⁷⁹² Todaro and Smith, *Economic Development*, 801.

interconnectedness of all nations' futures, persist in the belief that they need not cooperate with lesser-developed countries and still want to totally dominate the established international order.⁷⁹³

As mentioned above, Sjafruddin's discussion on social justice in Islam, capitalism and socialism was written within an environment of guerilla warfare and was motivated by the spirit of defending independence. Some expected that this tract, written in such circumstances, would contain many more exhortations to fight and to condemn the colonialist enemy who attempted to undo his nation's independence. Although there did exist some affected rhetoric, in general Sjafruddin's reasonable judgment was more dominant. He criticized Western capitalism that gave birth to colonialism and Marxism which called for class struggle, but he was also able to articulate his opinions dispassionately in criticising the attitudes of Muslim and Indonesian people and leaders.⁷⁹⁴

It appears that the primary purpose of Sjafruddin's discussion of capitalism and socialism was political, in order to convince Indonesians to think realistically in their struggle for independence. In his view, Indonesians should take the opportunity to learn as much as possible from Cold War politics in their confrontation with the Netherlands.⁷⁹⁵ Though he was optimistic that Indonesians would eventually gain victory, he argued that independence could be achieved not only by Indonesia's own strength but also through outside forces such as the

⁷⁹³ Todaro and Smith, *Economic Development*, 801.

⁷⁹⁴ Among the criticisms addressed to the Indonesian nation and to Muslims were that they were easily persuaded by empty slogans, suspicious of everything that came from the West (the Dutch), chauvinistic, conservative, superstitious, and infested by sectarianism, regionalism, and personal cults which were the results of colonialism. In his analysis of Indonesia's struggle for independence and the international constellation in the following paragraphs, Sjafruddin urged Indonesia to make concessions to the Dutch as the latter also made concessions, in order to reach an agreement as soon as possible and to achieve a lasting peace between the two sides. However, his position did not qualify him as a "pacifist" in the same vein as Mahatma Gandhi, who used non-violent resistance in India's independence struggle. Sjafruddin led a guerrilla war of armed resistance against Dutch military action. He could perhaps be called a "peace lover" or "humanist" instead of a pacifist. Prawiranegara, "Islam dalam Pergolakan Dunia," 37-46 and 53-55.

⁷⁹⁵ Prawiranegara, "Islam dalam Pergolakan Dunia," 49-54.

international community. Sjafruddin was convinced that without support from the international community, they would not achieve their goal. In fact, it was precisely the overconfidence in one's own isolated strength that would be damaging and detrimental to independence. Hence Sjafruddin threw his full political support behind the Sjahrir and Hatta's policy of compromise with the Netherlands which took into consideration the international community, especially the United States and Britain. Despite his strong criticism of the Dutch during the struggle for independence, he looked forward to peace between Indonesia and the Netherlands, an attitude which he consistently maintained and employed while serving in the government as an economic policy-maker in the 1950s.⁷⁹⁶

However, Sjafruddin also emphasized that without God's will the struggle for independence would not succeed. He felt the need to emphasize the importance of recognizing that Indonesia's independence was part of the divine plan and an expression of God's grace. He also hoped that peace could be realized because Indonesian Muslims, following the example of the Prophet, were capable not only of accepting but also of giving. Here we see Sjafruddin's concern for spirituality and his sense of connectedness with the Prophetic tradition. His realistic and pragmatic approach in the struggle for independence and formation of economic development policies was based on the belief that human effort was never detached from God's decision and power.⁷⁹⁷

For Sjafruddin, Indonesia and Islam were inextricably intertwined. There were no contradictory interests between the two, a standpoint that he maintained during his life as reflected in his political attitudes and writings. Sjafruddin wrote in

⁷⁹⁶ Prawiranegara, "Islam dalam Pergolakan Dunia," 51-55.

⁷⁹⁷ Prawiranegara, "Islam dalam Pergolakan Dunia," 48-51 and 55.

his closing remarks in the article that “the victory of Indonesia is also the victory of Islam, the victory of pure determination and healthy minds”.⁷⁹⁸

Sjafruddin wrote again on the dissimilarities and similarities between an Islamic economic system and socialist (Marxist) and liberal or capitalist economic systems in a number of articles after his release from prison in 1966. In general, his thoughts on the topic did not change significantly, but compared to the article above he articulated them in a more organized fashion. It is understandable given his different circumstances. During his stay in prison under the Sukarno regime he had considerable time in which to deepen his knowledge of Islam.⁷⁹⁹ His writings during this period incorporated more quotations of Qur’anic verses and Hadith than did his previous writings.

With this new body of knowledge, Sjafruddin began substantiating his earlier arguments with references to the traditional sources. He asserted, for instance, his consistent line of thought that Islam admitted profit as a motive but limited and bound it to the virtues of moderation, temperance, and generosity in contributing to social welfare. These moral demands upon individuals would prevent the kind of extreme individualism that had little concern for society. On the other hand, Islam did not allow a situation in which an individual served just society or the state or worked under the leadership of the party/government, and was thus denied his own individual freedom.⁸⁰⁰ After discussing at length various aspects of the capitalist and the socialist economic systems, he concluded: “The economic system of Islam, if it is

⁷⁹⁸ Prawiranegara, “Islam dalam Pergolakan Dunia,” 49, 55-56.

⁷⁹⁹ He read books such as: *Kelengkapan tarich Nabi Muhammad s.a.w* [A Complete History of Prophet Muhammad] by Munawar Chalil; *The Eternal Message of Islam* by Abd al-Rahman Azzam; *The Varieties of Religious Experience: A Study in Human Nature* by William James; *Critique of Pure Reason and Critique of Practical Reason* by Immanuel Kant; and *The Interpretation of Dreams* by Sigmund Freud. See Rosidi, “Sjafruddin Prawiranegara,” 230-231; Prawiranegara, “Isrā’ dan Mi’rāj,” 132-143; Prawiranegara, “Masa Depan Islam,” 179.

⁸⁰⁰ Prawiranegara, “Apa yang Dimaksud,” 274-275. From his comment on the economic policy of the Old Order regime of Sukarno, it can be conjectured that the paper was published in the late 1960s after his release from prison on July 1966.

followed and implemented, is a harmonious balance between individual interests and the collective interests of society.”⁸⁰¹

However, Sjafruddin did not believe that there was a special Islamic economic system different from mainstream economics as taught in modern universities. For him, economics everywhere was the same, in both Muslim and non-Muslim countries. Sjafruddin even deemed interest—which many Muslim scholars consider the key differentiator between the Islamic economic system and the capitalist one—to be a reasonable and necessary stimulus for economic growth. Indeed, he underlined that the modern economic understanding accepted interest as a necessary part of the system.⁸⁰²

Sjafruddin also stated that each era had its own “capitalism”. Every economic enterprise presumed the existence of capital.⁸⁰³ Furthermore, Muslims and other civilized nations and religious groups shared a common moral ground. For Sjafruddin there were no fundamental legal or moral differences between Islam, Christianity, and Judaism. The differences, for Sjafruddin, were more accidental than essential.⁸⁰⁴ Thus, an “Islamic” economic system and a “capitalist” economic system could feature more similarities than differences.⁸⁰⁵ In fact, Sjafruddin questioned the categorical distinction between a particular Islamic economic system and the capitalism practiced in the West. Both recognized individual ownership and, equally important, the basic human drive to obtain maximum results with minimum exertion or cost. He quoted Luqmān/31:\20⁸⁰⁶ as scriptural proof for the recognition

⁸⁰¹ Prawiranegara, “Apa yang Dimaksud,” 274.

⁸⁰² Prawiranegara, “Adakah Konsep,” 338. This paper was presented in an international economic conference on The Muslim World and the Future Economic Order, London, July 1977.

⁸⁰³ Prawiranegara, “Islam dalam Pergolakan Dunia,” 23.

⁸⁰⁴ Prawiranegara, “Persamaan,” 406 and 408.

⁸⁰⁵ Prawiranegara, “Adakah Konsep,” 360-361.

⁸⁰⁶ “[People], do you not see how God has made what is in the heavens and on the earth useful to you, and has lavished His blessings on you both outwardly and inwardly? Yet some people argue about God, without knowledge or guidance or an illuminating scripture”.

of this impulse. However, in economic practice Muslims were not free to arbitrarily use any means to meet their needs. They were constrained by various limitations of God (*ḥudūd Allāh*). Here Sjafruddin referred to the Qur'an, al-Baqarah 2:229⁸⁰⁷ which ordered Muslims not to violate God's limits. Muslims, for example, are prohibited to consume and carry on business involving pork, alcoholic beverages, gambling, prostitution, pornography, and illegal drugs such as narcotics.⁸⁰⁸ In general, the difference between Islam and capitalism became significant and fundamental if in practice, the capitalist economy were abstracted from its moral and ethical principles.

Sjafruddin's observation was in agreement with those of many parties in Western societies. Ideologues, political leaders, religious dignitaries and groups, scholars, and social activists have noted that technological advances and economic prosperity created by capitalism were also accompanied by poverty, inequalities in wealth and opportunity, alienation, and hopelessness.⁸⁰⁹ John Isbister, citing Milton Friedman's defense of capitalism and the latter's view of equality as the enemy of freedom, maintained that capitalism generated serious inequalities in people's holdings, and consequently provided people with unequal degrees of freedom to pursue their goals.⁸¹⁰ Frank Stilwell referred to a number of recent studies which

⁸⁰⁷ "[...]. These are the bounds set by God: do not overstep them. It is those who overstep God's bounds who are doing wrong".

⁸⁰⁸ Prawiranegara, "Hakikat Ekonomi Islam," 362-364; 370; Prawiranegara, "Persamaan," 406-407.

⁸⁰⁹ Some data quoted by D. W. Haslett support the critiques that poverty and inequality are found in a typical capitalist country. For example in 1990, no less than one out of every ten US citizens, and one out of every five children, lived in poverty. D. W. Haslett, *Capitalism with Morality* (Oxford: Clarendon Press, 1996), 194. Family income in the United States is not very evenly distributed. The top fifth of American families receives approximately 44 per cent of all family income, while the bottom fifth receives approximately 4.4 per cent. One to two per cent of American families own from around 20 to 30 per cent of the (net) family wealth in the United States, and 5 to 10 per cent own from around 40 to 60 per cent. The top fifth owns almost 80 per cent of the wealth, while the bottom fifth owns only 0.2 per cent. So while the top fifth has about ten times the income of the bottom fifth, it has about 400 times the wealth. Haslett, *Capitalism with Morality*, 236.

⁸¹⁰ Isbister, *Capitalism and Justice*, 40-43.

showed that “despite significant growth in GDP and average incomes, people in wealthy nations are not getting happier. It seems that no matter how wealthy people are they usually believe they need more income to be happy.”⁸¹¹ In his explanation of the condition he points out that “what people believe they need in order to be happy is conditioned by their social environment.”⁸¹² Referring to Thorstein Veblen, he underlined that the extravagant consumption patterns of the rich class set the aspirational standard for other social groups, notwithstanding the latter’s lack of comparable economic means.⁸¹³ He employs the term “affluenza” that is used by researchers at the Australia Institute to describe the pervasive “sickness of affluence” fuelled by economic inequalities. It consists of:

[t]he bloated, sluggish, and unfulfilled feeling that results from efforts to keep up with the Joneses; an epidemic of stress, overwork, waste, and indebtedness caused by dogged pursuit of higher consumption levels; [and] an unsustainable addiction to economic growth.⁸¹⁴

In Peter Saunders’ opinion, capitalism was in some way responsible for the limitless and insatiable demands of the contemporary consumer experience. The multiplication of prosperity generated by capitalism intensified competition for relative advantage. A greater number of people were able to get access to desired goods and thus the satisfaction to be gained from possession of the goods. However, many individuals experienced mounting frustration and disappointment upon discovering that the items to which they aspired failed to deliver the advantages they had expected. This malady of infinite desire created unhappy individuals and a morbid society.⁸¹⁵ The cause of the conditions described above could be attributed to the driving force of capitalism itself. In this issue Stilwell stated that “Capitalism,

⁸¹¹ Stilwell, *Political Economy*, 42.

⁸¹² Stilwell, *Political Economy*, 42.

⁸¹³ Stilwell, *Political Economy*, 42.

⁸¹⁴ Stilwell, *Political Economy*, 44.

⁸¹⁵ Peter Saunders, *Capitalism*, 78-81. See also Stilwell’s discussion of the social nature of consumption and corporations and consumers. Stilwell, *Political Economy*, 211-213 and 230-232.

broadly speaking, is the economic system in which financial considerations dominate.”⁸¹⁶ Capitalism is based on an economic liberalism that “establishes a relationship between what is assumed to be people’s essential nature and their economic activities.”⁸¹⁷ What he meant was: individualism, hedonism, rationality and inertia.⁸¹⁸ This subject was also highlighted by Irving Kristol, an American intellectual, who wrote that “[t]o increase wealth, production must be increased through the use of materialistic incentives. Without those materialistic incentives, there will be less and less to distribute and any redistribution will become less effective in bettering the material condition of human beings than was the capitalist system it replaced”.⁸¹⁹ But in the same time, he observed that “modernity itself is undergoing a kind of spiritual collapse, [and] the secular gnostic impulse was already in the process of dissolution [...] the rebellious, self-confident spirit of modernity was entering a major crisis and was moving towards its own discreditation”.⁸²⁰

So when Sjafruddin stated that the Islamic concept of economics was different from capitalism, he was addressing the aspect of capitalism that influences an individual’s normative behavior and values, which are ultimately based on an excessive individualism that in turn gives rise to social injustice and neglect of moral values.⁸²¹ He believed that though Islamic teachings allowed people to enjoy the life of this world in moderation, to conduct economic activity, and to gain material profit, they forbade people from being materialistic and hedonistic. Seeking pleasure

⁸¹⁶ Stilwell, *Political Economy*, 48.

⁸¹⁷ Stilwell, *Political Economy*, 73.

⁸¹⁸ Stilwell, *Political Economy*, 73.

⁸¹⁹ Irving Kristol, “Spiritual Roots of Capitalism and Socialism,” in *Capitalism and Socialism: A Theological Inquiry*, ed. Michael Novak (Washington, D.C.: American Enterprise Institute for Public Policy Research, 1979), 12.

⁸²⁰ Kristol, “Spiritual Roots,” 13.

⁸²¹ Prawiranegara, “Apa yang Dimaksud,” 274.

and gaining material profit should be put under spiritual and moral purposes.⁸²² A concrete example of this, according to Sjafruddin, was the prohibition of the acquisition of excessive profit (*isrāf*) by manipulating those in weaker circumstances, an act that could give rise to the *exploitation de l'homme par l'homme*.⁸²³ To prevent such practices, Sjafruddin believed that the government could intervene, in accordance with the law, in the determination of prices, acting beyond the law of supply and demand.⁸²⁴ Moreover, Sjafruddin even considered pollution and the destruction of the natural environment (*abus de la Nature par l'homme*) as falling within the technical notion of *ribā*, as an effect of economic enterprises that sought material gain without any consideration of human safety in the long term.⁸²⁵

In conclusion, Sjafruddin's views on the notion of social justice in Islam developed early on in his intellectual life through his critique of socialism and capitalism, not only as economic systems but as sources of normative values that influence an individual's behavior and morality. He acknowledged some similarities between Islam and Marxism-communism, such as a common concern for social justice and a recognition of the existence of social classes. In addition, the emancipation of the downtrodden and oppressed classes from injustices committed

⁸²² Cf. Syed Nawab Haider Naqvi, *Islam, Economics, and Society* (London: Keagan Paul International, 1994), 72-73 and 76-77.

⁸²³ "Abolissez l'exploitation de l'homme par l'homme et vous abolirez l'exploitation d'une nation par une autre nation." This phrase is attributed to Karl Marx in his *Communist Manifesto*, but a similar phrase is also attributed to Mons Giraud, the Archbishop of Cambrai, who in his pastoral letter for Lent 1845 entitled "Labour Law", denounced working conditions in factories, particularly for women and children, as well as to Frederic Ozanam, who in 1831 in Lyon published *Reflections on the Doctrine of Saint-Simon*. See Gérard Cholvy, "La société, c'est l'exploitation de l'homme par l'homme," *Esprit & Vie: Revue Catholique de Formation Permanente* no. 154 (August 2006): 26-27, accessed August 5, 2011, http://www.esprit-et-vie.com/article.php3?id_article=1604.

⁸²⁴ Prawiranegara, "Persamaan," 406-408.

⁸²⁵ Prawiranegara, "Hakikat Ekonomi Islam," 371. This article is one of the two articles without a date. Sjafruddin first raised the notion probably around 1977-1978. Sjafruddin's idea of human abuse of nature or the natural environment as falling under the scope of *ribā* is, for the present writer, the first one so far; no one in Indonesia seems to have made previous mention of it.

by the wealthy and privileged are also issues addressed in Islamic teachings. Consequently, every Muslim, like a communist or socialist, feels obliged to assist the destitute, poor and oppressed people. For this reason, many Muslims were attracted to Socialist doctrines during the revolutionary period. However, as we have seen, there were many fundamental differences between the doctrines of Marxism and Islam, and Sjafruddin urged his readers to always bear in mind that whatever secondary similarities might exist between socialist doctrines and Islamic teachings, they possess diametrically (metaphysically) opposed views on the basic relationship between human beings and the world: Marxist historical materialism, and Islam and other religions' beliefs in God and the Hereafter, respectively. This fundamental divergence led to different views of society: Marxism upheld that a classless society would rise as a result of the proletarian revolution; meanwhile Islam maintained that as long as there were humans in this world, the existence of variously-privileged groups, including poor and wealthy classes, would endure. Hence Islamic efforts to realize social justice and improve the lot of the poor would be inherently different from those of the communists. Rather than overturning the structure of society, as advocated by communist doctrine, Islamic teachings would not seek to dichotomize groups of people, nor would they attempt to eradicate a whole group of people based on their economic class.⁸²⁶ Another difference was the source and measure of happiness. Unlike Marxism, Islam did not measure happiness by materialistic criteria. In Islam, a poorer but devout person could be happier than a rich one because happiness was measured by spiritual criteria, such as the extent of an individual's satisfaction in carrying out the obligations required of him by God.

⁸²⁶ Cf. Maxime Rodinson's observation of Christian socialism and Muslim socialism. According to him, "[t]heir choices were inevitably less radical because their religious and moral principles forbade them to assume an uncompromising and implacable virulence towards their brethren in the faith, even if these were exploiters and oppressors." Maxime Rodinson, *Islam and Capitalism*, trans. Brian Pearce (New York: Pantheon Books, 1973), 232.

On the other hand, as we have seen, Sjafruddin's criticisms of capitalism were not as extensive as his critique of Marxism. This is because, unlike Marxism, the idea and practice of capitalism did not necessarily preclude belief in God; indeed, Sjafruddin saw that aspects of capitalism that were concerned with social justice arose from attempts to renew the Christian spirit. The recognition of private property and individual entrepreneurship was also an overlapping feature in both the Islamic economic system and the capitalist one. However, despite these similarities, Sjafruddin saw the difference between Islam and modern capitalism as not unlike the difference between Islam and the various forms of socialism. Islam, like other religions, was based on spiritual-moral principles, while the modern ideologies of capitalism and socialism were founded on thoroughly secular and materialistic principles. Sjafruddin's synthesis consisted of appropriating overlapping economic principles between Islam and capitalism which were then delimited by moral, ethical, and social injunctions contained in the Qur'an and the Sunnah of the Prophet. This was a capitalism, according to him, that was applicable to an Indonesian context.⁸²⁷

5.2. Chapter Two: Social Justice and the Concept of Human Development: An Islamic Point of View

This chapter will discuss Sjafruddin's concept of development, which he termed a human development, and its relationship with social justice and economic development. His idea of human development and its purpose are not articulated in terms of material or economic prosperity, but rather involve the realization of an ethical human being. The basics of the concept of human development itself were

⁸²⁷ In the same vein as Sjafruddin's assessment of capitalism, Haslett writes: "It is not capitalism *per se* that is immoral, but current capitalism. Capitalism with morality is possible". That is, "[...] capitalism without extreme inequalities of wealth and opportunity, a capitalism without alienated workers, a capitalism with morality." See Haslett, *Capitalism with Morality*, 264.

formulated in the 1970s and became prominent in the late 1980s. Mahbub ul-Haq, a Special Adviser to United Nations Development Program (UNDP) and former Pakistani Minister of Economics, is considered to be a pioneer of the concept of Human Development.⁸²⁸ He said that in the 1960s “it would have been heresy to challenge the economic growth’s school’s tacit assumption that the purpose of development is to increase national income.”⁸²⁹ In the 1970s, he was forced to challenge many of his own premises concerning the classical growth school.⁸³⁰ One of these premises was the equation of development with economic development, “conventionally measured by the increase in the gross national product (GNP) over time.”⁸³¹ In addition, according to Geoffrey R. B. Currey, the concept “rejects the question of who is to receive the benefits,” assuming the question of “who is to pay the costs of development, as irrelevant,” and never asking the question of ‘development for whom’.⁸³² Haq argued that the growth strategy had failed to alleviate poverty and create prosperity in society, especially for those who settled in third world countries. In his opinion, “economic growth is being accompanied by rising disparities [and] the masses are complaining that development has not touched their ordinary lives. Very often, economic growth has meant very little social justice.”⁸³³

As Paul Streeten argues, the concept of human development treats human beings as ends. Since its goal is to improve the human condition, the concept

⁸²⁸ Paul Streeten, “Foreword,” in Mahbub ul-Haq, *Reflections on Human Development* (New York: Oxford University Press, 1995), vii and ix.

⁸²⁹ Mahbub ul-Haq, “Preface,” in *Reflections on Human Development* (New York: Oxford University Press, 1995), xvii.

⁸³⁰ Ul-Haq, “Preface,” xvii. See Mahbub ul-Haq, *The Poverty Curtain: Choices for the Third World* (New York: Columbia University Press, 1976), 5.

⁸³¹ Geoffrey R. B. Currey, “The Definition of Development,” in *Show Case State: The Illusion of Indonesia’s ‘Accelerated Modernisation’*, ed. Rex Mortimer (Sydney: Angus and Robertson, 1973), 14.

⁸³² Currey, “Definition of Development,” 7-8.

⁸³³ Ul-Haq, *Poverty Curtain*, 24.

emphasizes the importance of expanding people's choices by creating "a well-nourished, healthy educated, skilled, alert labour force as the most important productive asset" in order to attain higher productivity.⁸³⁴ Human development also gives priority to slowing down "human reproduction by lowering the desired family size" and calls attention to the improvement and preservation of physical environment.⁸³⁵ Other distinctions of human development, according to Streeten, are its focus both on poverty reduction, which "contributes to a healthy civil society, increased democracy and greater social stability," as well as on political stability, by reducing civil disturbances.⁸³⁶ As we will see in the following discussion, Sjafruddin's view of human development shares many similarities with that developed by Mahbub ul-Haq and Paul Streeten in the UNDP.

At a very rudimentary but necessary level, Sjafruddin believed that any development plan in Indonesia must be preceded by *mental omschakeling*, a radical psychological-spiritual change in not only the Indonesian people but especially their leaders. If this did not happen then even the most promising development plan would not be successfully implemented. In Sjafruddin's view, the Indonesian economic crisis during the 1950s could not be solved by conventional economics alone, but must be first overcome by an internal transformation of people's ways of thinking or living.⁸³⁷ Before discussing Sjafruddin's practical plan for achieving social justice and development, it is relevant to describe the economic and political context at the time in which he brought forth the topics of spirituality and socio-economic development in Indonesia.

On May 1957, Sjafruddin was invited to deliver a lecture at an event organized by the Indonesian Catholic University Students Association (PMKRI) in

⁸³⁴ Streeten, "Foreword," ix.

⁸³⁵ Streeten, "Foreword," x.

⁸³⁶ Streeten, "Foreword," x.

⁸³⁷ Prawiranegara, "Peranan Agama," 106-107.

Jakarta. The invitation to speak at this event reflected the general political public of the time's recognition that Sjafruddin's expertise in the field of economic development transcended political and religious boundaries. He had acquired a reputation as a public figure who emphasized economic rationality and pragmatism in solving the many problems of the contemporary Indonesian economy. There were sharp differences of opinion between political groups over priorities of the government's programs and their consequences with the West, including the issue of foreign ownership over the national economy. There was widespread and deep disappointment among many people as prosperity failed to materialize, and disappointment mounted in the Outer Islands because of delayed development in the regions, affected by widespread anti-foreign sentiment in Java.⁸³⁸ The expropriation of Dutch property had destabilizing political effects. President Sukarno tried to resolve the troubles of the country by implementing in February 1957 his concept of *Demokrasi Terpimpin*, or Guided Democracy, which Sjafruddin and other democratic political leaders such as Hatta (former Vice President), Sjahrir (PSI), and Natsir (Masyumi), and I.J. Kasimo (Catholic party) strongly opposed.⁸³⁹

For Sjafruddin the problem was more than just the differences between groups that promoted economic rationality and pragmatism on the one side—of which he was the main advocate—and radical nationalist and leftist groups on the other. His concern was also the philosophical foundation of economic development itself. He not only contended against President Sukarno and his supporters among radical nationalists and communists, but he was also vocal when disagreeing with those who shared similar views as him for an economic rationality, such as Sutan Sjahrir, a former prime minister and leader of the PSI (Indonesian Socialist Party).

⁸³⁸ Higgins with Higgins, *Indonesia*, 92-93; Feith, *Decline*, 113-114.

⁸³⁹ Ricklefs, *A History*, 290-293; Dick, "Formation," 186; Glassburner, "Economic Policy-Making," 90-91.

Yet it was the flamboyant President Sukarno who perhaps embodied the perfect contrast to Sjafruddin's temperament. The latter criticized Sukarno for his tendency to embrace materialist ideology and subtle forms of dictatorship. This tendency was reflected in Sukarno's assertion that "freedom from want is more important than freedom of expression", or that "the constitution was made for man, not man made for the constitution".⁸⁴⁰ According to Sjafruddin, these statements clearly illustrated the prominence of the materialist approach, the utilitarian ethic (*utiliteitsbeginnel*), and the opportunistic tendency that sacrifices morality in public life for political exigencies.⁸⁴¹ However, Sjafruddin's designation of Sukarno as an adherent of materialist ideology was a bit excessive. The allegation that Sukarno was willing to compromise the constitution for some greater human good—usually for the sake of his ideas and interests—and the acknowledgement of his dictatorial tendencies were more accurate. Indeed, rather than being a strict adherent of Marxism, Sukarno used Marxist analyses of capitalism as an interpretive tool to explain the dire condition of Indonesian society under the Dutch colonial rule.⁸⁴² Sjafruddin's criticism of Sjahrir, on the other hand, revealed a more fundamental disagreement between the two men, one that dealt with Sjahrir's openly materialist worldview. Sjafruddin fully supported Sjahrir's proposals to achieve social justice, prosperity,

⁸⁴⁰ Prawiranegara, "Peranan Agama," 110.

⁸⁴¹ Prawiranegara, "Peranan Agama," 109-111.

⁸⁴² In Sjafruddin's opinion, the country's leaders that have sworn allegiance to the constitution must defend it. If the constitution is deemed to require change, then amendments to it must be made through channels or procedures that have been specified in the constitution itself. It cannot be modified arbitrarily according to the wishes or interests of a person or group of people. If President Sukarno's wish to change the constitution while ignoring legal procedures occurred without penalty, not even political penalty, then people would lose control over their own government. In Sjafruddin's opinion such acts are in violation of promises to the people and oaths of allegiance. He reminded his audience that in Islam, every human must keep his/her promises, citing the Qur'an, al-Nahl 16:91-92: "And fulfill the covenant of Allah, when you have made a covenant, and break not the oaths after making them fast, and you have indeed made Allah your surety. Surely Allah knows what you do. And be not like her who unravels her yarn, after she has spun it strongly. You make your oaths to be means of deceit between you because (one) nation is more numerous than (another) nation. Allah only tries you by this. And He will certainly make clear to you on the day of Resurrection that wherein you differed". Prawiranegara, "Peranan Agama," 111-113.

and happiness through rationality and efficient organization. However, he did not agree with the complete absence of spiritual and moral foundations in Sjahrir's ideas. In Sjafruddin's view, the development of the soul and its purification (*tazkiyat al-nafs*) should precede the eradication of poverty and achievement of social justice. The liberation of the soul from the grip of material temptation and the method for its purification were revealed, according to Sjafruddin, only through the doctrines and spiritual practices of religion.⁸⁴³ The only people who could eradicate poverty were those who were free from the temptation and attachment of material goods. To eradicate poverty people first must be able to bear the burden of poverty, charity, and sacrifice.⁸⁴⁴

Sjafruddin's insistence on the importance of human development, based on spiritual and moral values, in alleviating poverty and upholding social justice bears certain similarities to Weber's thesis on Protestant ethics. Weber argued that a new type of religion, ascetic Protestantism—most famously in the form of Calvinism—, was a force that helped to fuel dynamic capitalism. According to him, “members of various ascetic Protestant sects inadvertently helped to bring about a new attitude towards economic affairs in their efforts to behave as good Christians.”⁸⁴⁵ He argued that “social evolution and economic progress were also influenced by the ideas,

⁸⁴³ Sjafruddin here refers to the Qur'an, al-Alaa 87:14-17, which states: “He indeed is successful who purifies himself, and remembers the name of his Lord, then prays. But, you prefer the life of this world, while the Hereafter is better and more lasting.” For him, economic development must begin first with human development. It is interesting that in 1980 Khurshid Ahmad, one of the leading figures in Islamic economics theory, located *tazkiyah* (purification [of the soul]) as one of the basic concepts in the Islamic approach to development. He labels *tazkiyah* as purification plus growth. He further explains: “The Mission of all the prophets of God was to perform the *tazkiyah* of man in all his relationships—with God, with man, with the natural environment, and with society and the state.” See Khurshid Ahmad, “Economic Development in an Islamic Framework,” in *Studies in Islamic Economies*, ed. Khurshid Ahmad (Leicester: The Islamic Foundation, 1980/1400), 179.

⁸⁴⁴ Prawiranegara, “Peranan Agama,” 113-114.

⁸⁴⁵ Victor Nee and Richard Swedberg, “Introduction,” in *On Capitalism*, ed. Victor Nee and Richard Swedberg (Stanford, CA: Stanford University Press, 2007), 5.

ideals, and beliefs of individuals, not only determined by material conditions.”⁸⁴⁶ Sjafruddin emphasizes that certain ways of thinking about the world and self (*weltanschauung*) could have penetrating social, political, and economic effects.⁸⁴⁷ He and Weber, of course, lived and wrote in different historical contexts, affecting the particulars of their emphasis on the influence of spiritual-moral values on social, political, and economic development. However, both were convinced that normative behavior, derived from a spiritual worldview, was able to affect the course of conventional economics. Weber asserted this from an observer’s point of view, while Sjafruddin, from the perspective of a policy-maker and someone directly involved in the changes happening during his intellectual and political life. For the latter, moral and spiritual values could be sources of guidance, inspiration and motivation for people to become agents for the eradication of poverty, realization of social justice and prosperity, and other such ideals of Indonesian independence. But all these conditions were not the ultimate goals of development. The ultimate goal of development, in his view, was the realization of an ethical human being.⁸⁴⁸

Sjafruddin also urged people to change their perception on poverty. The prevailing opinion among the common people was that poverty was a shameful affair. He argued that this mindset had unconsciously encouraged many Indonesian officials and leaders—whom he describes as “*van huis uit arm*”, inherently poor [in their origins], to commit acts of corruption regarding the public coffers to overcome their shame of poverty.⁸⁴⁹ This negative impression of poverty, according to

⁸⁴⁶ Barnaby Marsh, “The Role of Spiritual Capital,” in *On Capitalism*, ed. Victor Nee and Richard Swedberg (Stanford, CA: Stanford University Press, 2007), 179. Weber’s thesis is not without problems, as R. H. Tawney noted in his foreword: “It is arguable, at least, that, instead of Calvinism producing the spirit of Capitalism, both would with equal plausibility be regarded as different effects of changes in economic organization and social structure”. Tawney, “Foreword,” 6-9.

⁸⁴⁷ Prawiranegara, “Peranan Agama,” 106-108; Marsh, “The Role of Spiritual Capital,” 124.

⁸⁴⁸ Prawiranegara, “Peranan Agama,” 114-117.

⁸⁴⁹ Prawiranegara, “Peranan Agama,” 107.

Sjafruddin, could be rectified by showing the difference between prosperity based on the material objects (*stoffelijke welvaart*) and spiritual prosperity (*innerlijke or geestelijke welvaart*). Someone may well be called rich in terms of material advantage, but could be poor in inner tranquility. Conversely, someone who was poor when measured by material criteria could be called well-off if said person did not feel or think himself/herself poor.⁸⁵⁰

Sjafruddin was convinced that changes in this perception would help Indonesians to tackle problems of poverty and social injustice more effectively and peacefully. Self-esteem and self-respect (*eigenwaarde, zelfrespect*) were character traits that ought to be socialized amongst the people in order to weaken the tendency to elevate material prosperity as the main purpose of life. Materialism destroyed the soul of society because it fostered the attitude that considered fellow human beings to be mere tools for some material end. And if this happened, there would be no underlying moral foundation of togetherness and friendship to prevent social injustices, major or minor, such as cheating, robbing, and even violence, to achieve the goal of material gain. These problems have already occurred through the pattern of confiscation of the rights of others, abandonment of the rule of law, deprivation of individual liberty, and the demand for higher wages but refusal to work in accordance with the contract.⁸⁵¹ Corruption, bribery, and the misuse of law

⁸⁵⁰ Prawiranegara, "Peranan Agama," 107. Sjafruddin's opinions in the above paragraph seem to have a Sufi influence. Though Prawiranegara had never followed a Sufi religious order [*tariqa*], he was known as a man who led a simple life. His life and appearance indeed were modest. Interestingly, he mostly always dressed in a Western collared suit with tie or tuxedo. He read Maulana Muhammad Ali and Abdullah Yusuf Ali's commentaries of the Qur'an, which are popular among Dutch/Western educated Indonesian Muslim leaders. Both commentaries/interpretations have a spiritual and intellectual orientation. The description above refers, in my view, to the Qur'an, al-Hashr 59:9, which reads: "Those who were already firmly established in their homes [in Medina], and firmly rooted in faith, show love for those who migrated to them for refuge and harbour no desire in their hearts for what has been given to them. They give them preference over themselves, even if they too are poor. And those who are saved from their own soul's greed are truly successful."

⁸⁵¹ Prawiranegara, "Peranan Agama," 107-108. With this statement Sjafruddin targeted ultra-leftist and nationalist groups who pushed for the seizure of Dutch companies operating in

in Indonesia are common symptoms that are very difficult to eradicate even to the present day. During the 1950s, according to Sjafruddin, “immorality has infiltrated the state power apparatus and has seeped from top to bottom.”⁸⁵² As a result, the institutions of state were no longer able to carry out their duties properly; there was no one to defend and uphold law and justice. Nor was there legal certainty, *rechtszekerheid*. The Law was in the favor of the ruling group and those who were clever and immoral enough to lie, cheat and bribe.⁸⁵³

When Sjafruddin asserted in this lecture that the absence of legal certainty in the country had made it impossible to implement real economic development, he had in mind President Sukarno's authoritarian tendencies and the growing influence of PKI. He compared the rule of law in a state based on human rights with the legal order of a totalitarian state. He said that in the former case, citizens were required to perform and uphold moral principles, based either on religious teachings or on the shared fundamental values of human rights. For Sjafruddin, these two sources of normative values were ultimately derived from God: in the case of the former, these were revealed through prophets, while in the latter case, these were the result of human understanding of “natural law”, *Naturrecht*, which, according to him, were also often given the epithet “from God”, *goddelijk* or divine. These moral principles taught people to love each other as in ties of kinship. He wished for the law to be accepted and agreed upon by those to whom it applies. Acceptance could occur if the legal basis contained timeless and universal values that could not be modified or eliminated without lowering the dignity of human beings themselves. For Sjafruddin, human rights were not a human invention, but instead were inherent to our nature and understanding. An orderly human society was a society based on

Indonesia and launched ceaseless demands and strikes to ask for higher wages, incited by Communist and extreme nationalist union organizations. See Dick, “Formation,” 183-185.

⁸⁵² Prawiranegara, “Peranan Agama,” 108.

⁸⁵³ Prawiranegara, “Peranan Agama,” 108.

human rights. Legal order by force in a totalitarian society that depended solely on the authority of the ruling class, on the other hand, was based on the principle of opportunity (*opportuneits*) or usefulness (*utiliteitsbeginse*).⁸⁵⁴

Indeed, Sjafruddin's concern with the rule of law, individual liberty and human rights was one of characteristics of the Indonesian Western-educated intelligentsia who had absorbed the traditions of European liberalism and socialism or derived similar values from Islamic modernism. They considered that "Western-type democracy was an important article of belief."⁸⁵⁵

Although Sjafruddin emphasized that on a very basic level economic development should be initiated by an inward development of character and spiritual growth of human beings through religious normative values, he was aware of the problems with this approach. Firstly, given the many religions that exist, which religion was the best vessel for such a task? Moreover, why, he asked rhetorically, do injustices continue to exist despite the long history of religious institutions and doctrines in society? Regarding the first question, Sjafruddin wrote:

It is up to each individual. What is important is: that each religion must not only talk, but must seep into the hearts so that God's teachings to love our fellow human beings as we love ourselves become a way of life that is held firm. No matter how different religions are, people who are truly religious will be able to live together in harmony and peace based on mutual respect, mutual love.⁸⁵⁶

⁸⁵⁴ Prawiranegara, "Peranan Agama," 108-109.

⁸⁵⁵ Feith, *Decline*, 45 and 114. Concerning them, Feith wrote: "They believed public liberties and the rule of law to be a great importance, and many of them saw parliamentary institutions as necessary safeguards against a possible development of authoritarianism, fascism, or demagogue rule. It is true that they produced no doctrine to justify Western-type procedures in terms of the images of democracy which had general currency at the time. But this was not because they, as individuals, lacked a strong value commitment to the ideas which these procedures embodied. It was probably in part because their own liberal-socialist views were difficult to reconcile with the populist nationalism which dominated the thinking of most members of the political public" (45). The opponents of the aforementioned political leaders, according to Feith, were those leaders who "claimed leadership positions [...] on the grounds that they were close to the people and understood their wishes [...] They continued to assuage men's thirst for a *mystique* and sense of momentum in public affairs [...] through ideological themes of a mutually antagonistic character" (114).

⁸⁵⁶ Prawiranegara, "Peranan Agama," 115.

As for the second question, he argued that:

The objection that religions of the world have not been able to bring eternal peace and permanent justice, and that religion is often used only as a disguise to hide evil purposes, is undeniable. But it cannot be denied also, that since they were born in the world, human beings are always tried to contradict their God and violate His commands and teachings. But those who lose and suffer due to the objections and contradictions are human beings themselves. So, it cannot be blamed on religions, if human beings are still not able to regulate themselves properly. Religion simply gives a warning or guidance, but whether to follow the warning and the demand or not it is up to the human beings themselves.⁸⁵⁷

Sjafruddin therefore clearly emphasized the importance of law, morality, and religion as foundations of the development of a just and prosperous society. Here he was talking about the importance of religion in general, not just Islam. This inclusive attitude not only resulted from his speaking at an event organized by the Catholic Student Association, nor was it due simply to the fact that Indonesia was a multi-religious country, but also because Sjafruddin had the view that in terms of morality there was no fundamental difference between Islam and other religions, especially Judaism and Christianity.⁸⁵⁸ Furthermore, though justice was obviously an important part of any sort of national economic development, he conceived of it differently than would a historical materialist or communist. For him justice was a moral-religious category. For one, it would not entail the establishment of a classless society. According to Sjafruddin, personal character and individuality must be considered in the effort of upholding justice. The effort of realizing a just and prosperous nation should be based not only on sober economic rationality but also on moral and spiritual values. Economic and political crises that occurred in Indonesia at that time, according to Sjafruddin, were in essence a crisis of faith (*geloofs*) and moral crisis (*morele crisis*) that could only be solved by changing the orientation of the Indonesian people's outlook on life: from a focus on wealth and

⁸⁵⁷ Prawiranegara, "Peranan Agama," 115.

⁸⁵⁸ Prawiranegara, "Persamaan," 406.

social status to an focus on spiritual goods: God-consciousness and sacrifice for the interests of fellow human beings.⁸⁵⁹ Therefore, Sjafruddin's primary concern was the spiritual and moral state of Indonesians, not their material condition. Economic prosperity was not the primary goal of his concept of development. The spiritual and moral well-being of Indonesians was the ultimate goal, of which economic prosperity was only a part and a consequence.

Sjafruddin's definition of development clearly could be accepted by all Indonesians including the adherents of different religions besides Islam. He developed this relationship between economic imperatives and spiritual imperatives in more detail in an earlier article entitled "The Motive or Principle of Economics According to Islamic Law," published in the magazine *Suara Masyumi* (*Voice of Masyumi*, 6th year, November-December 1951). In the essay Sjafruddin recommended that Muslims not base their actions solely on economic imperatives—that is, trying to gain as much as possible with minimum exertion, monetary or otherwise. Rather he urged them to elevate the desire to follow God's commandments and to achieve a state of God-consciousness (*taqwa*) as the driving forces behind their actions. By doing this, in his opinion, the individual would be incapable of using the principle of utilitarianism when dealing with fellow human beings, an act that could otherwise lead to various forms of oppression.⁸⁶⁰

It is worth noting that the article about economic motivation—*viz.* the 'right intention' in economic behavior—was the first of Sjafruddin's writings that dealt with the topic of economics in Islam. Emphasis on this issue can be traced to a Prophetic Hadith which was very popular among Muslims: "The reward for deeds depends upon their intentions and every person will get a reward according to what

⁸⁵⁹ Prawiranegara, "Peranan Agama," 115-117.

⁸⁶⁰ Prawiranegara, "Motif," 29-30.

he has intended” (Recorded by Bukhārī and Muslim).⁸⁶¹ M. Umer Chapra, an expert in Islamic economics, discussed the subject rigorously. According to him, in capitalism, “self-interest is the only well-spring of human action.”⁸⁶² A person’s sole social responsibility was to increase their profit. He admitted that self-interest has its role and was not necessarily bad, but it was only one driving force.⁸⁶³ Human beings were also social beings. According to him, there should be “restrictions on individual freedom to create harmony between individual and social interest [and formation of] an efficient and equitable allocation and distribution of resources, not brought about automatically by market forces”⁸⁶⁴. Furthermore, the concepts of *tawḥīd* (divine unity), *khilāfah* (vicegerency), and *adālah* (justice) in Islam “not only frame the Islamic worldview but also constitute the fountain-head of the *maqāṣid* [*al-sharī‘ah*, the objectives of Islamic law] and the strategy.”⁸⁶⁵ Subsequently, there was a greater emphasis placed on duties than on rights in social and human relations. Therefore, as Chapra concludes, “[t]he fundamental wisdom behind this is that if duties are fulfilled by everyone, self-interest is automatically held within bounds and the rights of all are undoubtedly safeguarded.”⁸⁶⁶ This notion is also presented by Muḥammad Bāqir al-Ṣadr in his discussion of the concept of stewardship or vicegerency (*khilāfah*) which affirmed the capacity of human being and their energies and made them “the absolute master of the universe”⁸⁶⁷ on one hand, and on the other “gets to the bottom of the sense of responsibility concerning what one is made steward of.”⁸⁶⁸ Ṣadr emphasized that “[t]here is no responsibility

⁸⁶¹ Al-Ḥanbalī, *Jāmi‘ ‘l-‘ulūm wa ‘l-Ḥikam*, 9.

⁸⁶² Chapra, *Islam and the Economic Challenge*, 28.

⁸⁶³ Chapra, *Islam and the Economic Challenge*, 28-29.

⁸⁶⁴ Chapra, *Islam and the Economic Challenge*, 205.

⁸⁶⁵ Chapra, *Islam and the Economic Challenge*, 201.

⁸⁶⁶ Chapra, *Islam and the Economic Challenge*, 205.

⁸⁶⁷ Al-Ṣadr, “Psychological Role,” 258.

⁸⁶⁸ Al-Ṣadr, “Psychological Role,” 258.

without liberty and a sense of choice and an ability to master circumstances.”⁸⁶⁹ Syed Nawab Haider Naqvi, in his discussion of ethics and rational behaviour, also rejected the equation of rationality in economics with self-interest. This equation deemed “all ethical behaviour, which is not necessarily in keeping with self-interest maximization”⁸⁷⁰ to be irrational. From the Islamic point of view, in his opinion, this line of reasoning was unacceptable because first,

rationality in Islam is defined in a manner that ethical imperatives and economic exigencies get intermingled both at the philosophical level and the social level. Second [...] the belief in Divine Presence impels a representative Muslim to act out of ethical compulsions [...] Associated with this belief is the thought of Hereafter which influences economic behaviour. With such a perception, rational behaviour will have to be defined broadly enough to include the reward of the good deeds in the Hereafter. Third, the responsibility axiom, which makes it morally binding on the individual to act for the welfare of the society as well, also dampens relentless self-interest maximization.⁸⁷¹

Therefore, in an economy guided by Islamic principles self-interest was recognized as a motivating force behind behaviour, but it should be subordinate to moral-ethical precepts.⁸⁷²

Although Sjafruddin’s article was addressed to Muslims, especially supporters of the Islamic political party Masyumi, its background and historical context lay in Sjafruddin’s disapproval of government policies supporting the nationalization of foreign companies and the granting of protection and privileges to indigenous Indonesian entrepreneurs. During the early 1950s, the Indonesian government tried to alter the structure of the colonial economy by eliminating Dutch ownership and reducing their administrative staff.⁸⁷³ An industrial development plan and the *Benteng* (fortress) program were also designed to build up an indigenous Indonesian business class by, *inter alia*, giving special treatment to

⁸⁶⁹ Al-Şadr, “Psychological Role,” 258.

⁸⁷⁰ Naqvi, *Islam, Economics, and Society*, 55.

⁸⁷¹ Naqvi, *Islam, Economics, and Society*, 55-56.

⁸⁷² Naqvi, *Islam, Economics, and Society*, 76.

⁸⁷³ Glassburner, “Economic Policy-Making,” 94.

indigenous business people but excluding Chinese Indonesians. Both programs failed due to practices of graft and patronage among political parties which led to the suspension of the program in 1957.⁸⁷⁴ From the outset Sjafruddin did not agree with both of these programs because at that time, the Indonesian government did not have sufficient funds to compensate the nationalized companies and there was a scarcity of Indonesian human resources (experts and technical or administrative staff) to replace the Dutch employees. Detrimental effects of these policies were the deterioration in the economic life of people such as unemployment and reduced availability of goods due to lower production capacity of the nationalized companies.⁸⁷⁵ Licensed indigenous entrepreneurs were trying to collect profits as much as possible and were greedier than the Western capitalists who had controlled the companies before. Most of those indigenous entrepreneurs had no capital, skills or experience, but simply wanted to make a large profit in a short time. Another onerous consequence of the policy on the public was the rising prices of essential daily goods. Sjafruddin had anticipated all these negative effects.⁸⁷⁶

In his analysis, Sjafruddin took into account not only that the policy was indeed unrealistic and had shortcomings, but also that among those who abused the government's policies were Muslim entrepreneurs, who seemed to be driven purely by materialistic motives:

Those who use licenses to satisfy their desire, sucking profits from the sweat of the poor, are not merely foreign merchants or persons who are not Muslims. Even among the capitalists there are a lot of our own merchants who call themselves Muslims, who are not in the least are aware and if they were aware, not the least they would be willing to meet the requirements prescribed by Islam in an attempt to make a living or to meet their obligations as Muslim tycoons.⁸⁷⁷

⁸⁷⁴ Dick, "Formation," 177-178; Higgins with Higgins, *Indonesia*, 94.

⁸⁷⁵ Dick, "Formation," 185.

⁸⁷⁶ Prawiranegara, "Motif," 27-28.

⁸⁷⁷ Prawiranegara, "Motif," 31.

Sjafruddin expected more from Muslim entrepreneurs: that they be motivated not only by the desire for profit, but also primarily by their devotion to God and solidarity with their fellow citizens. Had these values been learned, they would not have abused the privilege they received. Sjafruddin quoted three verses of the Qur'an⁸⁷⁸ as references to assert that in Islam, wealth was a means for worshipping God in the form of assisting those who were needy. Here Sjafruddin showed once again how ideally, social justice was achieved through spirituality: faith in God and love of fellow human beings.

This view of Sjafruddin's can be compared to that of Adam Smith, who regarded himself as much a moral philosopher as a political economist. Smith firmly maintained the need for moral supervision on the quest to maximize self-interest.⁸⁷⁹ Sjafruddin's exposition above shows once again his conviction of the importance of moral and spiritual dimensions as foundations of economic development. He saw the danger in implementing a model of economic development that was based solely on economic imperatives that could only "give birth to capitalism, which alone does not recognize humanitarian solidarity as well as [giving birth to] various forms of oppression, whether colonialism, imperialism and communism."⁸⁸⁰ However, Sjafruddin emphasized, this did not mean that economics or economic incentives were not important in development and in human life in general. Economic

⁸⁷⁸ "You cannot attain to righteousness unless you spend out of what you love..." (Ālu 'Imrān 3:92); "Allah will blot out usury, and He causes charity to prosper..." (al-Baqarah 2:276); "And in whose wealth there is a known right for the beggar and the destitute" (al-Ma'ārij 70:24-25).

⁸⁷⁹ In Stilwell's opinion, Smith was no simple proponent of laissez-faire economics and had expressed significant reservations about capitalist market relationships. His advocacy for competition in the market was intended to limit "anti-social business behavior", such as monopolies and the forming of private cartels by traders to fix prices against the interest of the public. Furthermore, underlying some of his proposals was a deep concern for "the moral dimensions of economic behavior"; the urgency of fostering individual stimulus should not lead to economic inequality. He also believed in the government's chief role in preserving justice, which would require the state to intervene in order to protect individual rights and property, and preserve good social relations. Stilwell, *Political Economy*, 73-74. Cf. Wilson, *Economics, Ethics, and Religion*, 3; Yildiz Atasoy, *Islam's Marriage with Neoliberalism: State Transformation in Turkey* (Basingtoke, Hampshire: Palgrave Macmillan, 2009), 130.

⁸⁸⁰ Prawiranegara, "Motif," 36.

imperatives continue to be important as essential tools to achieve economic prosperity and material welfare. But to use these tools correctly human beings needed an inward knowledge of existential purpose and meaning that could only be found in religious traditions. In Sjafruddin's own words: "Religion teaches us what is not taught by any material science: to love our fellow human beings as a sign of love for God, who created the entire universe."⁸⁸¹ He also placed much emphasis on a particular verse in the Qur'an that ordered humans not to use their wealth for satisfaction of their greed, but rather to distribute it for the public interest.⁸⁸² Thus, the ultimate goal of economic development was not material wealth but rather a steadfast devotion to God that inspired love for fellow human beings. The ultimate expression of this love was to realize common weal, through both individual and collective sacrifice. This idea of social justice as the realization of loving others was one of the most important aspects of Sjafruddin's concept of development.

Sjafruddin was consistent in his approach to development even when he was no longer a high ranking official. In an article written in 1977, criticizing the New Order development program, he maintained that the spiritual and moral well-being of individuals would be reflected in "their sensitivity to sense of justice, strong respect and affection towards fellow human beings in particular and God's creation in general and willingness to defend justice and truth, and willingness to sacrifice wealth and life to defend human values as taught by God to them."⁸⁸³ The article was published approximately ten years after the army-dominated New Order government began the process of development characterized by large injections of

⁸⁸¹ Prawiranegara, "Motif," 36; cf. Prawiranegara, "Peranan Agama," 117.

⁸⁸² "...And those who hoard up gold and silver and spend it not in Allah's way—announce to them a painful chastisement. On the day when it will be heated in the Fire of hell, then their foreheads and their sides and their backs will be branded with it: This is what you hoarded up for yourselves, so taste what you used to hoard" (Qur'an, al-Tawba 9:34-35); Prawiranegara, "Motif," 36-38.

⁸⁸³ Prawiranegara, *Human Development*, 9.

foreign aid and investment, 'pragmatic' policies favouring foreign investors, industrialization, and large scale technological structuring. As it happened, the development policies also included the application of strict monetary and budget controls and the freest possible operation of market forces. Despite striking economic progress, such policies failed to bring about any redistribution of wealth, and instead resulted in a detrimental impact on values and the societal structure. Indonesia, then, was still encircled by grave problems of mass poverty, unemployment, and economic dependence. In addition, many forms of elitism in political, economic and socio-cultural life had emerged. Everywhere there were 'enclave' lifestyles, the large gulf in lifestyle and wealth between the capital-centered modern enclaves and the regions, between an elite minority and an ordinary or low majority. Patriotism, morality, and religious values had eroded sharply with the growth of materialistic attitudes including consumerism and hedonism. Corruption, nepotism and inefficiency were widespread practices and were not considered deviant behaviors from the standard of public ethics. There was growing inequality and demoralization especially amongst government officials and other elites.⁸⁸⁴ In the article, Sjafruddin asked the government to pay attention to poverty reduction, elimination of unequal opportunities in education and improvement of poor health services for most people, and alleviation of general deep inequalities between the haves and the have-nots. He also criticized the materialistic and hedonistic behaviors of many of the elite, as well as practices of corruption, favoritism, and collusion between government officials and/or military officers and private companies or contractors to take maximum profit at the expense of public interest.

⁸⁸⁴ For some of the many criticisms of the New Order development model, see Rex Mortimer, "Indonesia: Growth or Development?" in *Showcase State: The Illusion of Indonesia's 'Accelerated Modernisation'*, ed. Rex Mortimer (Sydney: Angus and Robertson Publishers, 1973), 53-55; M. Dawam Rahardjo, *Esei-esei Ekonomi Politik* (Jakarta: LP3ES, 1985), 202-203 and 205; Arief, *Teori*, 414-415.

He therefore stressed the importance of moral development, changes on one's outlook on life, rule of law, and political restructuring: that is, the change of political system to restore democracy and a system of checks and balances between the executive, legislative and judicial branches of government.⁸⁸⁵ In his view, the government should put more emphasis on human development by prioritising education as a primary program. For him, economic development was the second priority. In addition, the government should rely more on humans as the primary resource of development, rather than money earned from foreign aid and immoral tourism. He also stressed the importance of fulfilling people's basic needs, such as food, clothing, and housing, rather than the construction of luxurious and costly mansions, hotels, and government offices that was not accompanied by the improvement of bureaucratic efficiency. Sjafruddin called his concept of development a "human development", of which the purpose was the realization of an ethical/moral human being who in turn would be capable of realising a just and prosperous society.⁸⁸⁶ For Sjafruddin, realizing a just and prosperous society under the blessing of God was *jihād*, a religiously-mandated struggle, for Muslims.⁸⁸⁷

5.3. Chapter Three: Social Justice and Islamic Economics

As we have seen in chapter one, Sjafruddin saw Islamic teachings on development as occupying a middle ground between aspects of capitalism and socialism. Indeed, in the first article discussed above he claimed that in the future Islam would be able to synthesize the positive aspects of these two ideologies. However, unlike revivalist-modernist or neo-fundamentalist Muslim scholars and

⁸⁸⁵ The foundation of the 'New Order' government (1967-1998) was the doctrine of the armed-forces' dual-functions, military and civilian, which resulted in an authoritarian and repressive government which controlled all aspects of public life and branches of government power.

⁸⁸⁶ Prawiranegara, *Human Development*, 9-31.

⁸⁸⁷ Prawiranegara, *Al-Aqabah*, 40.

activists who likewise criticized capitalism and socialism, Sjafruddin did not go on to conclude that Muslims should have their own economic system. He did not believe that it was necessary to establish a distinct totalizing system such as Islamic economics promoted by Muslim thinkers—one that was based, for instance, on the elimination of the interest-based banking system. I will first discuss the origins and development of the idea of Islamic economics and the growth of Islamic financial institutions in Indonesia today. Then I will examine the reasoning behind Sjafruddin's disagreement with the idea of Islamic economics, and his views on the fundamental concepts of *ribā* and *zakāt*.

I will not exhaustively describe the origins and historical context of the idea of Islamic economics. The issue has been sufficiently discussed in Part Three Chapter Two. Nevertheless there are some points that need to be briefly emphasized. First, the idea of Islamic economics originated in the nineteenth century as part of the manifestation and continuity of the Islamic revival, although the notion of cultivating an economic doctrine grounded on Islamic teachings was absent from speeches and writings of pioneers of Islamic modernism/reformism.⁸⁸⁸ Second, Sayyid Abū al-A'ālā Mawdūdī—an Islamic ideologist from the Indian sub-continent and head of the powerful Jama'at-i Islami—played the most significant role in initiating and developing the idea of Islamic economics as a distinctly Islamic economic practice for Muslims.⁸⁸⁹ Other scholars, such as Muhammad Hifzur Rahman Seoharvi (1901-1962) in India, and Shaykh Mahmud Ahmad (1918-1990) in Pakistan were also among the early contributors to the idea of Islamic economics. However, they were

⁸⁸⁸ Wilson, "Development of Islamic Economics," 195; Kuran, *Islam and Mammon*, 89-90.

⁸⁸⁹ According to Wilson, this considerable influence was due to his ability to attract a growing number of followers amongst the young generation of economists through a seminal collection of his writings published in Urdu in Lahore in 1947, which was then translated into English in 1975. Wilson, "Development of Islamic Economics," 196.

not well-known outside their respective country.⁸⁹⁰ Two other important figures were Sayyid Quṭb of Egypt (1906-1966) and Muḥammad Bāqir al-Ṣadr (1933-1980), a Shi'ite scholar living in Najaf, Iraq whose book *Iqtisādunā, Our Economics*, argued for the incompatibility of both Marxism and capitalism with Islam.⁸⁹¹ Third, a critical view of Islamic economics emphasizes its origin in the desire to tighten communal bonds among Muslims in British India and strengthen their communities, as part of a broader response to the threat posed by British rule.⁸⁹² However, Mawdūdī was also driven, as Wilson argued, by concern for “[t]he economic injustices arising from inequitable land holding and the indebtedness of many poor Muslims. For Mawdūdī such injustices facing Muslims could only be solved in the context of an Islamic state where the Shari‘ah was enforced.”⁸⁹³

The younger generation of Muslim economists who were followers of Mawdūdī would later become significant contributors to the development of the idea of Islamic economics, a term popularized by him. They cooperated with other scholars, published articles in journals and books, and organized various conferences.⁸⁹⁴ Significant support came from the Organization of the Islamic Conference (OIC): the countries that comprised it, especially the newly oil-rich states of the Persian Gulf, agreed to sponsor the Islamic Development Bank (IDB) in 1973. Wilson argued that the outcome of the 1973 conference marked, politically and ideologically, the victory of those rich oil-producing and pro-Western countries

⁸⁹⁰ Wilson, “Development of Islamic Economics,” 196 and 218; Kurzman, “Modernist Islamic Movement,” 18; Aziz Ahmad, *Islamic Modernism in India and Pakistan: 1857-1964* (London: Oxford University Press, 1967), 201-204.

⁸⁹¹ Kuran, *Islam and Mammon*, 98-99; Wilson, “Development of Islamic Economics,” 202-203.

⁸⁹² Kuran, *Islam and Mammon*, xii and 92-99.

⁸⁹³ Wilson, “Development of Islamic Economics,” 196-197. Wilson also points out that, “... the problem with the sharecropping system that was widely used in the Indian sub-continent [brought him to draw parallels] between the uncertainty facing the tenants who were obliged to hand over much of their crops even when harvests were bad, and the evils of *riba*, which resulted in debtors paying interest on their loans when they were already facing hardship” (197).

⁸⁹⁴ Wilson, “Development of Islamic Economics,” 196 and 200.

over Arab socialist philosophy and nationalist secularism.⁸⁹⁵ Subsequently several conferences were held, among them the First International Conference on Islamic Economics in Mecca from February 21-26, 1976 under the auspices of King Abdul Aziz University of Jeddah; the International Economic Conference on The Muslim World and the Future Economic Order, London, July 1977 organized by the Islamic Council of Europe; and the Mecca Seminar on the Monetary and Fiscal Economics of Islam, October 7-12, 1978. They represented an important stage in the development of Islamic economics as a discipline.⁸⁹⁶

Islamic economics, as Ghazanfar put it, was “[t]he knowledge and application of doctrines and injunctions of the Islamic Sharī‘ah that, in addition to requiring the pursuit of economic activities through efficient use of scarce resources in order to provide satisfaction of material needs of individuals, calls for the promotion of social justice in the society.”⁸⁹⁷ According to Naqvi, there were four ethical axioms that represented the Islamic vision of humans’ relation to themselves and their social environment: unity (*tawhīd*), equilibrium (*al-‘adl wa ’l ihsān*), free will (*ikhtiyār*), and responsibility (*farḍ*).⁸⁹⁸ In general all Islamic economists seemed to be in agreement with these axioms despite their different formulations.⁸⁹⁹ The central idea that defined Islamic economics, as articulated by Muhammad Abdul Mannan, Khurshid Ahmad, Syed Nawab Haider Naqvi, Muhammad Nejatullah Siddiqi and

⁸⁹⁵ Wilson, “Development of Islamic Economics,” 200.

⁸⁹⁶ Wilson, “Development of Islamic Economics,” 200; Khurshid Ahmad, “Introduction,” in *Studies in Islamic Economics*, ed. Khurshid Ahmad (Leicester: The Islamic Foundation, 1980/1400), xvii and xviii; Syed Nawab Haider Naqvi, *On Replacing the Institution of Interest in a Dynamic Islamic Economy* (Islamabad: Pakistan Institute of Development Economics, 1982), vii; Ajip Rosidi, “Pengantar dari Penyunting,” in *Ekonomi dan Keuangan: Makna Ekonomi Islam*, vol. 2 of *Kumpulan Karangan Terpilih*, ed. Ajip Rosidi (Jakarta: CV Haji Masagung, 1988), ix.

⁸⁹⁷ Ghazanfar, “Islamic Economics,” 85. Syed Nawab Haider Naqvi elaborates on the theory of Islamic economics, pointing out that “[t]he central idea that defines Islamic economics, and which sets it apart from positive (neoclassical) economics, is its insistence on the explicit inclusion of an ethics based on religion in a unified analytical framework.” Naqvi, *Islam, Economics, and Society*, 14.

⁸⁹⁸ Naqvi, *Islam, Economics, and Society*, 24-34.

⁸⁹⁹ See, for example, Ahmad, “Economic Development,” 178-180.

Muhammad Umer Chapra, was the explicit inclusion of Islamic ethics in economic practice to pursue an ideal situation.⁹⁰⁰ In Islamic economics the normative and positive aspects are distinguishable but not separable. Mannan, for example, asserts that “[i]n Islamic economics, the normative and positive aspects of the science are so interlinked that any attempt to separate them could be misleading and counter-productive.”⁹⁰¹ Islamic economics as a system was not static, since it always had to deal with economic, social, political, and technological changes which required fresh thinking (*ijtihad*).⁹⁰² Similarly, as Naqvi underscored, Islamic economics was “not restricted to making factual judgments alone; it is free to use value judgments, especially those based on religion.”⁹⁰³ Naqvi believed that “economic doctrines are essentially an idealization of reality and relative to the nature of a society. They are not a collection of absolute, unchanging truths.”⁹⁰⁴ He emphasized “[t]he relativity and the changeability of the basic propositions of Islamic economics.”⁹⁰⁵ Naqvi had a different emphasis than Mannan. Naqvi underlined behavior of a real-life Muslim society,⁹⁰⁶ whereas Mannan focused on “a people imbued with the values of Islam.”⁹⁰⁷ Meanwhile Siddiqi emphasized three points. First, “the modern Islamic economy will be modern, utilising the best techniques of production and methods of organization available”⁹⁰⁸ and possessing a concern for “human relationships, the attitudes and the social policies that constitutes a system.”⁹⁰⁹ Second, “Islam’s economic system can be properly studied only in the context of the Islamic way of

⁹⁰⁰ See Ahmad, “Introduction,” xvi.

⁹⁰¹ Muhammad Abdul Mannan, *Islamic Economics: Theory and Practice (Foundations of Islamic Economics)* (Sevenoaks, Kent: Hodder and Stoughton, 1986), 9.

⁹⁰² Mannan, *Islamic Economics*, 14; Wilson, “Development of Islamic Economics,” 199.

⁹⁰³ Naqvi, *Islam, Economics, and Society*, 13.

⁹⁰⁴ Naqvi, *Islam, Economics, and Society*, xx.

⁹⁰⁵ Naqvi, *Islam, Economics, and Society*, 21

⁹⁰⁶ Naqvi, *Islam, Economics, and Society*, xix-xx and 20.

⁹⁰⁷ Mannan, *Islamic Economics*, 18.

⁹⁰⁸ Muhammad Nejatullah Siddiqi, *Some Aspects of the Islamic Economy* (Delhi: Markazi Maktaba Islami, 1972), 2.

⁹⁰⁹ Siddiqi, *Some Aspects*, 2.

life as a whole”⁹¹⁰ in its broad sense to serve a spiritual end. Third, the Islamic economy “is capable of taking on different forms in different periods of history in different countries.”⁹¹¹ From all descriptions of Islamic economics by its proponents it could be concluded that Islamic economics was prescriptive by nature. In this understanding, Islamic economists are similar or comparable to the pre-classical economists and Scholastic philosophers who did not separate economic affairs from moral questions.⁹¹²

Concerning the differences between Islamic economics and the theory underlying the contemporary global economy, Mannan, Naqvi, and Chapra were in agreement on the main points, but each focused on different aspects. For Mannan, the difference between Islamic economics and the economic theory underlying the contemporary global economy lay in “the handling of the problem of choice [which comes from the fact that] resources are limited so that the satisfaction of a want is at the expense of some other want which must go unsatisfied. The eternal conflict between multiplicity of wants and scarcity of means forces [people] to make a choice between [their] wants.”⁹¹³ In modern economics, according to Mannan, “this problem of choice is greatly dependent on the whims of individuals.”⁹¹⁴ But in Islamic economics, they must, whether they like or not, act in accordance with the rules of Islamic teachings.⁹¹⁵ Accordingly, Mannan emphasized that “Islamic economics is guided by the basic values of Islam [while] modern economics, based on a capitalist socio-economic framework, is greatly controlled by the self-interest of

⁹¹⁰ Siddiqi, *Some Aspects*, 3.

⁹¹¹ Siddiqi, *Some Aspects*, 4-5; cf. Muhammad Nejatullah Siddiqi, *Muslim Economic Thinking: A Survey of Contemporary Literature* (Jeddah: International Centre for Research in Islamic Economics, King Abdul Aziz University, 1981), 11-12; Wilson, “Development of Islamic Economics,” 199.

⁹¹² Wilson, *Economics, Ethics and Religion*, 3.

⁹¹³ Mannan, *Islamic Economics*, 18-19.

⁹¹⁴ Mannan, *Islamic Economics*, 19.

⁹¹⁵ Mannan, *Islamic Economics*, 19.

the individual.”⁹¹⁶ Chapra, on the other hand, pointed out the difference between the two in that the goals of Islam (*maqāṣid al-sharī‘ah*) that “are not primarily materialist.”⁹¹⁷ The Islamic goals were based on the concepts of “human well-being (*falāḥ*) and good life (*ḥayāt ṭayyibah*), which gave utmost importance to brotherhood, socio-economic justice, and a balanced satisfaction of both the material and spiritual needs of *all* human beings.”⁹¹⁸ They differed from the goals of the predominantly secularist systems of the present-day world that were concerned only with material needs.⁹¹⁹ For Naqvi, the difference between Islamic economics and the contemporary global economy lay in the former’s refusal to “equate rational behavior with self-interest maximization,”⁹²⁰ since it explicitly introduced “ethical values into the economic calculus.”⁹²¹ Naqvi further noted that the belief in the Divine Presence and the thought of the Hereafter impel a representative Muslim to act out of ethical compulsions in his economic behaviour.⁹²² “With such a perception, rational behaviour will have to be defined broadly enough to include the reward of the good deeds in the Hereafter.”⁹²³ Therefore, it was “morally binding on the individual to act for the welfare of the society as well” as a consequence of the belief in God’s presence and the Hereafter.⁹²⁴ Naqvi gave a more concrete example of differences between Islamic and capitalist economics, concerning the issue of the actual allocation of investment resources over time. Under capitalism, these functions are determined by the rate of interest. Meanwhile in Islam, the proposed

⁹¹⁶ Mannan, *Islamic Economics*, 19. By “Islamic values” he most likely refers to practices such as prohibition of unlawful earning (gambling and speculation, selling alcoholic drinks), extreme disfavor of monopoly of resources by a few people, and condemnation of extravaganza, etc. Mannan, *Islamic Economics*, 20-21.

⁹¹⁷ Chapra, *Islam and the Economic Challenge*, 6.

⁹¹⁸ Chapra, *Islam and the Economic Challenge*, 6.

⁹¹⁹ Chapra, *Islam and the Economic Challenge*, 6.

⁹²⁰ Naqvi, *Islam, Economics, and Society*, 20.

⁹²¹ Naqvi, *Islam, Economics, and Society*, 14 and 20.

⁹²² Naqvi, *Islam, Economics, and Society*, 55-56.

⁹²³ Naqvi, *Islam, Economics, and Society*, 56.

⁹²⁴ Naqvi, *Islam, Economics, and Society*, 56.

alternative of a profit-lost-sharing-based economy would require economic restructuring and the redistribution of income and wealth in society.⁹²⁵ However, he was more cautious than other scholars with regard to the exact manner in which the prohibition of interest would be enforced. The various implementations of the commandment, in his opinion, were legitimate.⁹²⁶

In Indonesia, the attention paid to the idea of Islamic economics can be seen in the writings of Ahmad Muflih Saefuddin.⁹²⁷ But before him, during the 1950s, Kahruddin Yunus, a Ph.D. candidate at American University in Washington D.C., wrote a two-volume work on the Islamic economic system that he argued would be applicable to Indonesia. However his scholarly career seems to have stopped abruptly, with no known cause, and his voice was no longer heard in the field.⁹²⁸ In general, however, the writings of Indonesian scholars who support the idea of Islamic economics are similar to what has been put forward by the pioneers of the subject. However, they also discuss and conduct research specifically on cases that are unique to Indonesia. Saefuddin, for example, starts from the experience of economic development under the New Order regime that ruled Indonesia at the time. In his observation, though the regime's economic program yielded positive results, it also created a culture of permissiveness, hedonism, individualism, materialism, consumerism, and secularism, all of which resulted in a great disparity

⁹²⁵ Naqvi, *On Replacing*, 38-39; Syed Nawab Haider Naqvi et al, *Principles of Islamic Economic Reform* (Islamabad: Pakistan Institute of Development Economics, 1984), 21-25.

⁹²⁶ Naqvi, *On Replacing*, 39; Naqvi, *Islam, Economics, and Society*, 130-135.

⁹²⁷ Ahmad M. Saefuddin, *Ekonomi dan Masyarakat dalam Perspektif Islam* (Jakarta: Rajawali Press, 1987). Saefuddin is a former Minister of State for Food Affairs (1998-1999), member of Indonesia's House of Representatives/Parliament (1992-1998; 1999-2004), and Professor of Agricultural Economics at the Bogor Institute of Agriculture. He obtained a PhD in Economics from the Justus Liebig University, Germany in 1973, and participated in the First International Conference on Islamic Economics held in Mecca in 1976 under the auspices of King Abdul Aziz University of Jeddah.

⁹²⁸ Kahruddin Yunus, *Sistem Ekonomi menurut Islam: "Islamisme"* (Jakarta: Fikiran-Baru, 1955). The second volume is entitled *Sistem Ekonomi Bersama: "Bersamaisme"* (Jakarta: Fikiran-Baru, 1956).

between the poor and the prosperous.⁹²⁹ According to him, normative values ought to form the basis of policies that in turn influenced individual behaviors, leading to social, economic and political development. Normative values derived from Islamic teachings were to be subsumed under the state ideology, Pancasila. These values could then be formulated into a model of development that would enhance human dignity and foster a peaceful and harmonious relationship between fellow citizens and between citizens and the natural environment. This would create economic prosperity for all people, not only a handful of them.⁹³⁰ Subsequently, Saefuddin proposed that Islamic economics be applied⁹³¹ through the steps of establishing Islamic bank⁹³², management of *zakāt* in terms of economic aspects,⁹³³ and development of a "cooperative investment service".⁹³⁴ This cooperative institution actually operated in the same way as that of the Islamic Bank⁹³⁵ which had not been able to be established in the 1980s because the New Order government was still suspicious of Muslims' activities, which it perceived as subversive to its rule.

Yunus proposed a economic theoretical framework to solve various economic, political and social problems. He called this theory the 'Islamic Economic System', also known as the 'Economic System of Common Prosperity or Common-ism'. However, although the author addressed affairs within the Muslim world and Indonesia, he devoted much of his discussion to efforts to attain prosperity for all countries in the world and peace among nations. This is what he intended with the term 'common-ism' or 'economic system of common prosperity'.⁹³⁶ In addition, much of the data and statistics that he used were obtained from countries in the

⁹²⁹ Saefuddin, *Ekonomi dan Masyarakat*, 1-4 and 17-19

⁹³⁰ Saefuddin, *Ekonomi dan Masyarakat*, 2-6.

⁹³¹ Saefuddin, *Ekonomi dan Masyarakat*, 5-83.

⁹³² Saefuddin, *Ekonomi dan Masyarakat*, 85-112.

⁹³³ Saefuddin, *Ekonomi dan Masyarakat*, 113-123.

⁹³⁴ Saefuddin, *Ekonomi dan Masyarakat*, 125-139.

⁹³⁵ Rahardjo, *Perspektif Deklarasi Makkah*, 143-144.

⁹³⁶ Yunus, *Sistem Ekonomi menurut Islam*, 17.

Middle East, Europe and the United States, because he lived and traveled for extensive periods in those countries. As a result his assessment of Indonesia's economic problems was very general and at times superficial.

Yunus proposed, amongst other ideas, a regulated economy and a cooperative system to improve economic conditions and eliminate injustices in Indonesia. Thus the government played an important role in regulating the course of the economy. Meanwhile, the cooperative ought to be organized by people themselves⁹³⁷, and would become an institution for the development of the spirit of democracy, nationalism and brotherhood⁹³⁸, as it was envisioned by Mohammad Hatta. This "guided economy," as he called it, required not only democracy on a national level but also an international democracy in the sense of full equality of rights and obligations among all nations of the world.⁹³⁹

Yunus also compared capitalism and the strands of socialism with Islamic teachings. His line of thought was similar to that of Sjafruddin in that he acknowledged that there was much overlap between Islam and these ideologies, though they were fundamentally incompatible given the spiritual underpinnings of the former and the materialist basis of the latter. Furthermore, he discussed the history and teachings of capitalism and socialism, gave advice to the government on what efforts should be made to prevent war and to bring peace and prosperity to the world, and described the general benefits of the theory of Common Prosperity which includes the application of Islamic, religious and social ethics in the practice of economy.⁹⁴⁰

However, Yunus' book is rarely used as a reference in the discussion about Islamic economics in an Indonesian context because he did not discuss the actual

⁹³⁷ Yunus, *Sistem Ekonomi menurut Islam*, 200-202.

⁹³⁸ Yunus, *Sistem Ekonomi menurut Islam*, 203-204.

⁹³⁹ Yunus, *Sistem Ekonomi Bersama*, 293-296.

⁹⁴⁰ Yunus, *Sistem Ekonomi menurut Islam*, passim; Yunus, *Sistem Ekonomi Bersama*, passim.

issues that Indonesians were facing at the time. Indeed, he did not have adequate knowledge of the social, economic and political problems of Indonesia, nor was he involved in government, political parties, or civil society organizations in Indonesia. Therefore, he was unable to offer concrete or relevant solutions.

The proponents of Islamic economics could be categorized as a revivalist modernist group “[that] espoused modern values [...] but downplayed their modernity, privileging authenticity and divine mandates.”⁹⁴¹ Those trained in modern educational institutions are able to identify the injustice underpinning capitalist economic practice and criticize it confidently.⁹⁴² They see that the practice of the capitalist economy is based solely on materialistic principles and considerations that contradict Islamic moral and spiritual values. Although they acknowledge economic progress and the technological advancements that are produced by capitalism,⁹⁴³ they see in the interest-ridden practice of capitalist economic transactions the unfair exchange of goods and the materialistic impulse they consider detrimental to the moral and spiritual order of society.⁹⁴⁴ In a capitalist system they see that “[m]oney and the search for profit become the measures of all things, completing the circle of disembodied cash transactions in which ethical constraints are no longer considered part of the process, except prudentially.”⁹⁴⁵ They believe that Islam can offer a valid alternative to the modern, conventional, interest-based system of finance by drawing upon resources unique to Islamic schools of thought.⁹⁴⁶

⁹⁴¹ Kurzman, “Modernist Islamic Movement,” 4.

⁹⁴² Tripp, *Islam and the Moral Economy: The Challenge of Capitalism* (Cambridge: Cambridge University Press, 2006), 7.

⁹⁴³ Sh. Yusuf Talal DeLorenzo, “Introduction to Understanding Riba,” in *Interest in Islamic Economics: Understanding Riba*, ed. Abdulkader Thomas (London: Routledge, 2006), 2-3.

⁹⁴⁴ Tripp, *Islam and the Moral Economy*, 4-5.

⁹⁴⁵ Tripp, *Islam and the Moral Economy*, 5.

⁹⁴⁶ DeLorenzo, “Introduction to Understanding Riba,” 4-5.

In the following section, I will discuss the economic thought of the late Mohammad Hatta, first Vice President of Indonesia (1945-1956). Although he was often classified as a secular nationalist like Sukarno or a socialist like Sjahrir, his economic thinking can also be understood as part of the Muslim intellectual response. Indeed, I will argue that Hatta is more suitably classified within the religious socialist group. Hatta was one of the main drafters of the Indonesian Constitution, especially its economic sections, and his ideas on economics were very broad. However, I will narrow my discussion to the issue of *ribā*, usury. I will also address his thoughts on socialism and cooperatives, because Hatta's writings on these issues were, as he said, a reflection of the teachings of Islam.

As a devout Muslim, Hatta believed that "Islam should inspire all things, become a leader and guide in all actions."⁹⁴⁷ It is therefore not surprising that Hatta's personal life and his social, economic, and political ideas strongly reflected the teachings of Islam, as these were manifested in his ideas on Indonesian socialism and social justice. Regarding social ideals and the economic order, he wrote, "I want to point out now how to establish proper characteristic of an Islamic society that we should build...we must build a society which carries out divine justice, that is the highest justice, and this step may be regarded as leading to social justice."⁹⁴⁸ Indeed, in the concept of Divine social justice, there exists a common value among the different religious traditions: "If we carry out divine justice, no other religion would reject it. If we organize society in order to attain a society based on divine justice, the highest justice, any religion in this world would agree. For this matter there is no

⁹⁴⁷ Mohammad Hatta, "Persiapan Diri Menjadi Pembangun Masyarakat Berkeadilan Ilahi," in *Kumpulan Pidato*, vol. 3, ed. I. Wangsa Widjaja and Meutia F. Swasono (Jakarta: Gunung Agung, 2002), 183.

⁹⁴⁸ Mohammad Hatta, "Islam dan Pembangunan Masyarakat," in *Kumpulan Pidato*, vol. 3, ed. I. Wangsa Widjaja and Meutia F. Swasono (Jakarta: Gunung Agung, 2002), 173.

contradiction between Islam and Christianity.”⁹⁴⁹ In his view, divine justice transcended denominations and was achievable by the highest ideals of religious consciousness and tradition. Thus, the ideal society to which Hatta aspired was the one that upheld and enforced the values and presence of the sacred. Such a society was one where Divine justice in the form of social justice was realized, where every member of society or citizen of the state had equal status before the law and the same rights and obligations. For fellow Muslims to achieve this goal, “[o]ur souls must be nurtured by the spirit and ideals of the Islamic society. We should engrave in our psyche that we must build a society according to Islamic understanding on the basis of divine justice which guarantees the implementation of the peace. This is our duty, a positive duty.”⁹⁵⁰

When formulating his ideas on Indonesian socialism and religious socialism, Hatta argued that it was the religious ethic described above, where Islamic teachings enjoin social justice and brotherhood among human beings as creatures of God, and not the foreign historical materialism of Marxism, that gave rise to these movements.⁹⁵¹ In addition, Indonesian socialism was also an expression both of the rebellious spirit of the Indonesian people, who received unfair treatment from the colonizers, and of the pattern of collective living of indigenous rural communities. The third factor was the encounter between the social ideals of Western democracy and religious socialism (Islam), a process that produced a synthesis and also a rejection of Marxist materialism as a philosophy of life. Hatta defined socialism as

⁹⁴⁹ Hatta, “Islam dan Pembangunan Masyarakat,” 173.

⁹⁵⁰ Hatta, “Islam dan Pembangunan Masyarakat,” 175.

⁹⁵¹ The term ‘religious socialism’ was first put forward by Hatta in a 1932 speech in Bukittinggi. It was later used by Sukarno, Sjafruddin Prawiranegara in 1946, and Suharto in 1975. Sri-Edi Swasono, “Ekonomi Indonesia: Sosialisme Religius” in *Sekitar Kemiskinan dan Keadilan: Dari Cendekiawan Kita tentang Islam*, ed. Sri-Edi Swasono et al (Jakarta: University of Indonesia Press, 1988), 1-3. Swasono does not mention when Sukarno used the term. In fact Sukarno used the term ‘Islamic socialism’ in an article published in 1926; see Sukarno, *Nationalism, Islam, and Marxism*, 47 and 50. Concerning the term ‘Indonesian socialism’ see Hatta, “Sosialisme Indonesia,” 556-564.

the demand for individual social consciousness that was the basis for equal prosperity and freedom from all oppression. Hatta also understood socialism as an institutional demand that arose from personal sincerity and was based on humanism and social justice.⁹⁵² On another occasion, Hatta encouraged Islamic movements in Indonesia to participate in a socialism that was approved by God, the substance of and motive for which, according to Hatta, was contained in the Qur'an and applied in the context of Indonesian society.⁹⁵³

The cooperative as a form of economic cooperation held a central place in the economic system proposed by Hatta. This importance is affirmed in Article 33 of the 1945 Constitution. Hatta's formulation of the cooperative was also intended to uphold an Islamic ideal of social welfare. He wrote that "cooperative organizations are true to the ideals of Islam, because Islam places the responsibility on individuals for the welfare of the entire society."⁹⁵⁴ This conclusion asserted that in addition to requiring technical qualifications, a good cooperative also needs members who uphold moral values and ethics such as fairness, solidarity, mutual assistance, mutual trust, openness, hard work, and contribution to the advancement of other members. Hatta believed that all of these values could be found in Islamic teachings. However, he did not attempt to link his conception of cooperatives with the ideas of *mushārahah*⁹⁵⁵ or *muḍārahah*⁹⁵⁶ in Islamic economics, which are often regarded as cornerstones of a non-interest financial system. This occurred not only because Hatta

⁹⁵² Swasono, "Ekonomi Indonesia," 1-3. See also Hatta's discussion on social democracy in Hatta, "Past and Future," 5-7.

⁹⁵³ Mohammad Hatta, "Jiwa Islam dalam Membangun Negara dan Masyarakat," in *Kumpulan Pidato*, vol. 3, 191.

⁹⁵⁴ Mohammad Hatta, "Islam dan Masyarakat," in *Kumpulan Pidato*, vol. 2, ed. I. Wangsa Widjaja and Meutia F. Swasono (Jakarta: Inti Idayu Press, 1983), 61.

⁹⁵⁵ *Mushārahah* is one of the basic profit and loss sharing (PLS) concepts in Islamic banking. Mannan explains: "Under *Mushārahah*, both the banks and the clients enter into partnership by contributing capital in varying degrees and agree upon a ratio of profit in advance for a limited period of time." See Mannan, *Islamic Economics*, 165.

⁹⁵⁶ Under *Muḍārahah*, another basic concept of PLS, banks provide the capital, clients contribute their expertise, and profits are shared according to an agreed ratio. See Mannan, *Islamic Economics*, 164.

was less oriented towards a technical or scholastic understanding of Islam,⁹⁵⁷ but also because he was more concerned with the spiritual and ethical dimensions of Islamic teachings.⁹⁵⁸

Hatta's position on usury was that it was unlawful. However, he did not consider bank interest to be usury. Therefore, it was permissible as long as interest rates were determined in advance, so that potential debtors could decide independently whether it would benefit them to borrow money. What were important to Hatta were clarity, openness, and willingness from both sides at the beginning of the transaction.⁹⁵⁹ Moreover, the difference between usury and interest for Hatta was that "the spirit of usury destroys [but] the spirit of interest in the case of bank is, instead, productive."⁹⁶⁰ Thus in order to uphold social justice, create prosperity, and eliminate poverty, Hatta called for the economy to be organized as a mutual endeavor based upon the principle of brotherhood. This required economic and political democracy, as well as banks and cooperative systems that used interest as important elements therein.

Sjafruddin's views on usury and bank-interest were not much different from those of Hatta, but his argument was more detailed and convincing. He argued that interest was not usury, and that therefore banking interest was lawful for Muslims. He also believed that it was theoretically and practically impossible to have a uniquely Islamic economic system that was separate from the prevailing economic systems of the time. There was no need for a non-interest banking and financial system as long as the central bank and government were rigorous in their supervision and control, to prevent the abuse and misuse of banks as a means to

⁹⁵⁷ Mochtar Naim, "Hatta dan Pembangunan Ekonomi Koperasi di Indonesia," in *Pemikiran Pembangunan Bung Hatta*, ed. LP3ES (Jakarta: LP3ES, 1995), 137.

⁹⁵⁸ LP3ES, ed., *Pemikiran Pembangunan Bung Hatta* (Jakarta: LP3ES, 1995), 218-219.

⁹⁵⁹ Abbas, *Bung Hatta*, 219; Noer, *Mohammad Hatta: Biografi Politik* (Jakarta: LP3ES, 1990) 170.

⁹⁶⁰ Noer, *Mohammad Hatta*, 171.

perform manipulative and speculative business transactions for mere profit. However, Sjafruddin's views overlapped with those of proponents of Islamic economics with regards to the normative values, including social justice, which should serve as guidelines in economic activity and development. In the following paragraphs I will present in more detail Sjafruddin's views on issues related to Islamic economics.

Although Sjafruddin's first paper on the issue, entitled "The Motive or the Principle of Economics Measured According to Islamic Law", was published in late 1951, his article that specifically addressed the question of Islamic economic system was written around 1968 and was entitled "What is meant by the Islamic Economic System?"⁹⁶¹ In it Sjafruddin explicitly affirmed that:

In fact, there does not exist an Islamic economic system which is fundamentally different from what may be called normal economic systems, or systems applied in non-Islamic countries or societies, if we recognise certain fundamentals or principles which then become the basis for an economic system applicable outside of an Islamic society.⁹⁶²

Subsequently in the article, Sjafruddin discussed the common principles of all economic systems and the factors that differentiate the economic needs of an individual and society. He argued that basic economic systems consisted of two principles. First, all shared a common goal, namely to satisfy the various needs of the individual and of society as a whole. Second was the principle of economic motive, according to which any person or society would not want to work harder than necessary to meet its needs. In other words, everyone will try to achieve maximum results with minimum cost and exertion within the shortest possible time. Each economic system embraced these two principles, while the factors that distinguished the economic needs of an individual and society were related to natural circumstances such as climate, soil composition, water conditions and so

⁹⁶¹ Prawiranegara, "Apa yang Dimaksud," 260-336.

⁹⁶² Prawiranegara, "Apa yang Dimaksud," 260.

forth, as well as cultural-historical contexts such as customs, religion, personal inclination, politics, etc. These different needs, in his view, led to differences in the implementation of these economic principles.⁹⁶³

Sjafruddin described at length how these economic principles worked in real life.⁹⁶⁴ He found that the aforementioned principles could not be properly implemented because of underlying customs or beliefs preventing an individual or a society from achieving its pure economic objectives. In the case of Indonesia, Sjafruddin observed that government often inhibited economic progress, because it often ignored the principles of economic rationality when interfering in the activities of business owners. Government officials who were supposed to ensure economic security and order through the enforcement of the law were often their chief violators.⁹⁶⁵ Yet Sjafruddin noted that “[a]lthough many infringements and misappropriations of economic principles occur, they do not alter the fact that those economic principles, insofar human beings are rational, are in accordance with their disposition (nature).”⁹⁶⁶ However Sjafruddin also observed that *homo economicus*, the rational human being who always acts in accordance to economic principles, exists only in theory. In practice economic principles must be modified with respect to various factors mentioned above.⁹⁶⁷ On the basis of these observations, Sjafruddin asserted that the Islamic economic system was “an economic system that exists after the economic principles that guide its practice are influenced and delimited by the teachings of Islam.”⁹⁶⁸ In other words, in his interpretation, “the question of an Islamic economic system is a question about the influence that is exerted by the

⁹⁶³ Prawiranegara, “Apa yang Dimaksud,” 260.

⁹⁶⁴ Prawiranegara, “Apa yang Dimaksud,” 261-264.

⁹⁶⁵ Prawiranegara, “Apa yang Dimaksud,” 264.

⁹⁶⁶ Prawiranegara, “Apa yang Dimaksud,” 264.

⁹⁶⁷ Prawiranegara, “Apa yang Dimaksud,” 264.

⁹⁶⁸ Prawiranegara, “Apa yang Dimaksud,” 264-265.

teachings of Islam on economic principles as guidance for every economic activity, which aims to create the tools to satisfy various human needs.”⁹⁶⁹

Thus Sjafruddin did not believe that an Islamic economic system was separate from the general prevailing system. As was the case in the West, where different countries arrived at different economic practices due to their unique historical and cultural circumstances,⁹⁷⁰ an Islamic economic system would likewise be uniquely formed by its cultural, moral and legal sources in Islamic teachings. Yet its general principles would remain the same as the economic systems prevailing in other countries or societies.⁹⁷¹

According to Sjafruddin’s understanding, the prohibition of *ribā* was in fact only one of the ethical principles of an Islamic economy. The other principles, according to him, were: first, the prohibition of prodigal expenditure or wastefulness implying a duty to conserve nature for human prosperity;⁹⁷² and second, the distribution of wealth for the benefit of fellow human beings and the prohibition of amassing it. Sjafruddin had an interesting interpretation of this principle. He gave as

⁹⁶⁹ Prawiranegara, “Apa yang Dimaksud,” 265.

⁹⁷⁰ Stilwell’s comments highlight these different economic practices in the capitalist countries: “There are significant differences in the range of economic functions undertaken by the state. There are also differences in the range of economic functions undertaken by the state. There are also differences in the character of the economic institutions that shape the functioning of markets for labour, capital, and land, and in the prevailing ideologies in those countries. In the USA, for example, the state has been more concerned with supporting the interests of capital and the functioning of the capitalist market economy, whereas in Sweden the state has played a substantial role in the redistribution of income and in economic and social planning. On the other hand, the state in the USA is highly interventionist on a world scale, much more so than Sweden (or any other country), because of its role as self-appointed policeman of international capitalism”. Stilwell, *Political Economy*, 53.

⁹⁷¹ Prawiranegara, “Hakikat Ekonomi Islam,” 362-363. Likewise there was no Islamic economics separate from other non-Islamic economics. Here Sjafruddin quoted the Qur’an, Chapter Luqmān 31:20: “[People], do you not see how God has made what is in the heavens and on the earth useful to you, and has lavished His blessings on you both outwardly and inwardly? Yet some people argue about God, without knowledge and guidance or an illuminating scripture,” in order to prove his point that economic motive was universal, in accordance with human nature, and applied to every human being including Muslims. Sjafruddin interpreted this verse as saying that natural wealth was available for all human beings, and they are induced to use it by economic motives in order to meet their natural needs in life. However, in accordance with Islamic teachings, their endeavor should be delimited by moral values and ethics. So for Sjafruddin, economic differences between Islamic economics and non-Islamic economics lay in moral and ethical aspects.

⁹⁷² Prawiranegara, “Apa yang Dimaksud,” 277-278.

an example the case that people who stored their excess money in a bona fide bank could not be said to hoard wealth. Quite the contrary, they gave benefit to many people, because the bank would lend the money to be used in productive economic enterprises.⁹⁷³ Here Sjafruddin provided a new understanding of *infāq*, which is usually defined only as spending wealth on education, such as building school, providing fees for teachers, and stipends for students; donating for the building of mosques; helping the destitute; funding religious institutions; sponsoring orphanages, etc. His new interpretation included people who saved their extra money in the bank; they also performed *infāq*, because then others could use their money via the bank to open businesses and provide jobs.⁹⁷⁴ I would argue that Sjafruddin's understanding also applies to those who pool their money in *ḥalāl* (lawful) investments. One important part of the well-being of society is the fulfillment of people's basic needs, such as food, clothing, shelter and education. It seemed that Sjafruddin was inspired by the example of the Prophet: the best way to help the needy is to supply them the means to work or provide them jobs, not to continuously give charity that creates dependency and enfeebles their souls.⁹⁷⁵ Opening economic enterprises that provided opportunities for people to work or having deposits in bank or financial institution created opportunities for entrepreneurs to do business that opens employment opportunities for many people and thereby contribute to the welfare of the needy. This method of distributing and circulating wealth to less privileged members of society fulfilled the Qur'an's

⁹⁷³ Prawiranegara, "Apa yang Dimaksud," 278.

⁹⁷⁴ Prawiranegara, "Apa yang Dimaksud," 278. The spending of wealth in the way of God was to spend it in the cause of truth and for the welfare of humanity, while hoarding of wealth was an act condemned by the Qur'an, Chapter al-Tawba 9:34: "And those who hoard up gold and silver and spend it not in God's way—announce to them that they will have a grievous punishment." See Muhammad Ali, *Holy Qur'ān*, 407. Cf. Yusuf Ali, *Holy Qur'ān*, 449; Abdel Haleem, *Qur'an*, 119.

⁹⁷⁵ Narrated Zubayr bin al-ʿAwwām: "The Prophet said: 'It is better for one of you to take his rope, bring a load of firewood on his back and sell it, Allah thereby preserving his self-respect, than begging people whether they give him or refuse him.'" (Reported by Bukhārī). See al-ʿAsqalānī, *Bulūgh al-Marām*, 222.

commandments.⁹⁷⁶ The wealth owned by the rich was also enjoyed by many people without reducing the amount of wealth.⁹⁷⁷ This could be called as a productive spending of wealth in the way of God.

The third principle is the paying of *zakāt* (obligatory charity). Muslims who are financially well-off must pay *zakāt* for the needy.⁹⁷⁸ Sjafruddin, unexpectedly, did not further elaborate on this issue. He simply stated that *zakāt* was a cleansing tax. Only by the payment of *zakāt* did people have the right to enjoy the blessings that God gave them. Sjafruddin seemed to have a radical view of the form and practice of *zakāt* that was different from the conventional practice applied among Muslims today. He discussed this point in a lecture in 1975 which was published later in the same year. The Prophet's rulings on *zakāt*, in Sjafruddin's opinion, were only valid for the type of society in the seventh century CE. Similarly, the rulings on *zakāt* elaborated by the classical jurists were only valid for that type of past society. In other words, the application of *zakāt* at the present time must take a fundamentally different form in accordance with the complexity of modern society. In his opinion the stipulations of *zakāt* in the Qur'an should not be understood literally but were to be taken as principles. For Sjafruddin what really mattered was the spirit of the stipulation.⁹⁷⁹

The fourth principle stated that wealth should be acquired in lawful ways, not through seizing the rights of others. Sjafruddin explained that people's wealth and property were basically obtained from two sources: a) from their own work,

⁹⁷⁶ The Qur'an, Chapter al-Hashr 59:7, reads: "Whatever gains God has turned over to His Messenger, kinsfolk, orphans, the needy, the traveller in need—this is so that they do not just circulate among those of you who are rich—so accept whatever the Messenger gives you, and abstain from whatever he forbids you. Be mindful of God: God is severe in punishment"; verses in Chapter al-Ma'ārij 70:24-25 read: "And who give a due share of their wealth to beggars and the deprived."

⁹⁷⁷ Narrated Abū Hurayra: "God's messenger said: 'Charity does not reduce wealth...'" (Reported by Muslim). See al-'Asqalānī, *Bulūgh al-Marām*, 535.

⁹⁷⁸ Prawiranegara, "Apa yang Dimaksud," 278-279.

⁹⁷⁹ Prawiranegara, *Islam dilihat*, 14-15.

and b) from the exchange of goods (trade). In addition, he mentioned another source, gift, by which he probably meant *hibā*, grant. But according to Sjafruddin this third source should be shunned since Islam forbids Muslims to depend on the gift of others, urging instead that they earn their keep by their own work and trade.⁹⁸⁰ Sjafruddin did not mention inheritance, probably because it is not determined by a person's choice.

The fifth principle was the prohibition of *ribā*. Here Sjafruddin had a different interpretation of *ribā* from that of proponents of Islamic economics. From his reading of the Qur'an—Chapter al-Baqarah 2:275, which forbids usury; Chapter 'Āli 'Imrān 3:130, which forbids Muslims to consume multiplied usury; and Chapter al-Nisā' 4:29, which instructs believers to not wrongfully consume each other's wealth—he determined that the issue of usury was complicated by the fact that the Qur'an contains no clear formula for or examples of it. In his view, a number of factors must be considered in order to understand the meaning of usury: first, that usury literally means an addition; and second, that the opposite of usury is clean, modest or fair profit obtained from buying and selling (trade) based on mutual consent between buyer and seller. He questioned why an addition from credit in the form of lending money should be forbidden, while an addition from credit arising from the sale of goods was allowed. It was not rational, he added, to forbid profit made from lending money as being usurious, while profit beyond reasonable limits in the form of credit obtained from the sale of goods was theoretically permissible.⁹⁸¹

In Sjafruddin's understanding, usury was not synonymous with the benefits arising from a credit transaction, as articulated by a number of prophetic hadiths.

⁹⁸⁰ Prawiranegara, "Apa yang Dimaksud," 279-280.

⁹⁸¹ Prawiranegara, "Apa yang Dimaksud," 282-284.

Sjafruddin also quoted from these hadiths to show the importance of the free market was to economic practice in Islamic teachings. One of these hadiths reads:

Narrated by Ṭāwus bin Kisān al-Fārisī from Ibn‘Abbās who said that the Messenger of God [Muhammad] said: ‘Do not go out to meet riders [to conduct business with them], and a city-dweller must not sell for a man from the desert’. I [Ṭrāwus] asked Ibn‘Abbās: ‘What did he [the Messenger of God] mean by ‘A city-dweller must not sell for a man from the desert’? He [Ibn‘Abbās] replied, ‘He should not act as a broker for him’. This ḥadīth was reported by al-Bukhari.”⁹⁸²

Another hadith also told a similar version:

Abu Hurayra narrated that the Messenger of God said: ‘Do not go out to meet what is being brought [to market for sale]. If anyone has met so and some of it is brought, when its owner comes to the market he has the choice [of cancelling the deal].’ This ḥadīth was reported by Muslim.⁹⁸³

The third hadith reads:

Narrated [Abu Hurayra]: ‘The Messenger of God forbade a city-dweller to sell on behalf of a bedouin [a man from the desert].’ This ḥadīth was reported by Bukhārī and Muslim.⁹⁸⁴

In his commentary on these reports, Sjafruddin wrote:

If the pricing mechanism—that is, the interplay between demand and supply—runs well, because it is not disturbed by fraudulent and coercive action, then the production will be balanced with consumption, so there is no waste (overproduction) or shortage (underproduction) when compared with the demand. That is why Islam put great importance on unhampered and free market movement.⁹⁸⁵

According to Sjafruddin, fraud or coercion that could disrupt the market could come from the government or the ruling party. He argued that Islam upholds the existence of free markets, while government intervention in pricing is an injustice. This opinion was based on a Prophetic Hadith, as narrated by Anas bin Malik, which reads:

When prices were high in Madina in the time of Allah’s Messenger, the people said: “O Allah’s Messenger, prices have become high, so fix them for us.” Allah’s Messenger replied, “Allah is the One Who fixes prices, Who withholds,

⁹⁸² Al-‘Asqalānī, *Bulūgh al-Marām*, 282-283; Prawiranegara, “Apa yang Dimaksud,” 287.

⁹⁸³ Al-‘Asqalānī, *Bulūgh al-Marām*, 283; Prawiranegara, “Apa yang Dimaksud,” 287.

⁹⁸⁴ Al-‘Asqalānī, *Bulūgh al-Marām*, 283.

⁹⁸⁵ Prawiranegara, “Apa yang Dimaksud,” 288.

gives lavishly and provides, and I hope that when I meet Allah the Most High, none of you will have any claim on me for an injustice regarding blood and property".⁹⁸⁶

This hadith portrays the Prophet as clearly refusing to set the price and instead letting it move according to the market dynamics. Sjafruddin quoted Ahmad Hassan, a prominent Islamic teacher from Indonesia, who explained the hadith as follows:

Most of the needs of the people of Medina and surrounding areas, especially food, were brought in from outside. The high price occurred not because it was raised by merchants of Medina from the usual price, but because their expenses [of taking food from the outside] were very high (the base price had risen). If the Messenger of Allah set a price, of course, it would be detrimental or not profitable for traders of Medina. If they lost or got no profit, they certainly would not want to bring in goods from outside; hence the situation would be increasingly grave. Setting prices to the detriment of merchants was what the Prophet saw as an injustice that he could not bear.⁹⁸⁷

Sjafruddin himself gave the following interpretation:

From the hadiths that I mentioned above, for Islam the actual existence of a market that is completely free from any pressure or interference from the ruling power and free from fraud of merchants who are only motivated by the desire to get big profits is far more important than the various government interventions, such as setting prices. [These might be] well-intended, but if they are not based on the factors that are actually real, they could produce an ill-effect altogether.

Helping people who are poor and needy is not to be achieved by intervening in the course of the market, but by giving out subsidies in the form of money or goods. But that relief should, if carried out by the government, avoid the creation of new money as much as possible, like we see in Indonesia. Because it is really an unfairness directed against the money owners (those who are better off), and can be considered as a hidden thief (imposed) by the government. That action could be called *ribā* (usury) if you look at the elements of coercion applied by the government against the people who should receive (inevitably) the new money[;] but it could also be considered as evil act, if it is viewed as fraud, that is a theft of the purchasing power of the people by the government.⁹⁸⁸

These passages represent Sjafruddin's core views on the relationship between Islam, social justice, and economic development. We can draw a tentative conclusion that in his interpretation of Islamic ethics, he was closer to the pattern of

⁹⁸⁶The hadith was reported by al-Khamsa, excluding An-Nasā'ī, and Ibn Ḥibbān graded it as *ṣaḥīḥ*, sound. Al-ʿAsqalānī, *Bulūgh al-Marām*, 284-285; Prawiranegara, "Apa yang Dimaksud," 288.

⁹⁸⁷ Prawiranegara, "Apa yang Dimaksud," 288-289.

⁹⁸⁸ Prawiranegara, "Apa yang Dimaksud," 289.

liberal-capitalist development than to the state-controlled socialist pattern. Sjafruddin believed strongly in economic rationality, including the necessity of free market mechanisms regulated only by minimal government intervention. His ideas and policies will be fully discussed in the next chapter.

A final piece of evidence which shows that Sjafruddin's definition of usury was distinct from that of traditional Islamic scholars and, in particular, from that of modern proponents of Islamic economics, is his interpretation of a number of Hadith related to *ribā al-faḍl* (surplus usury).⁹⁸⁹ This type of *ribā* is one of two types forbidden by Islam according to Wahba Al Zuhayli, professor of Islamic Law at the University of Damascus. (The other type being credit *ribā*, which Al Zuhayli claims was the only type known to the pre-Islamic Arabs. He writes: "This type is taken against a delay in settlement of a due debt, regardless whether the debt be that of goods sold or of a loan."⁹⁹⁰) Al Zuhayli defines surplus *ribā* as "the sale of similar items with a disparity in amount in the six canonically-forbidden categories of goods: gold, silver, wheat, barley, salt, and dry dates. This type of *riba* is forbidden in order that it not become a pretext for committing forbidden acts, that is, [...] committing credit *riba*, such that a person sells gold, for example, on credit, then pays back in silver more than the equivalent of what he had taken in gold."⁹⁹¹ Sjafruddin used the Hadith related to surplus *ribā* to prove that bank interest is not *ribā*, as explained above. According to him, the Hadith⁹⁹² concerning cases where

⁹⁸⁹ Prawiranegara, "Adakah Konsep," 355-356.

⁹⁹⁰ Sh. Wahba Al Zuhayli, "The Juridical Meaning of *Riba*," trans. Iman Abdul Rahim and Abdulkader Thomas, in *Interest in Islamic Economics: Understanding Riba*, ed. Abdulkader Thomas (London: Routledge, 2006), 27.

⁹⁹¹ Al Zuhayli, "The Juridical Meaning of *Riba*," 27 and 29-30. Al Zuhayli also explains that Shāfī scholars categorized *ribā* into three kinds: surplus *ribā*, *ribā* of possession, and credit *ribā*.

⁹⁹² The hadith in question was narrated by Abu Hurayra who said: "Allah's Messenger forbade two transactions combined in one." The hadith was reported by Aḥmad and An-Nasā'ī. At-Tirmidhī and Ibn Ḥibbān graded it *ṣaḥīḥ* (sound). Another hadith was reported by Abū Dāwūd, who reported that the Prophet said: "If anyone makes two transactions combined in one he must confirm that of a lower price, or he is involved in committing usury." Al-Asqalānī, *Bulūgh al-Marām*, 279.

ribā al-faḍl was clearly prohibited by the Prophet Muhammad were not related to “a loan agreement, but to sale and purchase transactions” which were carried out in a manipulative or coercive way. In other words, in the case that the buyer had to agree with the demands of the merchant because he was in a weaker position, the profit the merchant received was, on the basis of the Hadith above, usury. From this it is seen that the meaning of usury was not simply a form of interest from lending money.⁹⁹³

Because Sjafruddin was not, by profession or background, accustomed to traditional methods of interpreting Islamic sources, he often resorted to plain common sense when offering his own interpretation. This rendered his arguments, usually directed to political leaders, practitioners in economic development, and scholars of Islamic economics, accessible and reasonable. The following demonstrates how Sjafruddin justified his position by bringing together a number of hadiths related to barter and trade. He began by citing two hadiths, the first narrated by ‘Ubāda bin Aṣ-Ṣāmit and the second by Abū Hurayra, as follows:

Allah’s Messenger said, “Gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates, salt for salt, same quantity for same quantity and equal for equal, payment being on the spot. If these classes differ, sell as you wish if payment is made on the spot.” [Reported by Muslim].⁹⁹⁴ The Prophet said, “Gold is to be paid for with gold, both being of equal weight and of same quantities; silver is to be paid for with silver, both being of equal weight and of same quantities. If anyone gives more or asks for more of it, it is then usury.” [Reported by Muslim].⁹⁹⁵

These hadiths deal with the issue of barter, and the kinds of barter that are allowed or prohibited by the Prophet. The usual interpretation of this hadith holds that when bartering like for like, the quality and quantity of the goods must be equal; if not, then it is considered to be usury. On the other hand, when two different goods are bartered, these may vary in quantity and quality, such as a certain weight of salt

⁹⁹³ Prawiranegara, “Adakah Konsep,” 355-356.

⁹⁹⁴ Al-‘Asqalānī, *Bulūgh al-Marām*, 291-292.

⁹⁹⁵ Al-‘Asqalānī, *Bulūgh al-Marām*, 292.

for a certain weight of dates, and so forth. However, for Sjafruddin, this interpretation of the Prophet's understanding of usury in such a case was, if taken straightforwardly, rather bizarre. He wrote:

No one who is still sane would do something like that. Who wants to trade one kg of 24 carat gold for one kg of 24 carat gold? Or [who wants to trade] one ton of of number one quality wheat for one ton of wheat of the same quality? But what people prefer to do is, for example, to barter one ton of number one quality wheat for two tons of number two quality wheat, either by mutual availability [in cash or on site] or not; [but] this kind of act is prohibited. This brings usury. Why?^{996\}

Sjafruddin then moved to another hadith narrated by Abū Sa'īd al-Khudrī and Abū Hurayra who said:

Allah's Messenger appointed a man [Bilāl] over Khaybar and he brought him dates of a very fine quality. Allah's Messenger asked, "Are all the dates of Khaybar like this?" He replied, "I swear by Allah that they are certainly not, O Allah's Messenger. We take one *ṣā'* [cubic measure of varying magnitude] of this kind for two, and even for three." So Allah's Messenger said, "Do not do so. Sell the mixed dates for dirhams [silver coins], then buy the very fine dates with the dirhams." And he said that the same applies when things are sold by weight.' [Reported by Bukhārī and Muslim]. Muslim has [additional words of what the prophet said]: "and so is the weight".⁹⁹⁷

The Prophet's prohibition of the barter of dates is consistent with the hadith mentioned above. Sjafruddin believed that this was a measure intended to prevent any potential abuse on the part of the governor of Khaybar, because of a lack of common and measurable rules governing trade. Regarding the solution the Prophet offered to the governor, Sjafruddin wrote:

If he were to sell his dates on a free and open market and with that money buy fine dates, also on a free and open market, then perhaps he would obtain a smaller number of fine dates than he would have received through barter with his people. Buying and selling on the free open market would provide better protection from usury to an economically-weak person than would a bartered exchange between the latter and an economically- or politically-stronger partner.^{998\}

⁹⁹⁶ Prawiranegara, "Adakah Konsep," 357.

⁹⁹⁷ Al-'Asqalānī, *Bulūgh al-Marām*, 292. Another version of the hadith gives a more complete version of what the prophet said: "Oh no, this is exactly riba..." [Reported by Bukhārī and Muslim]. See Abdulkader Thomas, "What is Riba?" in *Interest in Islamic Economics: Understanding Riba*, ed. Abdulkader Thomas (London: Routledge, 2006), 129.

⁹⁹⁸ Prawiranegara, "Adakah Konsep," 358.

Sjafruddin's interpretation of these hadiths was an attempt to highlight the considerations of justice that arise within a free market mechanism. Furthermore, he argued that the Prophet's preference for an open market could be carried over to conditions of modern transactions and trade:

The most appropriate place to carry out such free trade transactions is on a free open market, where the undisturbed interplay of supply and demand will bring forth the most balanced prices. So, even monetary and borrowing transactions that can be extremely damaging to a weaker group will, if carried out in the open market through banks and other credit institutions, be very beneficial for the society. That is why our Prophet told his followers, both explicitly and implicitly ... to choose a free open market on which to conduct business transactions and not barter relationships, in which there are very limited options for sellers or buyers in search of good trade match.⁹⁹⁹

In other words, Sjafruddin stressed that fairness in transactions of money and trade is possible only when carried out in a market where negotiations can operate free of constraints or pressures. Sjafruddin's argument was an innovative interpretation of the Hadith concerning *ribā al-faḍl* (surplus usury).

On the basis of this analysis, Sjafruddin argued that the criterion for the existence of usury is not the gain from lending money or from another kind of credit *per se*. Accordingly, he defined *ribā* as "any advantage gained by a transaction or agreement whereby a party takes advantage of its weak competitor by abusing its strong economic position."¹⁰⁰⁰ In his opinion, a transaction must be fair, voluntary and consensual. If one party was forced into an agreement because it did not see another alternative, the profits earned by the more economically-powerful party were usury.¹⁰⁰¹ Reaffirming his understanding of *ribā*, Sjafruddin stated:

So, in my opinion, any addition or profit obtained by way of sale and purchase, which is ostensibly carried out by mutual consent but which is essentially based on inner compulsion because the aggrieved has no other alternatives, is usury. *Ribā* refers to all kinds of benefit that seem valid

⁹⁹⁹ Prawiranegara, "Adakah Konsep," 359.

¹⁰⁰⁰ Prawiranegara, "Apa yang Dimaksud," 285.

¹⁰⁰¹ Prawiranegara, "Apa yang Dimaksud," 285.

according to the law, but essentially constitute the "*exploitation de l'homme par l'homme*" in a subtle way, not through physical coercion.¹⁰⁰²

With this understanding, Sjafruddin asserted that bank interest was not usury since it was carried out by mutual consent.¹⁰⁰³

Sjafruddin's understanding of the bank interest was similar to the views of other modernist Muslims such as Muhammad Asad¹⁰⁰⁴ and Fazlur Rahman.¹⁰⁰⁵ For them, the rationale of prohibition was "the exploitation of the needy, rather than the concept of the interest rate itself."¹⁰⁰⁶ In addition, Rahman argued, similarly to Sjafruddin, that the abolition of interest in the present state of economic development would be a serious error, because it did not satisfy the original intent behind its prohibition, which was to prevent the exploitation of the weak and to

¹⁰⁰² Prawiranegara, "Apa yang Dimaksud," 286. In another article Sjafruddin denoted *ribā* as encompassing all sorts of profit obtained through improper and inhuman ways, including cheating and the use of violence. See Prawiranegara, "Persamaan," 406.

¹⁰⁰³ In providing the interpretation of usury Sjafruddin could actually have based it on a similar but longer version of the hadith than the one he quoted, but to which he did not have access due to his limited Arabic ability. The hadith relates: "Following the conquest of Khaybar, the Muslim soldiers exchanged gold coins for gold bullion with the departing Jews. It appeared that some soldiers took advantage of the Jews, extracting more bullion for the minted gold than the price of gold by its weight merited. The Prophet, we ask God's peace and blessings for him, explicitly insisted that the exchange be weight for weight, saying, 'Gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates, salt for salt must be of equivalent weight, hand to hand. He who gives or take more incurs riba—the giver and the taker are equally [implicated].' This was repeated more than once on other occasions" (Bukhari and Muslim). Thomas comments on the hadith as follows: "Foremost, the situation at Khaybar raised the problem of some of the Muslim soldiers being unfair, and the Jews uncomplaining because the victorious Muslims were armed and the Jews feeling obliged to accept what they knew to be unfair exchange. The Prophet, God's grace is asked for him, was unequivocal in his condemnation of the idea that a stronger party might oblige, by might, a weaker party's acceptance of a clearly unfair exchange [...]" His comment is similar to Sjafrudin's aforementioned definition of *ribā*. Thomas, "What is Riba?" 128.

¹⁰⁰⁴ This is the reason to not behave in an exploitative manner, the very act that the prohibition of *ribā* was intended to prevent. As Asad says: "Roughly speaking, the opprobrium of *ribā* (in the sense in which this term is used in the Qur'an and in many sayings of the Prophet) attaches to profits obtained through interest-bearing loans involving an *exploitation of the economically weak by the strong and resourceful*...With this definition in mind, we realize that the question as to what kinds of financial transaction fall within the category of *ribā* is, in the last resort, a moral one, closely connected with the socio-economic motivation underlying the mutual relationship of borrower and lender." See Muhammad Asad, *The Message of the Qur'an: Translation and Explanation* (Gibraltar: Dar al-Andalus, 1980), 623.

¹⁰⁰⁵ Rahman comments on the issue as follow: "Thus, many well-meaning Muslims with very virtuous consciences sincerely believe that the Qur'an has banned all bank interest for all times, in woeful disregard of what *ribā* was historically, why the Qur'an denounced it as a gross and cruel form of exploitation and banned it, and what the function of bank interest is today." See Rahman, "Islam: Challenges and Opportunities," 326.

¹⁰⁰⁶ Abdullah Saeed, *Islamic Banking and Interest: A Study of the Prohibition of Ribā and its Contemporary Interpretation* (Leiden: Brill, 1999), 42.

guarantee justice in trade. Furthermore, the argument against interest was based on an insufficient understanding of the economic system.¹⁰⁰⁷ Yet despite the similarities of their arguments, it was only Sjafruddin who argued for the importance of the function of the market in guaranteeing the fair value of traded goods.

Sjafruddin was much more detailed in his analysis of the subject from an economic point of view, arguing that banking interest was not only permitted under Islam but *must* be used by Muslims if they wanted to advance their economic condition. Prawiranegara's caveat to this was that interest rates should be in accordance with the commonly-accepted free market rate, as is the case when prices of goods are determined by the interplay between supply and demand.¹⁰⁰⁸

Sjafruddin's interpretation of the usury-related hadiths and his rather unexpected vindication of the free market have recently been reiterated by contemporary Muslim scholars. Mahmoud A. El-Gamal, for example, in his article on economic wisdom (*hikmah*) in the prohibition of *ribā*, discusses a number of misconceptions which have become accepted "truths" about Islam and the Islamic model of finance. El-Gamal argues that not all cases of interest in the modern context can be considered to be unlawful *ribā*. He builds his argument on the opinions of classical scholars of Islamic jurisprudence, while observing that "a great revolution in financing forms [has taken place], wherein the boundaries between commercial banks (whose transactions are based on forbidden *ribā* through borrowing and lending with interest) and other financial institutions became blurred."¹⁰⁰⁹ El-Gamal also refuted another misconception—one already well-known by many scholars—by noting that not all cases of unlawful *ribā* involve interest. Quoting a famous

¹⁰⁰⁷ Fazlur Rahman, "Ribā and Interest," *Islamic Studies* 3.1 (1964): 1-43.

¹⁰⁰⁸ Prawiranegara, "Apa yang Dimaksud," 286.

¹⁰⁰⁹ Mahmoud A. El-Gamal, "An Attempt to Understand the Economic Wisdom (*hikmah*) in the Prohibition of Riba," in *Interest in Islamic Economics: Understanding Riba*, ed. Abdulkader Thomas (London: Routledge, 2006), 112-114.

hadith prohibiting *ribā al-faḍl*, discussed above, he points out that the transactions prohibited by the Prophet did not involve a temporal element, and therefore “the prohibition of this *ribā* is not necessarily related to debts, deferment, or time.”¹⁰¹⁰ But his most interesting conclusion pertains to the role of market mechanisms as a means to guarantee the fair value of traded goods, thereby achieving the sole objective in the prohibition of usury—justice.¹⁰¹¹ Sjafruddin had long advanced the potential of the self-regulating market to enable mechanisms for justice. Similarly, Rauf A. Azhar, in his discussion of *ribā*, interest and usury, notes that “the real purport of these reports [the aforementioned hadiths on *ribā al-faḍl*] lies in avoidance of unequal exchange, for the common thread that runs throughout all of them is to emphasize exchange of a good for money and then using the proceeds to purchase another—thus necessitating a reliance on the market determined evaluations (prices) of the goods under consideration. It is obvious that market determined evaluations are therefore considered to be fair [...]”¹⁰¹² Azhar further argues that “[t]he Prophet discouraged barter exchanges because of the inherent ambiguity (*gharar*) in the values being exchanged at a given time, since prices are subject to change at any time, and thus encouraged the use of money because of the inherent transparency of the values being exchanged. By removing the ambiguity, the use of money ensured an equitable exchange.”¹⁰¹³ Azhar concludes that, “[t]here is no escaping the fact that the purpose of these reports was to ensure equal value in exchange for the sake of justness.”¹⁰¹⁴

Abdullah Saeed’s discussion of the same Hadith materials comes to a similar conclusion to Sjafruddin’s. However, Saeed put less of an emphasis on the

¹⁰¹⁰ El-Gamal, “Attempt,” 115.

¹⁰¹¹ El-Gamal, “Attempt,” 118.

¹⁰¹² Rauf A. Azhar, *Economics of an Islamic Economy* (Leiden and Boston: Brill, 2010), 326.

¹⁰¹³ Azhar, *Economics*, 326.

¹⁰¹⁴ Azhar, *Economics*, 328.

importance of market mechanisms in ensuring the fair value of traded goods, whereas for Sjafruddin this was crucial to recognizing the achievement of justice—and the avoiding of injustice—as the sole objective of prohibiting usury.¹⁰¹⁵

Sjafruddin's arguments, however, did not end with his claim that the interest in the modern banking system is not the *ribā* prohibited by Islam. He also articulated the role of money and banks from an economic and a religious (Islamic) point of view, especially in light of the common focus on development. Sjafruddin's wider goal was not simply to define terms, but rather to remind Indonesian Muslims that they could achieve economic prosperity and social justice through modern methods, including the use of bank services. Before discussing Sjafruddin's views further, we need to explore the opinions of Indonesian Islamic organizations and scholars on bank interest.

The issue of bank interest has to this day been controversial among Indonesian Muslims.¹⁰¹⁶ The dominant opinion among Indonesian clerics belonging to various Islamic organizations considers bank interest to be forbidden (*ḥarām*) or at least dubious or uncertain/vague (*shubḥa* or *mutashābiḥa*). The most recent case is that of Muhammadiyah, a reformist-modernist Islamic organization, which declared a *fatwā* (religious legal opinion) confirming that bank interest was *ḥarām*. The decision was issued on April 3, 2010 in the 27th National Conference of its Legal and Reform Affairs Committee (Majelis Tarjih dan Tajdid), in order to strengthen an earlier judgment which was issued in 2006.¹⁰¹⁷

¹⁰¹⁵ Saeed, *Islamic Banking and Interest*, 33-34.

¹⁰¹⁶ Robert W. Hefner's article cites a survey of 479 Jakarta residents conducted in 1990 which found that only 34 percent approved of bank interest. A full 25.9 percent were "inclined to disapprove" and almost 40 per cent "disagreed" or "strongly disagreed". Robert W. Hefner, "Islamizing Capitalism: On the Founding of Indonesia's First Islamic Bank," in *Shari'a and Politics in Modern Indonesia*, ed. Arskal Salim and Azyumardi Azra (Singapore: Institute of Southeast Asian Studies, 2003), 152.

¹⁰¹⁷ Hidayatullah, "Fatwa Muhammadiyah Soal Bunga Bermanfaat," Hidayatullah.com: Mengabarkan kebenaran, April 6, 2010, accessed July 23, 2011,

This decision was somewhat surprising, considering the fact that Muhammadiyah, since its founding in 1911, has been very active not only in educational and social activities but also in economic enterprise. Muhammadiyah, which arguably conducts most of its activities in urban areas, is the Islamic organization most associated with studies of the banking system. In its universities, seven of which are in Java, much effort is devoted to teaching economics and conventional banking. Moreover, Muhammadiyah is supported in part by contributions from entrepreneurs who use conventional banking services for their businesses. The rapid growth of Sharī'ah-based banks since the establishment of the *Bank Mu'amalat Indonesia* (BMI) in 1990 seems to have encouraged Muhammadiyah's issuing of the *fatwā*. Islamic Banks are considered to offer a better alternative to conventional banks. These institutions have provided financial services for business enterprises, and are expected to provide solutions for many Muslims who have long felt uncomfortable using conventional banking services.¹⁰¹⁸

Nahḍat al-'Ulamā' (NU, Revival of the 'Ulamā') which represents the traditional Islamic group, most of whose followers live in the village, held a similar opinion. In 1957 the organization ruled against the borrowing of money by business firms from banks.¹⁰¹⁹ Some Islamic scholars within NU declared bank interest to be forbidden because there is an element of speculation; others argued that bank interest is *ḥalāl* (permissible) because it is conducted based on agreement and mutual consent between two parties; and others considered it to be unclear whether

<http://www.hidayatullah.com/read/11301/06/04/2010/-fatwa-muhammadiyah-soalbunga-bank-bermanfaat.html>

¹⁰¹⁸ In the 1960s Muhammadiyah's position was more flexible, when its religious scholars declared that bank interest fell under the category of doubtful things (Arabic *shubuhāt*). Even Professor Kasman Singodimedjo, a Muhammadiyah leader, held that the modern banking system was permissible and it was not necessary to establish an interest-free bank. See Hassan, "Contemporary," 90-91.

¹⁰¹⁹ Hassan, "Contemporary," 87.

legally it is *ḥalāl* (permissible or lawful) or *ḥarām* (unlawful or forbidden). In general, the organization considered bank interest to be *ḥarām* by reason of *iḥtiyāt* (precaution): if the permissibility of an action was in doubt, it was safest to abstain from that action altogether.¹⁰²⁰ K.H. Sahal Mahfudz, General Chairman of the Consultative Body (*Shūriya*) of NU, said that the *fatwā* on the lawfulness of bank interest was not final yet. However, all financial affairs and transactions which were already covered by Shari‘ah or Islamic banks would be declared *ḥarām* if they were carried out in conventional banks. Financial transactions or affairs which were not yet covered by Shari‘ah banks were allowed to be carried out by conventional banking; this constitutes an application of the principle of emergency (*ḍarūrah*).¹⁰²¹

Meanwhile the Majelis Ulama Indonesia (Indonesian Assembly of Islamic Scholars, MUI), a federation of various Indonesian Islamic organizations, already declared in 2003 that conventional banking interest was *ḥarām*. This decision was confirmed by the Chairman of the MUI Fatwā Commission, K.H. Ma'ruf Amin. According to Ma'ruf, also a prominent NU leader, Islamic banks are the solution for those who want to keep their money safe while avoiding bank interest. Amin reasons that the prohibition against bank interest is not based merely on the reciprocal benefit received by the depositor of the money in the bank, but also on the use of this money by the bank to perform other financial activities that involve interest. In the past, before Islamic banks existed, depositing funds in a conventional bank was allowed for reasons of emergency. Now, with the existence of Islamic

¹⁰²⁰ Jaih Mubarak, "Fatwa Tentang Bunga Bank di Indonesia," Ikada Bandung, accessed August 6, 2011, <http://ikadabandung.wordpress.com/2007/12/03/fatwa-tentang-bunga-bank-di-indonesia>.

¹⁰²¹ Nahḍat al-‘Ulamā’, "KH Sahal Mahfudz, 'Fatwa Bunga Bank Haram Belum Final'" ("Legal Opinion on unlawfulness of Bank Interest is not Final Yet"), NU Online, 21 December, 2003, accessed July 3, 2011, <http://www.nu.or.id/a,public-m,dinamic-s,detail-ids,1-id,1033-lang,id-c,warta-t,KH+Sahal+Mahfudz++++quot+Fatwa+Bunga+Bank+Haram+Belum+Final+quot+.php>.

banks, all financial or banking transactions should, according to him, be transferred to non-interest banks.¹⁰²²

Ustadz Ahmad Hassan, a teacher and an important figure in the moderate Islamic reformist-fundamentalist organization Persatuan Islam (Persis), the Union of Islam, is perhaps the firmest among the Indonesian ‘ulamā’ in his opinion that bank interest is permissible (*ḥalāl*).¹⁰²³ Sjafruddin used Hassan’s opinions to strengthen his argument that bank interest is not *ribā* or usury, and is therefore not prohibited by Islamic teachings.¹⁰²⁴

Maṭla‘ al-Anwar (MA), a traditional Islamic organization based in Banten, western Java, specifies—although not as strongly as Ahmad Hassan—that the banking law is permissible by reason of the common good (*al-maṣāliḥ al-‘āmmah*) and for the progress of the economy. Therefore, the plenary session of the Fatwā Committee of Maṭlā al-Anwār stipulated in 1985 that donating interest from money deposited in banks and giving money saved in banks as charity is permissible, provided they are perceived as gifts and on the basis of emergency (*darūrah*). However, it remains implied that bank interest is basically unlawful.¹⁰²⁵

Sjafruddin deemed the opinion of many scholars and ordinary Muslims that bank interest *per se* was unlawful to be an obstacle to Indonesian economic progress. For this reason he discussed extensively, as we will examine below, the role of banks and financial institutions from both an economic and religious point of view. In a paper on the importance of money and banking in modern society,

¹⁰²² Hidayatullah, “Fatwa Muhammadiyah Soal Bunga Bank Bermanfaat.” In 1990, Abdurrahman Wahid, General Chairman of NU, who instituted many reforms in his traditionalist organization, initiated the establishment of People’s Credit Banks in cooperation with Bank Summa, a conventional bank. However, this effort failed to make progress since the majority of NU members condemned all forms of bank interest. In addition, with the collapse of Bank Summa in 1992, the program apparently ceased to continue, at least for the time being. See Hefner, “Islamizing Capitalism,” 152 and 163.

¹⁰²³ Mubarak, “Fatwa Tentang Bunga Bank di Indonesia.”

¹⁰²⁴ Prawiranegara, “Apa yang Dimaksud,” 290.

¹⁰²⁵ Mubarak, “Fatwa Tentang Bunga Bank di Indonesia.”

delivered on June 29, 1970,¹⁰²⁶ Sjafruddin began by frankly addressing two possible reasons behind some Muslims' having banned the selling, purchase or lease of money, however small the interest. The first was the religious prohibition of trading money based on economic motives; the second, the misinterpreting of *ribā* because of traditional Islamic scholars' lack of understanding of economics and lack of knowledge of the history and function of money.¹⁰²⁷ After explaining in detail the history and functions of money and banks in order to strengthen his argument that bank interest was not usurious, Sjafruddin concluded that money, like shovels and tractors, was simply a tool created by the human mind to facilitate and expand the production of the necessities of life.¹⁰²⁸ At first money was only an ordinary item which could directly satisfy human needs. However, because of its liquidity and capacity to serve as a repository of wealth and a measure of value, it was eventually used as a medium of exchange and trade.¹⁰²⁹ He argued that the claim that money should not be traded or loaned and that therefore any profit from the sale and or borrowing of money is unlawful was not acceptable.¹⁰³⁰ All these developments in the use of money should be encouraged, since they were based on economic principles that save time, alleviate burden and cost, and minimize risks. Economic principles (eg. money as a tool to measure value) were expressions of human reason and human nature in general, that of tool-making and tool-perfecting animals. If this were the case, it would hardly make sense for God to prohibit these economic principles from being put into practice. Therefore, in Sjafruddin's opinion, using money according to its various functions—including lending and buying—as a tool

¹⁰²⁶ Sjafruddin Prawiranegara, "Uang dan Bank Ditinjau dari Segi Ekonomi dan Agama," in *Ekonomi dan Keuangan: Makna Ekonomi Islam*, vol. 2 of *Kumpulan Karangan Terpilih*, ed. Ajip Rosidi (Jakarta: CV Haji Masagung, 1988), 309-336.

¹⁰²⁷ Prawiranegara, "Uang dan Bank," 313.

¹⁰²⁸ Prawiranegara, "Uang dan Bank," 326.

¹⁰²⁹ Prawiranegara, "Uang dan Bank," 316.

¹⁰³⁰ Prawiranegara, "Uang dan Bank," 312.

to obtain maximum benefits was not an unlawful act, so long as it was used in a way that did not compromise the just and equal relationship between fellow human beings.¹⁰³¹

In articulating his arguments regarding usury and bank interest, Sjafruddin supported his position, as we have seen above, with two guiding principles: rationality and human nature. Sjafruddin articulated this practical aspect of development at length in a rigorous rebuttal to the writings of Sheikh Mahmud Ahmad of Pakistan.¹⁰³² Ahmad argued that bank interest restricts marginal efficiency of capital, in which case several productive resources would stop working. According to Ahmad, two kinds of consequences would then follow: on the one hand, the use of limited productive resources would reduce the amount of goods produced, leaving many workers unemployed; and on the other, given the application of interest, marginal production cost would go up, driving up prices. Hence, an economic system based on interest would always pose a risk for the producers of commodities. Conversely, were there no interest in the whole affair, products could be sold cheaper since production costs would thereby be cut. The unemployed would then be able to get jobs. All this would be possible if the brakes on the marginal efficiency of capital could be eliminated. Sjafruddin's rebuttal was as follows. If capital is a factor of production—as stated by Ahmad— then the owner of the capital is entitled to receive one part of the outcome which he co-produced through an agreement with those who have borrowed the capital for production in order to protect his capital. The agreement would include provisions for paying the

¹⁰³¹ Prawiranegara, "Uang dan Bank," 314.

¹⁰³² Though I was not able to obtain this book, Rodney Wilson (Wilson, "Development of Islamic Economics," 218) mentions it in an endnote of his article on the development of Islamic economics: the complete title of Mahmud Ahmad's book is *Economics of Islam: A Comparative Study* (Lahore, 1947). All Mahmud Ahmad's opinions quoted are from Prawiranegara's article. There are four books by Mahmud Ahmad in the Islamic Studies library, McGill University, all of which are in Urdu.

interest which is relatively small compared to the profit that will be obtained. In Sjafruddin's view, there is no provision in Islam forbidding people to lend money on such terms. What is prohibited by Islam is *ribā*, understood as the excessive levy of interest that is not limited to monetary yield but also encompasses other profitable gains, including commercial. This disproportionate profit can be characterized as a situation in which the stronger party obtains excessive value through an abuse of power.¹⁰³³ Therefore the essence of the prohibition of usury, in Sjafruddin's opinion, is a matter of justice or fairness in economic and financial transactions. In other words, any sort of unfair economic or financial transaction is *ribā*.

Sjafruddin's second contention was that there was no fundamental difference between the activity of a money lender, including a bank, and that of a trader or merchant. Sjafruddin could not understand the opinion of Ahmad and other scholars, which held that bank interest is forbidden by the Qur'an while trade profit is permissible on the basis that, they claimed, money lenders do not deal with the same products as compared to traders. In a long section of the article, he argued that fundamentally, a merchant does nothing more than move goods from one place (the manufacturer) to another (the consumer). Often this transfer activity is done by another party; but regardless, the principal activity of the merchant is to order and handle the transfer of goods. Hence the role of merchants, as well as money lenders, is not that of a producer in a true sense. Given this, Sjafruddin questioned why a merchant should be deemed 'productive' and therefore be entitled to lawful profit,

¹⁰³³ Sjafruddin's opinion is based also on the interpretation of Abdullah Yusuf Ali, who interprets usury as "undue profit made, not in the way of legitimate trade, out of loans of gold and silver, and necessary articles of food, such as wheat, barley, dates and salt (according to the list mentioned by the Holy Apostle himself). My definition would include profiteering of all kinds, but exclude economic credit, the creature of modern banking and finance." Yusuf Ali, *Holy Qur'an*, 111. This is Ali's commentary on Chapter al-Baqarah 2:275. In page 156, note number 450 he comments on Chapter Āli 'Imrān 3:130: "Usury is the opposite extreme of charity, unselfishness, striving, and giving of ourselves in the service of God and of our fellow-men." Sjafruddin expressed his agreement with Yusuf Ali's translation of usury as "the profit obtained by cheating or deeds that deviate." Prawiranegara, "Adakah Konsep," 338 and 345.

while a money lender or a bank was not entitled to lawful profit because they were not considered to be productive. Arguing that banks behaved similarly to merchants, Sjafruddin thus invited his readers to revisit the criteria for 'productivity'. Indeed, when we take the word in its strong sense, he wrote, even a farmer did not "produce" agricultural products, strictly speaking. Plants grew gradually by another power, God or nature, to yield their harvest. 'Productivity', then, was not a trivial concept and must be reexamined from a broader point of view, not simply based on the nature of the objects concerned, *viz.* money as opposed to commodities. Sjafruddin proposed that 'production' ought to be taken simply to mean "processing available [existing] goods in accordance with human needs."¹⁰³⁴ He argued that:

[T]his is an indirect way to make ourselves useful to others. We can also make ourselves useful to others directly, by providing services such as house helper, doctor, lawyer, etc.

As long as we serve human needs, things that are not *harām* [unlawful] in God's eyes, Muslims are allowed to provide such service and demand advantages, benefits or wages for their services. Lending money for productive purposes is not unlawful. Therefore, the lender is allowed to earn interest.

The bank employer and merchant fall into the second category of productive agents, namely those that serve human needs directly. Justifying the traders taking profit and prohibiting bank employers [from taking] interest will mean to employ discrimination against the latter, for which there is no reasonable basis.

Next, to consider an excessive profit to be legally valid even at the expense and suffering of workers and consumers, simply because this profit is obtained by way of trade, while even the lowest rates were considered to be wrong, would make Islamic law a laughing stock in the eyes of outsiders.

Both profits and interest, whether fixed or fluctuating, if they are based on clean and sincere agreement in the eyes of God, they are legitimate. While excessive profit, including interest, which comes from the dishonest trade of goods or money, is usury, and therefore a violation of the provisions of God: that human beings must do good, must not cheat, and must not oppress fellow servants [of God].¹⁰³⁵

Sjafruddin's third argument challenged Ahmad's position that the elimination of bank interest would reap benefits for the economy. According to Ahmad, banking without interest would increase consumers' purchasing power and allow them to

¹⁰³⁴ Prawiranegara, "Adakah Konsep," 345-346.

¹⁰³⁵ Prawiranegara, "Adakah Konsep," 347.

invest directly in industry or trade or in ventures through banks that operate on profit sharing. On the whole, the increased demand for goods and business would encourage production. Furthermore, while emphasizing the benefits of interest-free banking, Ahmad also portrays the injustice of modern banking practices that gives out interest rewards to the bank's customers although their money, he said, may not be used in any productive process. In fact, the bank's customers and their owners and executives do the most asocial work but continue to build wealth. According to Ahmad, banks invest most of their financial resources in unproductive practices such as government securities, loans for speculative and consumptive purposes, and bills of exchange. But if the bankers make loans to people who plan to build an industry in the long term, although they are very reluctant, they limit the marginal efficiency of lent capital with interest imposed on it. Efficiency measures undertaken by the entrepreneurs who borrow money from banks are by reducing labor and by selling production at a higher price. Thus an economic system based on the interest always brings a risk for the commodities' producers and suffering for many people.¹⁰³⁶

Sjafruddin firmly rejected these arguments. If interest is eliminated, he wrote, not only would the national economy stagnate, it would be devastated. Capital that had been invested for productive businesses through banks and other credit institutions would be pulled back by their owners, since without interest they could not see the benefits of saving money, except for security. Furthermore, the elimination of interest by government regulation would encourage the withdrawal of deposits *en masse*, which would be followed by the cancellation of credit facilities in trade and industry. This would result in too many banks' closures and many companies would be forced to reduce their activities or become altogether bankrupt,

¹⁰³⁶ Prawiranegara, "Adakah Konsep," 347-348.

because their credit would be withdrawn by their banks. All this would lead to mass unemployment, falling prices and production, and stagnating stocks of goods. The abolition of interest would not lead to prosperity as Ahmad envisioned, but rather widespread poverty.¹⁰³⁷

For Sjafruddin, many Muslim scholars' idealized vision of creating wealth and eradicating poverty by eliminating bank interest was no different from the desire of the Communists to create a workers' utopia through the abolition of private property. This is surely one of the harshest criticisms of the idea of a free-interest bank coming from a Muslim leader. The Muslims' desire to create free-interest economic system would fail because, according to Sjafruddin, "they cannot eliminate human nature that aspires to own property as a tool to protect human life and aspires to earn income from labor and capital as a tool to prosper in life."¹⁰³⁸ He enjoined Muslims to adhere to the Qur'an's description of believers as *ummatan wasaṭan* [middle community/nation].¹⁰³⁹ They should not attempt to deny the

¹⁰³⁷ Prawiranegara, "Adakah Konsep," 348-349. Sjafruddin's pioneering description of the dangerous consequences of abolition of interest was echoed in 1984 by Syed Nawab Haider Naqvi, one of the most realistic proponents of Islamic economics. Naqvi wrote: "There is a real danger that if the abolition of interest and the introduction of zakat are overemphasized as initiators of the process of Islamization, then policy-making will concentrate on just these two elements to the exclusion of the fundamental structural elements of the Islamic reform...After all, it is not difficult to envisage situations where gross social injustice prevails in violation of the requirement of *al-ʿAdl wal-Iḥsān* (Justice and the doing good to others) even though zakat may be the only form of taxation and interest may have been abolished. In capital-scarce poor societies, where economic exploitation is rife, such tendencies will be still greater. In particular, the profit-sharing system, which is advocated as the sole replacement of the interest-based system, may lead to a gross exploitation of the poor by the rich; and *zakat*, if interpreted only as a limited means of resource mobilization, may prove to be insufficient to end economic injustices in the society. What is worse, nothing can be done about this state of affairs when the failure to end exploitation results from the reforms introduced in the name of Islam." See Naqvi et al, *Principles of Islamic Economic Reform*, 23; see also Naqvi, *Islam, Economics, and Society*, 8-9 and 110-135.

¹⁰³⁸ Prawiranegara, "Adakah Konsep," 350. I would like to remind readers that this statement was included in his aforementioned paper presented at the International Economic Conference on The Muslim World and the Future Economic Order in London, July 1977. No wonder that Sjafruddin had never previously attended, and probably was never invited to attend again, successive international conferences on Islamic economics.

¹⁰³⁹ "Thus have We made of you an *ummah* [community, nation] justly balanced, that ye might be witnesses over the nations..." (Qur'an: al-Baqarah 2:142). In his commentary Yusuf Ali said: "Justly balanced: The essence of Islam is to avoid all extravagances on either side. It is a sober, practical religion. But the Arabic word of word (*wasat*) also implies a touch of the literal meaning of intermediacy..." Yusuf Ali, *Holy Qur'ān*, 57. *Wasatā* (verb) means to be in the midst, penetrate

natural human desire for material gain. Rather, they should be confident to express such nature as well as limit it rationally. The desire to obtain wealth should not be allowed to become excessively greedy. By quoting verses of the Qur'an, among them al-A'rāf 7:31)¹⁰⁴⁰ he enjoined Muslims to enjoy the pleasures of the world but without extravagance.¹⁰⁴¹

Though Sjafruddin agreed with Ahmad's argument that if bank interest was removed, the marginal efficiency of capital would go up, he argued that instead of more productivity and consumption, economic hardship would ensue. This was because capital for productive purposes would become scarcer than before the abolition of interest. Owners of capital would demand junior partners, who would perform managerial work and ask for modest profits or wages and at the same time cut spending on labor and material purchases. As a result, marginal production costs would actually go down and thus the marginal efficiency of capital would rise. However, this situation would not lower the prices of goods; instead the economic position of the owners of capital would become even more powerful, such that they would be capable of imposing high prices to get profit to compensate for the benefits they would have otherwise received from bank interest. Subsequently, Sjafruddin concluded, "the gap between the haves and the haves not would not be bridged or narrowed, but would become wider and deeper."¹⁰⁴² In the long term, the removal of bank interest rates would cause a rise in marginal production costs, decrease in

into the midst, be good and exalted, occupy the middle position. See Omar, *Dictionary of the Holy Qur'an: Arabic Words – English Meanings (With Notes)*, (Hockessin, DE: Noor Foundation International, 2008), 608.

¹⁰⁴⁰ "O children of Adam, attend to your adornment at every time of prayer, and eat and drink and be not prodigal; surely He loves not the prodigals."

¹⁰⁴¹ Prawiranegara, "Adakah Konsep," 350.

¹⁰⁴² Prawiranegara, "Adakah Konsep," 350-351.

production, and widespread unemployment and poverty, while the owners of capital would continue to get richer.¹⁰⁴³

Sjafruddin stressed that modern banking system he defended was a sound national banking system which he believed could bring the economic prosperity and social justice displayed by Western countries, drawing attention specifically to the Scandinavian and Benelux (Belgium, Netherlands, and Luxemburg) countries. What he meant by a healthy national banking system was when there was “monitoring and supervision by a central bank working under the political demands of a popular and elected government.”¹⁰⁴⁴ These countries had become prosperous, practically abolishing poverty “not by eliminating interest, but on the contrary, with interest and with its wise use through the banking system.”¹⁰⁴⁵ Sjafruddin even suggested the huge gap between the rich and poor prevalent in many Muslim countries before the “oil boom” was caused by, among other things, the prohibition of interest. He rejected the grim picture Ahmad painted of the perceived income gaps in Western countries. Furthermore, Sjafruddin added: “[i]n Western democracies that work with the tools of capitalism, including interest, modified by socialist principles or by the demands of social justice”, there was no serious gap between the rich and the poor as imagined by Ahmad.¹⁰⁴⁶

¹⁰⁴³ Prawiranegara, “Adakah Konsep,” 354.

¹⁰⁴⁴ Prawiranegara, “Adakah Konsep,” 351.

¹⁰⁴⁵ Prawiranegara, “Adakah Konsep,” 351.

¹⁰⁴⁶ Prawiranegara, “Adakah Konsep,” 352. However it is important to note that since the early 1970s inequalities of income and wealth have risen again in the majority of developed societies, although not in all of the most industrial countries. As Anthony Giddens observes, “[t]he US appears as the most unequal of all industrial countries in terms of income distribution. The proportion of income taken by the top 1% has increased substantially over the past two or three decades, while those at the bottom have seen their average income stagnate or decline. Defined as 50% or less of median incomes, poverty in the US in the early 1990s was five times as great as in Norway or Sweden—20% for the US, as compared to 4% for the other two countries. The incidence of poverty in Canada and Australia is also high, at 14% and 13% respectively.” Giddens, *Third Way and its Critics*, 89-90. Notwithstanding, inequalities and poverty in many Muslim countries, especially oil-rich ones, are likely much higher, the more so in those countries ruled by royal families in an authoritarian system. One of the implications of this system is the lack of effective control on the part of an elected legislative body—if any exists—to control the wealth

He further showed that banking in modern society had very strategic functions that permitted members of society to increase production. Sjafruddin likened a banking system with the central bank at its center to the heart in the human body, whose veins and tendons are a network of vessels carrying food nutrients. The blood of the banking system is money.¹⁰⁴⁷

Sjafruddin strongly emphasized the importance of central banks in maintaining the balance between the currency and the amount of goods or production. With the increasing volume and value of production and trade, he said, the amount of money must also be increased. The additional money in circulation was meant both to increase production and offset the additional production. To maintain the stability of the currency, the amount and circulation of money should always be balanced with that of goods. However Sjafruddin also warned that credit agencies have high social functions. The purpose of their existence is to enable people to increase their productivity. If the bank is viewed solely as a tool to gain as much profit as possible, it will easily fall prey to speculation and manipulation of the money entrusted to it regardless of the security to their transactions. Sjafruddin felt the need to warn about this problem because, at the time he delivered this paper in 1970, Indonesia had just recovered from the economic slump inherited from the Sukarno regime in which the central bank—deviating from its normal and fundamental function—was simply used as a tool of politics. Similarly, in the early days of the Suharto government following Sukarno, as well as at the near end of

owned by the ruling elite, manage corruption, or establish a clear separation between private and public wealth. This condition of inequalities and poverty in oil-rich Muslim countries is much more reprehensible than in developed countries. One can understand Sjafruddin's above conclusion in this light.

¹⁰⁴⁷ Prawiranegara, "Uang dan Bank," 334.

Suharto's regime in 1997, many banks were being liquidated because they were bankrupt.¹⁰⁴⁸

In addition, he stressed the important role of the government and central bank in stabilizing the currency. Sjafruddin described in detail how this was to be achieved. The government and central bank should draw up budget revenues and expenditures in such a way that did not cause high inflation or increase prices of goods which would in turn reduce the value of money. The central bank should guide and supervise the credit policies of all credit agencies so that the credit really did achieve its objective: namely, to increase production without causing inflation. If the government and central bank succeeded in maintaining the stability of monetary value, this would encourage people to save their money and invest. Furthermore, if money was stable, public confidence in it would grow and would further increase people's willingness to save. Saving money provided a means to raise capital, since banks could collect money that had been idle and scattered and invest it in production and building projects. The difference between principal money being lent and put into productive ventures and the gross production output was the net profit for society. This net profit was then divided between the state or government that levied tax, the savers who received interest on savings, banks that earned interest and fees, entrepreneurs who got the net profit, and finally workers who had additional jobs or wages.¹⁰⁴⁹

In the aforementioned paragraphs, we have seen how Sjafruddin explained in some detail the function of money and banks in improving the economic condition of a country. Furthermore, we have seen how he articulated his defense of this aspect of economic development in response to Muslim thinkers of the period. I argue,

¹⁰⁴⁸ Prawiranegara, "Uang dan Bank," 334-335. See Priasmoro Prawiroardjo, "Perbankan Indonesia 40 Tahun," in *Teori Ekonomi dan Kebijakan Pembangunan: Kumpulan Esei untuk Menghormati Sumitro Djojohadikusumo*, ed. Hendra Esmara (Jakarta: Gramedia, 1987), 194-200.

¹⁰⁴⁹ Prawiranegara, "Uang dan Bank," 335-336.

however, that these insights are still relevant to the contemporary debate on Islamic economics. In the following, we will discuss a recent contribution by a well-known proponent of Islamic economics, M. Umer Chapra. I will then show how Sjafruddin had anticipated some of Chapra's concerns and offered alternative solutions to the problems he raises.

M. Umer Chapra, an advisor to the Saudi Arabian Monetary Agency and the Islamic Development Bank (IDB), argues that the reasoning behind the prohibition of interest can only be understood if the *maqāṣid al-sharīʿah*, the goals of Islamic law, are taken into consideration. Moreover, the strategy to achieve them must be compatible with these goals.¹⁰⁵⁰ By quoting verses of the Qur'an, Hadith, and the views of several past Islamic scholars, Chapra concludes that justice is one of the main objectives of the Shari'ah.¹⁰⁵¹ Justice encompasses all aspects of human relationships. One of the most important implications of justice is that "the resources provided by God to mankind are a trust and must be utilized in such a manner that the well-being of all is ensured, irrespective of whether they are rich or poor, high-class or lower-class, male or female, and Muslim or non-Muslim."¹⁰⁵²

Chapra emphasizes that justice requires the equitable implementation of resources so that the universal "cherished humanitarian goals of general need-fulfillment, optimum growth, employment, equitable distribution of income and wealth, and economic stability are realized."¹⁰⁵³ He contends that these goals, which are entailed by the moral values provided by most religions, cannot be realized without a humanitarian strategy that requires, among other things, "the injection of

¹⁰⁵⁰ M. Umer Chapra, "Why has Islam Prohibited Interest? Rationale behind the Prohibition of Interest," in *Interest in Islamic Economics: Understanding Riba*, ed. Abdulkader Thomas (London: Routledge, 2006), 96.

¹⁰⁵¹ Qur'an, Chapter al-Ḥadīd 57:25; Al-Māida 5:8. A Prophetic hadith: "Beware of injustice, for injustice will lead to absolute darkness on the Day of Judgment."

¹⁰⁵² Chapra, "Why has Islam Prohibited Interest?" 97.

¹⁰⁵³ Chapra, "Why has Islam Prohibited Interest?" 98.

a moral dimension into economics in place of the materialist and self-indulgent orientation of capitalism. Abolition of interest is a part of the moral dimension.”¹⁰⁵⁴ On this point Chapra differs from Sjafruddin. Furthermore, the former criticizes Muslim scholars who—like Sjafruddin—do not consider bank interest as *ribā* which is prohibited by Islam. Indeed, he deems bank interest “not only factually wrong but unduly restrictive in terms of the concept of justice in Islam.”¹⁰⁵⁵ He further argues that “Islam abolished the interest-based nature of the financier-entrepreneur relationship [in the time of the Prophet] and reorganized it on a profit-and-loss-sharing basis. This enabled the financier to have a just share and the entrepreneur did not get crushed under adverse conditions, one of which was the caravan being waylaid on the journey.”¹⁰⁵⁶ Emphasizing the benefit of financial intermediation on the basis of equity and profit-and-loss sharing, Chapra asserted that it “would make the financier share in the risks as well as rewards of business and thereby introduce a greater discipline in the use of financial resources.”¹⁰⁵⁷

Subsequently Chapra discusses the reason why an economy based on equity and profit-and-loss sharing has become more important in the context of a modern economic system. The disadvantages of financial intermediation based on interest are that, firstly, it “tends to promote living beyond means by both the private and public sectors.”¹⁰⁵⁸ He points out the misuse of the borrowed funds for extravagant spending, speculation, military expenditure, and large useless projects, instead of for public welfare and useful economic projects. All these would eventually lead to “a rapid expansion in claims on resources (partly for unproductive and wasteful

¹⁰⁵⁴ Chapra, “Why has Islam Prohibited Interest?” 98.

¹⁰⁵⁵ Chapra, “Why has Islam Prohibited Interest?” 98.

¹⁰⁵⁶ Chapra, “Why has Islam Prohibited Interest?” 98.

¹⁰⁵⁷ Chapra, “Why has Islam Prohibited Interest?” 99.

¹⁰⁵⁸ Chapra, “Why has Islam Prohibited Interest?” 99.

spending) and, besides accentuating macroeconomic and external imbalances, squeezes resources available for need-fulfillment and development.”¹⁰⁵⁹

The outcome about which Chapra is concerned—that readily-accessible loans can lead to conspicuous consumption and wasteful projects—has indeed occurred in many countries. Sjafruddin would have agreed with Chapra’s critical assessment of the practice. I have mentioned above how he criticized the irresponsible use of credit and the indiscriminate lending by many banks in Indonesia. In his view, loans should be used for productive projects, while the central bank should guide and supervise the credit policies of all financial institutions so that the credit effectively increases production without causing inflation. The difference between Sjafruddin and Chapra is that, while the former argued that loans ought to be used for productive goals and public welfare through prudent policy-making and rigorous supervision by a central bank in an interest-based system, Chapra believes that the interest-based system itself must make way for a profit-and-loss-sharing system to ensure that credit not deviate from its intended use, i.e. public well-being and economic development. It seems therefore that for Chapra, the central bank and government’s rigorous supervision and control would not be effective enough to prevent irregularities and manipulation if the financial system continues to run on interest. However, the equity and profit-and-loss-sharing system Chapra proposes would, he argues, ensure greater discipline in the use of financial resources and be more easily supervisable than would an interest-based banking system.¹⁰⁶⁰

Chapra highlights saving as one of the basic ingredients needed for sustained growth. Other basic ingredients are “investment, hard and conscientious work, technological progress and creative management, along with helpful social behavior

¹⁰⁵⁹ Chapra, “Why has Islam Prohibited Interest?” 99.

¹⁰⁶⁰ Chapra, “Why has Islam Prohibited Interest?” 99-100.

and government policies.”¹⁰⁶¹ He stresses two facts: first, that saving has a positive effect on growth and it “helps capital formation, which in turn helps an increase in output and employment”,¹⁰⁶² and second, that “high-saving countries have generally grown faster than low-saving countries.”¹⁰⁶³ In his view, although the equity premium in the US, Germany, and Japan is high, it involves hugely unmanageable risks. Chapra presumes that “[s]ome people may prefer to have less risky modes”, and therefore proposes “the availability of, and easy access to, investment opportunities of varying risks and maturities to satisfy the different preferences of savers.”¹⁰⁶⁴ He indicates that these kinds of investments are available within an Islamic framework. Moreover, Chapra notes that higher interest rates do not in fact help to promote saving. He shows that “[g]ross domestic saving as per cent of GDP has registered a worldwide decline over the last quarter century from 26.6 per cent in 1971 to 22.6 per cent in 1996.”¹⁰⁶⁵ The decline occurred both in the advanced industrial countries and in developing countries. One of the reasons for the decline is “the rise in consumption by both the public and private sectors due to the easy availability of credit in a collateral-linked, interest-based financial system.”¹⁰⁶⁶ Again Chapra proposes that profit-and-loss sharing can overcome the decline of investment. In his opinion, it employs “a fair ratio between the financier and the entrepreneur [which] should also help to promote a more efficient allocation of resources.”¹⁰⁶⁷ Chapra believes that profit-and-loss sharing ensures fairness and will provide a positive outcome for the entrepreneur’s business plan. He explains that “the risks of business may be more equitably distributed, thereby improving the

¹⁰⁶¹ Chapra, “Why has Islam Prohibited Interest?” 99.

¹⁰⁶² Chapra, “Why has Islam Prohibited Interest?” 100.

¹⁰⁶³ Chapra, “Why has Islam Prohibited Interest?” 100.

¹⁰⁶⁴ Chapra, “Why has Islam Prohibited Interest?” 101.

¹⁰⁶⁵ Chapra, “Why has Islam Prohibited Interest?” 101.

¹⁰⁶⁶ Chapra, “Why has Islam Prohibited Interest?” 101.

¹⁰⁶⁷ Chapra, “Why has Islam Prohibited Interest?” 102.

investment climate. Moreover, by making the savers and banks involved in the success of the entrepreneur's business, greater experience may become available to the entrepreneurs, leading to an improvement in the availability of information, skills, efficiency, and profitability. More productive entrepreneurship may lead to increased investment."¹⁰⁶⁸

Although Chapra emphasizes the significance of a number of Islamic values and institutions, including *zakāt* and the inheritance system, for social justice, he is mainly concerned with replacing the interest-based system with one of profit and loss sharing, which he believes could have a major equalizing effect on the distribution of income and wealth.¹⁰⁶⁹ Citing the opinions of Lester Thurow, Arne Bigsten, and even Morgan Guarantee Trust Company, he argues that "the established practice of banks in the conventional banking system is to lend mainly to those individuals and firms who have the necessary collateral to offer large internal savings to service the debt."¹⁰⁷⁰ The system creates greater gaps of profit between smaller companies and the largest ones. Chapra identifies "the established practice of banks in the conventional banking system [... of lending] mainly to those individuals and firms who have the necessary collateral to offer large internal savings to service the debt" as an important factor leading to unequal distribution of wealth.¹⁰⁷¹ However, he believes that efforts to overcome the problem would be relatively more successful "in an equity-based system where the banks would be motivated to give at least as much attention to the profitability of the project as to the collateral and thereby enable small business also to compete."¹⁰⁷²

¹⁰⁶⁸ Chapra, "Why has Islam Prohibited Interest?" 102.

¹⁰⁶⁹ Chapra, "Why has Islam Prohibited Interest?" 103.

¹⁰⁷⁰ Chapra, "Why has Islam Prohibited Interest?" 103.

¹⁰⁷¹ Chapra, "Why has Islam Prohibited Interest?" 103.

¹⁰⁷² Chapra, "Why has Islam Prohibited Interest?" 103.

Another disadvantage of an interest-based system is economic instability, which Chapra finds to have increased, especially in the last twenty years, due to unpredictable fluctuations in “interest rates, exchange rates and commodity and stock prices”.¹⁰⁷³ In his assessment, “[s]uch crises tend to accentuate uncertainties, disrupt the smooth functioning of the financial system, create financial fragility, and hurt economic performance.”¹⁰⁷⁴ Fluctuation in the financial markets has been occasioned by a number of internal and external factors that relate to each other which tends to cause a more severe impact. Chapra emphasizes the “rise in debt, and particularly short-term debt”, as a main contributor to economic instability in various situations, including overreliance on credit, a debt-friendly tax system, and ease of money transfer enabled by global technologies. The disastrous consequences of increasing debt were seen in the 1997 East Asia crisis, which was precipitated by an excess of short-term debt “diverted to speculation in the foreign exchange, stock, and commodity markets.”¹⁰⁷⁵

In Chapra’s estimation, the economic crisis could have been avoided had there been an emphasis on risk-sharing (central to the profit-and-loss sharing system) where banks “would have been under a constraint to scrutinize the projects more carefully and would not have yielded even to political pressures if they considered the projects to be too risky.”¹⁰⁷⁶

Chapra raises the arguments above to show that the equity and profit-and-loss-sharing system employs greater discipline and better supervision in terms of use of financial resources than does the interest-based banking system. The former system provides a number of advantages in terms of wealth distribution and

¹⁰⁷³ Chapra, “Why has Islam Prohibited Interest?” 104.

¹⁰⁷⁴ Chapra, “Why has Islam Prohibited Interest?” 104.

¹⁰⁷⁵ Chapra, “Why has Islam Prohibited Interest?” 104.

¹⁰⁷⁶ Chapra, “Why has Islam Prohibited Interest?” 105.

economic stability, whereas the interest-based banking system would seem to promote excessive indebtedness, inequality, and instability.

It is obvious that Chapra's arguments against the interest-based system of financial intermediation are contrary to Sjafruddin's conclusions, but Chapra's analysis does not take into account the limitations that Sjafruddin imposed on monetary and interest transactions. The interest-based banking and finance that Sjafruddin proposed is one that applies strict discipline to and supervision of lent money so that it is used only for productive purposes that could stimulate positive economic growth. He also stressed the need to prevent the use of credit lent by banks for speculative businesses and emphasized the roles government and central banks to maintain currency stability to make public confidence in the money grows.

Sjafruddin also differed from Chapra in his assessments of non-interest-based banking and finance, or a profit-and-loss-sharing system. Chapra praises this system as promoting the equitable distribution and economic growth and stability. On the contrary, Sjafruddin believed that the profit-and-loss-sharing system would bring about negative effects on production, economic growth, and the realization of social justice.

However, Sjafruddin's observation could not have taken into account, if these high-risk practices were not happening during his lifetime. As explored above, Chapra describes how short-term borrowing has injected "a substantial degree of instability into the international foreign exchange markets."¹⁰⁷⁷ In addition, the presence of hedge funds is "blamed for manipulating markets from Hong Kong to London and New York."¹⁰⁷⁸ A hedge fund, as described by former Chairman of the US Federal Reserve Alan Greenspan, is "structured to avoid regulation by limiting its

¹⁰⁷⁷ Chapra, "Why has Islam Prohibited Interest?" 106.

¹⁰⁷⁸ Chapra, "Why has Islam Prohibited Interest?" 106.

clientele to a small number of highly sophisticated, very wealthy individuals”,¹⁰⁷⁹ and, as such, can easily have a destabilizing effect on world economies.¹⁰⁸⁰ Sjafrudin had warned against speculative financial transactions during the 1970s, although at that time the risks posed, amount of money involved, and magnitude of impact were nothing compared to what has evolved during the past two decades, given the rapid growth in bank credit. Sjafrudin undertook policies designed prevent speculative and manipulative financial transactions which were implemented under the supervision of the central bank, within the democratic political system according to laws enacted by parliament or legislative councils. Not the least Sjafrudin emphasized the significance of moral and spiritual values to restrain the impulsivity and greed of economic players. He repeated that the purpose of human life is to seek God’s pleasure (*marḍāt Allah or riḍā Allah*), not to acquire wealth in ways that ignore religious teachings, such as doing harm or injustice to fellow human beings.¹⁰⁸¹ At this point Sjafrudin introduced Islamic ethical values to restrict the possibility of unfair exchange in business practices and financial transactions. If there were no moral restrictions, the business and financial transactions would be carried out only for material gain and at the expense of an unprivileged majority which, in a globalized capitalist economy, would reach hundreds of millions of people. This is also a concern of Muslim scholars on the other side of the debate, such as Chapra. As Charles Tripp puts it: “[t]his is directly relevant to Muslim responses, since rulings on fair exchange are central to all the major juristic schools of Islam. In fact, one can argue that many contemporary Islamic responses to capitalism stem from anxieties about unlicensed or unfair exchange, leading to various strategies devised to ‘tame’ the process and to make it authentically yet also

¹⁰⁷⁹ Alan Greenspan in Chapra, “Why has Islam Prohibited Interest?” 106.

¹⁰⁸⁰ Chapra, “Why has Islam Prohibited Interest?” 106.

¹⁰⁸¹ Prawiranegara, “Apa yang Dimaksud,” 294.

productively part of an Islamic system, reinforcing, rather than undermining, the solidarities and trust of transactions.”¹⁰⁸²

However, Sjafruddin continued to advocate for an interest-based banking system, which he believed could bring economic prosperity and social justice. For him, efforts to establish Islamic banks that do not pay and collect interest are simply a waste of time—although he did not dismiss out of hand the possibility that the effort might succeed.¹⁰⁸³ In his opinion, as long as people create money to develop and facilitate the economy, interest cannot be eliminated. He believed that God has allowed human beings’ governance and use of property and collection of interest if this is done in a way that benefits the entire society, not just those who own capital. Bank interest accrued by lending money, he maintained, cannot be eliminated, because it would run contrary to human nature which expects to gain profit and benefits from economic relationships with other people. Objections to interest, according to him, are groundless, both from a religious and an economic standpoint.¹⁰⁸⁴ On the contrary, as previously discussed, Chapra saw the replacement of interest-based financial intermediation with the profit-and-loss-sharing system as a more effective way to overcome financial problems.¹⁰⁸⁵ The latter system would, in his view, be more conducive to fairer transactions, more

¹⁰⁸² Tripp, *Islam and the Moral Economy*, 4.

¹⁰⁸³ Prawiranegara, “Persamaan,” 408.

¹⁰⁸⁴ Prawiranegara, “Persamaan,” 409-410.

¹⁰⁸⁵ Unexpected support for an Islamic financial system comes from Kenneth Rogoff, Professor of Economics and Public Policy at Harvard University and former chief economist at the IMF. Concerning current financial crises in many Western capitalist countries, he recognized that the real problems are rooted in excessive concentrations of debt. “Economists have long noted that for countries gorging on capital inflows, there is a big difference between debt instruments and equity-like investments, including both stocks and foreign direct investment,” he said. While not advocating a return to the early Middle Ages, when ecclesiastical usury laws forbade interest on loans, he urged that “scholars who argue that Islamic financial systems’ prohibition on interest generates massive inefficiencies ought to be looking at these systems for positive ideas that Western policymakers might adopt.” Kenneth Rogoff, “Global Imbalances without Fears,” *Project Syndicate*, March 1, 2011, accessed February 10, 2011, <http://www.project-syndicate.org/commentary/rogoff78/English>.

supportive to the welfare of society, ethically more compliant to Islamic injunctions, and more spiritually inspiring.¹⁰⁸⁶

The above discussion demonstrated the diversity of how justice is perceived and implemented in the economy. Islamic injunctions concerning the issues of *ribā*, *zakāt*, taxation, interest, rent, inheritance, private ownership and income distribution are directed to ensure justice (*‘adl*) and to serve the public interest (*maṣlahah*), as aims of the Shari‘ah. Sjafruddin and proponents of Islamic economics came to different conclusions as to the meaning of justice and implications of the prohibition of *ribā*. For Sjafruddin, *ribā* was any unfair or exploitative economic transaction whereby a party takes advantage of its weaker competitor by abusing its strong economic position. Sjafruddin emphasized that the rationale behind the prohibition of *ribā* was to guarantee justice and fairness and to avoid exploitation in economic affairs. He also included an excessive or uncontrolled exploitation of natural resources as falling within the scope of *ribā*. Meanwhile Islamic economics emphasizes the legal formulations of *ribā* in Islamic law by centuries of Muslim jurists and scholars. Consequently, proponents of Islamic economics argue that interest which inflicts injustice is *ribā*, and offer the profit-and-loss-sharing system to replace the interest-based banking and financial system. Unlike that opinion,

¹⁰⁸⁶ DeLorenzo, "Introduction to Understanding Riba," 2. However, the implementation of Islamic economics may experience problems due to its religious basis. As Ibrahim Warde explains, dishonesty on the part of a few customers or employees can bring serious difficulties to, and even destroy, a financial institution; and there exists some ambiguity of norms between religious and economic logics. Islamic financial institutions are torn between being profit-making enterprises and being bound by religious obligations to act on moral rather than economic considerations. The above have occurred in Iran, Pakistan, and Saudi Arabia with detrimental effects on the efficacy of the system. See Ibrahim Warde, "Corporate Governance and the Islamic Moral Hazard," in *Islamic Finance: Current Legal and Regulatory Issues*, ed. S. Nazim Ali, (Cambridge, Massachusetts: Islamic Finance Project, Islamic Legal Studies Program, Harvard Law School, 2005), 23-24. Another aspect of the problem faced by Islamic banking and financial institutions is the reality of the capitalist global market. As described by Tripp: "As the Islamic financial sector grew, mobilizing substantial sums of capital, many of the original intentions faded from view, or declined in relation to the profit-seeking operations of the banks. The goal of reinforcing the bonds of community, and the therapeutic ambition of restoring unity between people's material transactions and the spiritual dimension of their lives, gave way before the need for financial institutions to survive and to thrive." See Tripp, *Islam and the Moral Economy*, 141-142.

Sjafruddin argued money, like shovels and tractors, as simply a tool to facilitate and expand the production of the necessities of life that was eventually used as a medium of exchange and trade. Therefore it can be traded or loaned, and any profit from the sale and or borrowing of money is lawful. For him there is no need to have a free-interest banking and financial system as an alternative to the current system. While admitting that many excesses and deviations of financial practices of the conventional banking and financial system, Sjafruddin believed that it constitutes an efficient system of production and distribution that would ensure economic prosperity.¹⁰⁸⁷

Both Chapra and Sjafruddin show that Islamic thinking on economics is in many respects compatible with modern capitalism and economic development, such as profit through business ventures, financial returns on investments involving risk, and basic rights to private ownership. However, Islamic economics, as a religiously-based response to modern capitalism, wants not only to infuse modern capitalism with moral and ethical values but also to offer a structural alternative that is believed to be capable of reducing the many injustices in present financial and economic practices. Sjafruddin did not offer a structural alternative, but was critical of what he saw as excessive individualism, and materialistic, hedonistic, and greedy tendencies in contemporary capitalist society which brought suffering and injustices upon disadvantaged groups.¹⁰⁸⁸ Therefore his economic thinking stressed the importance of moral and socio-ethical values in conducting economic affairs.

¹⁰⁸⁷ In defending private enterprise as the backbone of Indonesian economy, Sjafruddin said, "Healthy individualism and self-respect are pummelled to bits with the words 'capitalist-bourgeois' [...] We should restore respect for the personality, individual initiative, and healthy individualism, which in addition to seeking profit, for oneself, also considers the interests of the community." Higgins with Higgins, *Indonesia*, 90.

¹⁰⁸⁸ Criticism of capitalism comes not only among scholars or public figures in developing countries and left-wing groups or scholars in Western countries, but also from those who come from the establishment of capitalism such as Kenneth Rogoff. He said that while "in principle, none of capitalism's problems is insurmountable, nevertheless as pollution, financial instability, health problems, and inequality continue to grow, and as political systems remain paralyzed,

That said, it would seem that both Sjafruddin and Islamic economists such as Chapra are not absolutist in their support of the banking and financial system that each defends. As mentioned above, Sjafruddin did not dismiss completely the possibility of the equity and profit-and-loss sharing system to succeed. Likewise, Chapra's arguments in favour of this system are frequently presented in a comparative manner and not in black-and-white or zero-sum game terms. These possibilities are very much up in the air, since "[t]he foci and method that have been selected by Muslim economists for economic analysis is essentially of Keynesian and neoclassical economics."¹⁰⁸⁹

Until now no single country which supports the development of Islamic economics has applied these theories on a national scale. In countries which host Islamic economics research institutions such as Saudi Arabia, Kuwait, and the UAE, implementation of Islamic economics is limited to the development of private financial establishments.¹⁰⁹⁰ The interests of the rulers, political class and business elite of oil-rich Arab countries, especially Saudi Arabia, seem to compel them to avoid employing Islamic banking as the cornerstone of their national economies. Their lack of political legitimacy—their being in many cases part of unelected

capitalism's future might not seem so secure in a few decades as it seems now." Kenneth Rogoff, "Is Modern Capitalism Sustainable." *Project Syndicate*, December 2, 2011, accessed February 10, 2011, <http://www.project-syndicate.org/commentary/rogoff87/English>. For the destructive excesses of neo-liberalism, free-market capitalism or capitalist fundamentalism, such as growing problems of economic inequality and poverty, see Schroyer, *Beyond Western Economics* (London: Routledge, 2009); Thomas Frank, *One Market Under God: Extreme Capitalism, Market Populism, and the End of Economic Democracy* (New York: Doubleday, 2000); Stilwell, *Political Economy*, 22-23.

¹⁰⁸⁹ Syed Farid Alatas, "Islam and Counter Modernism: Towards Alternative Development Paradigms," in *Islamic Political Economy in Capitalist-Globalization: An Agenda for Change*, ed. Masudul Alam Choudhury et al (Kuala Lumpur: Utusan Publications & Distribution Sdn. Bhd. and International Project on Islamic Political Economy, 1997), 73.

¹⁰⁹⁰ Islamic banks now operate in more than sixty countries. Islamic banking systems (interest-free banks) are well entrenched in the fabric of economic life in most countries of the Middle East (Saudi Arabia, Iran, Turkey, Dubai, Kuwait, Egypt, Jordan, Bahrain, Qatar), North Africa, Sudan, Pakistan, Bangladesh, Malaysia, Indonesia, and are even present in South Korea, the UK, Switzerland, Denmark, the US, and New Zealand. See Kuran, *Islam and Mammon*, 9 and 146-147; Wilson, "Development of Islamic Economics," 212-213; Saeed, *Islamic Banking and Interest*, 14-15.

governments—and their deep connections with global capitalist institutions present many political risks in undertaking such a radical policy. Most of the wealth of these countries is invested in transnational conventional banks and equity markets.¹⁰⁹¹ As a result, the effectiveness of the alternative system in national and global economies cannot be empirically tested. The only country that has fully implemented Islamic economic theory on a national scale to guide the state's economic policy is Iran, whose banking and financial system has been running on an Islamic basis since 1984. But this step is not without problems.¹⁰⁹² The government of Pakistan in the time of Zia-ul-Haq attempted to abolish interest from the Pakistani economy, but it has still not yet fully transformed its economy into an interest-free system. Pakistan failed to be an example of how Muslim economies should have developed. Corruption and excessive borrowing squeezes resources that could otherwise be used for need fulfillment. This failure happens, according to Chapra, because the government of Pakistan has not taken the Islamic injunctions against interest seriously.¹⁰⁹³ Sudan also attempted to abolish interest from its economy. However, international pressures such as IMF-dictated reforms forced the country to abandon the implementation of a free-interest banking system.¹⁰⁹⁴

As the sole country which employs Islamic banking as the foundation of its economy, more studies of Iran's economic performance are needed to examine its successes and shortcomings in implementing Islamic economics on a national scale. The research could provide material for the further development of Islamic

¹⁰⁹¹ Tripp, *Islam and the Moral Economy*, 139-140; Robert W. Hefner, "Ambivalent Embrace: Islamic Economics and Global Capitalism," in *Markets, Morals & Religion*, ed. Jonathan B. Imber (New Brunswick: Transaction Publishers, 2008), 151.

¹⁰⁹² Tripp, *Islam and the Moral Economy*, 141; Karim Eslamloeyan, "Stock Market Operation and Equity Price Determination in an Economy with an Interest-Free Banking System: The Case of Iran," in *Islamic Perspectives on Wealth Creation*, ed. Munawar Iqbal and Rodney Wilson (Edinburgh: Edinburgh University Press, 2005), 205-216; Wilson, *Economics, Ethics and Religion*, 146-149.

¹⁰⁹³ Wilson, "Development of Islamic Economics," 208; Chapra, "Why has Islam Prohibited Interest?" 99; Saeed, *Islamic Banking and Interest*, 14.

¹⁰⁹⁴ Tripp, *Islam and the Moral Economy*, 140-141; Saeed, *Islamic Banking and Interest*, 14.

economic theory. But so far, Islamic economists and institutions supported by Saudi Arabia and the Gulf Arab countries rarely refer to the case of Iran.¹⁰⁹⁵ Political and ideological reasons seem to have become barriers for them to making Iran a case study of Islamic economics on a national scale.¹⁰⁹⁶

Indonesia, with the world's largest Muslim population, came to Islamic or Shari'ah banking fairly late in 1992. The Indonesian government eventually gave the green light to develop an Islamic bank after the political reconciliation between the New Order government and Islamic civil society, which had been estranged for years.¹⁰⁹⁷ The formation of Bank Muamalat Islam (BMI), the first Islamic or Shari'ah Bank in Indonesia, was initially opposed surreptitiously by the army and intelligence services as well as some secularist technocrats. However, the endeavor spearheaded by the Majelis 'Ulamā' Indonesia (MUI), the Council of Indonesian Muslim Scholars, and the Ikatan Cendekiawan Muslim Indonesia (ICMI), the Association of Indonesian Muslim Intellectuals, with the support of President Soeharto, finally brought the proposal into existence.¹⁰⁹⁸ After 20 years of the formation of BMI, there are six

¹⁰⁹⁵ Syed Nawab Haider Naqvi is probably an exception, for he often mentions the practice of Islamic economics in Iran. See *Naqvi, Islam, Economics, and Society*, 135 and passim.

¹⁰⁹⁶ Papers by Heydar Pourian and Iraj Toutouchian discuss the experiences of the Islamic financial system in Iran. Pourian calls Iran's current economic and financial system the market-oriented Islamic system (MIS), replacing the socialist-oriented Islamic System (SIS) after the end of the eight-year war with Iraq in 1988 and with the start of the first five-year economic plan. Pourian suggests that the system itself works; however, he shows that the performance of economic indicators, especially savings and investments, was not encouraging. He offers a number of recommendations to improve the conditions. See Heydar Pourian, "Islamic Banking and Economic Development in the Islamic Republic of Iran," in *Islamic Political Economy in Capitalist-Globalization: An Agenda for Change*, ed. Masudul Alam Choudhury, Abdad M.Z., and Muhammad Syukri Salleh (Kuala Lumpur: Utusan Publications & Distributors Sdn Bhd and International Project on Islamic Political Economy, 1997), 301-318. Iraj Toutouchian's paper offers a more optimistic view of Iran's economic conditions. The abolition of financial interest, beside the integrated financial and fiscal policies, he says, has encouraged cooperation within and among economic agents. See Iraj Toutouchian, "Resource Mobilization for Partial Government Expenditures through Islamic Modes of Contract: The Case of Iran," in *Islamic Political Economy in Capitalist-Globalization: An Agenda for Change*, ed. Masudul Alam Choudhury, Abdad M.Z., and Muhammad Syukri Salleh (Kuala Lumpur: Utusan Publications & Distributors Sdn Bhd and International Project on Islamic Political Economy, 1997), 279-300.

¹⁰⁹⁷ Hefner, "Islamizing Capitalism," 154.

¹⁰⁹⁸ MUI and ICMI teamed up to establish BMI, chaired by Dr. M. Amin Aziz, director of Pusat Pengembangan Agribisnis (PPA, Center for Agribusiness Development), and professor of

Islamic (*Shari'ah*) Banks operating in Indonesia to provide financial service to Muslims who want to develop enterprises but are reluctant to use conventional banks.¹⁰⁹⁹ Except BMI, each of other five Islamic Banks operates along side a conventional bank as a sector of it. Although Islamic financial institutions have the enthusiastic support of many young people and intellectuals, the effect of Islamic banking on improving Muslim economic condition, redistribution and social justice so far has been modest.¹¹⁰⁰ It has been tension between between popular aspirations for social justice and the fiscal responsibility of Islamic Bank.¹¹⁰¹ Although there has been growing demand for Islamic banking in particular parts of the country as data from the Shari'ah Bureau of Bank Indonesia (Indonesian Central Bank) demonstrates, so far, however, Islamic banking has been able to absorb only around 3% share of the banking sector in the country.¹¹⁰²

5.4. Chapter Four: Economic Ideas, Proposals, and Policies

Having discussed Sjafruddin Prawiranegara's thought on the issues of social justice and economic development, I will address in the following section his reflections on the economic policies of successive Indonesian governments following

economy at Institut Pertanian Bogor (IPB, Bogor Institute of Agriculture). Hefner, "Islamizing Capitalism," 155.

¹⁰⁹⁹ Hefner, "Islamizing Capitalism," 157.

¹¹⁰⁰ Robert W. Hefner, "Ambivalent Embrace," 148; Amy Chew, "Indonesia's Banking to Spur Growth," *The Star Online*, June 25, 2010, accessed June 5, 2011, <http://biz.thestar.com.my/news/story.asp?file=/2010/6/25/business/6541029&sec=business>.

¹¹⁰¹ Hefner, "Islamizing Capitalism," 159; Hefner, "Ambivalent Embrace," 148-149.

¹¹⁰² Rhesa Yogaswara, "Indonesia Islamic Banking Market Assessment Q2-2011: Case Study: Islamic Commercial Bank and Islamic Business Unit," *Business Islamica*, accessed May 6, 2011, <http://www.islamica-me.com/article.asp?cntnt=772>. Yogaswara shows that Third Party Funds (TPF) of Islamic banking contributed only 3% of the total 2,500 trillion IDR. In terms of financing, Islamic banking has only 4% market share from the total financing 1,800 trillion IDR. However, Indonesian Islamic banking has seen significant growth in recent years. The cumulative annual growth rate (CAGR) of TPF in the last 5 years (2005-2010) has increased by 37% with an estimated value of 76 trillion IDR in FY-2010. From the total TPF (conventional banking and Islamic banking), which was estimated by 2,500 trillion IDR, Islamic banking contributed only 3.45%. This value can be estimated to reach 87 trillion IDR in Q2-2011. It has been estimated that the number of account holders reached 8 million in Q2-2011, which has experienced 18% growth compared to FY-2010.

the transfer of sovereignty in 1949. I will also discuss some of the economic policies that he initiated during his tenure as minister of finance in the Natsir cabinet (1950-1951) and later as president of De Javasche Bank (1951-1953), which functioned as Indonesia's central bank before the establishment of Indonesian Central Bank (BI) of which Sjafrudin became the first governor (1953-1957). In doing so we will highlight how some of his theoretical insights on the idea of social justice have translated into action through the state and market institutions. Sjafruddin, in his various writings on the subject, does not develop a theory of social justice from the ground up; rather he included social justice as one of the crucial elements in economic development. However, I argue that an examination of his policies and ideas on economic development reveals a consistent approach to the implementation of a modern concept of social justice. I will examine therefore whether a consistent pattern emerges in his implementation of economic and financial policies, one that clarifies not only his theoretical approach to the issue of social justice but also his practical methodology given the circumstances of the time. As we shall see, the consistent pattern of Sjafruddin's economic policy centered around his persistent advocacy for decentralization of state institutions and regional autonomy; efficiency of the government bureaucracy; emphasis on how to increase domestic capital and production circulating inside the country not only on equal distribution of pre-existing resources; opposition to discriminatory economic policies that barred certain ethnic groups—namely the Chinese—from participating fully in economic activities; opposition to confiscation of foreign companies (forced and arbitrary nationalization); and opposition to the nepotism and corruption which infected Indonesian political culture. By examining these issues and Sjafruddin's policies and proposals that reflect them, we will be in a better position to gain insight into his overall approach to the practical aspects of social justice.

Sjafruddin's moderate and rational economic policy was the constant reference point of successive Indonesian governments between the transfer of sovereignty in 1949 and the first general elections in 1955.¹¹⁰³ He was Minister of Prosperity for the first Hatta cabinet, Deputy Prime Minister for the second Hatta cabinet (1949), and then Minister of Finance for both the United States of Indonesia government and the subsequent Natsir cabinet during the 1950-1951s term. Following the retirement of the Natsir cabinet, Sjafruddin became deputy president of De Javasche Bank, eventually taking the helm once it was nationalized as Indonesia's Central Bank. During his years as head of the bank, he continued the tradition of using the annual report to express his general views on current problems of the economy as well as his reflections on past economic policies. His reports from 1952 and 1953 revealed a situation of polarity in the successive governments during the first two years following the transfer of sovereignty, between nationalists on the one hand and developmentalists on the other.¹¹⁰⁴ More than that, Sjafruddin also differed from other prominent policy makers within the developmentalist group who were less pragmatic than him but more nationalistic and socialistic in terms of economic policy such as Sumitro Djojohadikusumo, Djuanda Kartawidjaja, and Jusuf Wibisono.¹¹⁰⁵ This was a situation that led to the government's failure to implement a consistent economic policy, let alone a proper

¹¹⁰³ Sutter, *Indonesianisasi*, 1189-1190; cf. Bruce Glassburner, "Economic Policy-Making," 71-73 and 81-83; Higgins with Higgins, *Indonesia*, 87-91.

¹¹⁰⁴ Higgins with Higgins, *Indonesia*, 82-83; Sutter, *Indonesianisasi*, 1184-1190; Sjafruddin Prawiranegara, "Nasionalisasi De Javasche Bank," in *Ekonomi dan Keuangan: Makna Ekonomi Islam*, vol. 2 of *Kumpulan Karangan Terpilih*, ed. Ajip Rosidi (Jakarta: CV Haji Masagung, 1988), 74-84; Prawiranegara, "Dasar Politik Kemakmuran," 85-107; Sjafruddin Prawiranegara, "The Causes of Our Falling Production," in *Indonesian Political Thinking, 1945-1965*, ed. Herbert Feith and Lance Castles (Ithaca: Cornell University Press, 1970), 385-389.

¹¹⁰⁵ Sumitro's highly nationalistic Economic Urgency Program was designed in the period of Natsir's cabinet (1950-1951). It included, among others, development of large industry, capital assistance to indigenous enterprise, and the restriction of certain markets to indigenous sellers. The latter two programs were implemented by Djuanda and other ministers in successive cabinets. Sjafruddin opposed development of large industry because it was not economically-viable, and he considered the latter programs to be discriminatory. Glassburner, "Economic Policy-Making," 85; Dick, "Formation," 177.

economic policy as Sjafruddin would have it. A number of common themes emerged in his reflections on the problems of this period: aversion to foreign investment and businesses; to an imbalanced economic policy that focused on the development of large industries while ignoring middle-class and agricultural industries; and to the centralization of authority in Jakarta.¹¹⁰⁶

Before discussing the economic policies, proposals, and ideas after the international recognition of Indonesian sovereignty in December 1949, there was an important occasion in the early months following the declaration of Indonesian independence in 1945. Sjafruddin became a spokesman of KNI (Indonesian National Committee), a provisional government agency of Priangan Recidency, West Java, when it proposed to the Vice President Hatta, in September 1945 that the government of Indonesia should issue its own currency as an important symbol of the new state. At that time Sjafruddin was not yet a national figure, but simply secretary of KNI of the region aforementioned. Interestingly, the proposal would only be realized a year later on October 30, 1946, when Sjafruddin himself served as Minister of Finance. He was with Vice President Hatta when the latter made an announcement via radio about the issue of the Republic currency. Until then the currencies being used by Indonesians were those of the Japanese and the NICA (Netherlands Indies Civil Administration). Hatta spoke with the passion of revolution by declaring that "[the circulation of currency of the Republic of Indonesia] put an end to a period in financial history of the Republic of Indonesia, the period that was full of suffering and hardship for our people".¹¹⁰⁷ In contrast, Sjafruddin invited people to respond to it realistically, stating that the issuance of the currency of the Republic of Indonesia did not mean that their suffering would disappear at once and prosperity would come by itself. When announcing the use of

¹¹⁰⁶ Prawiranegara, "Dasar Politik Kemakmuran," 87-89; Prawiranegara, "The Causes," 385-387.

¹¹⁰⁷ Sudarjat, "Pemikiran Ekonomi," 18.

the money, Sjafruddin's pattern of thought that prioritized economic rationality was already clear. He emphasized the importance of increasing production and the procurement of goods; reducing all actions that impeded merchants and private entrepreneurs in their efforts (i.e. providing convenience and flexibility in business, trade, and enterprise activities); and ending corruption that had seeped deeply into the ranks of civil servants who neglected their duties given their insufficient salaries. Sjafruddin stressed that the money was only a means of transaction and payments (*ruil and betaal middle*) and of measuring price (*waarde meters*); money did not necessarily increase prosperity. Money became valuable when accompanied by an increase in high production and availability of goods. Sjafruddin called upon all parties to work hard to create prosperity through regular and systematic ways.¹¹⁰⁸

Another of Sjafruddin's policies as Minister of Finance was the improvement of balance of payments with the use of foreign exchange certificate system on March 11, 1950 which managed to boost exports and suppress imports, giving benefit to the export producers—the majority of whom were small farmers—and bringing prices down.¹¹⁰⁹ Another policy was even more dramatic: that of NICA's money cut implemented on March 19, 1950, which became known as "Sjafruddin's cut", to reduce money supply, control inflation, and collect public funds (government bond). Each bill was cut into two pieces. The left part could be exchanged at the bank to get new money whose value was only half of the value written on the bill, while the right side of the bill could be exchanged for bonds with benefits (interest) at as much as 3% a year. For bank deposits higher than 400.00 guilders, only half of the amount

¹¹⁰⁸ Sjafruddin Prawiranegara, "Pidato Radio Sehubungan dengan diberlakukan Oeang Repoeblik Indonesia (ORI)," in *Ekonomi dan Keuangan: Makna Ekonomi Islam*, vol. 2 of *Kumpulan Karangan Terpilih*, ed. Ajip Rosidi (Jakarta: CV Haji Masagung, 1988), 2-3.

¹¹⁰⁹ Rosidi, Sjafruddin Prawiranegara, 156-157.

could be taken in cash. The other half was borrowed by government.¹¹¹⁰ It is worth noting that Sjafruddin made an exception for bank notes and coins worth lower than 2.50.00 in order to protect the lower class and to keep the prices low.¹¹¹¹ The money cut was accompanied by other measures aimed at promoting production and trade and improving the lot of civil servants. That goal had been achieved with the increase of production and export and the decrease of import consumer goods, as well as the relative stability of the currency for several years.¹¹¹² Sjafruddin's controversial policy, which was initially criticized for fear that it would further damage the economy, was finally welcomed by the public because in general it produced positive impacts.¹¹¹³ Sjafruddin's action recently received appreciation from the current Indonesian Vice President, Professor Boediono, as the bold but

¹¹¹⁰ Sjafruddin Prawiranegara, "Kita Tidak Boleh Jemu-jemu Berjuang, Bekerja, Berikhtiar," in *Ekonomi dan Keuangan: Makna Ekonomi Islam*, vol. 2 of *Kumpulan Karangan Terpilih*, ed. Ajip Rosidi (Jakarta: CV Haji Masagung, 1988), 6-7; Glassburner, "Economic Policy-Making," 83.

¹¹¹¹ Prawiranegara, "Kita Tidak Boleh Jemu-jemu," 7; Glassburner, "Economic Policy-Making," 83; Rosidi, *Sjafruddin Prawiranegara*, 161.

¹¹¹² Rosidi, *Sjafruddin Prawiranegara*, 161; Prawiranegara, "Membangun Kembali," 199.

¹¹¹³ There are differences in assessments of the success of this money cut policy. Rosidi quoted *Star Weekly*, a magazine published by the Chinese community, which had initially doubted the policy but then praised it, because "Sjafruddin's cut" in fact strengthened the Republic currency and made the price of the goods cheaper. News from *Star Weekly* magazine was reliable because it gave special attention to financial and trade issues, both areas in which the Chinese community was predominant. The news assessment was based on direct observation of what happened in the market. Rosidi, *Sjafruddin Prawiranegara*, 161-162. Similarly, Dr. Houwink, President of De Javasche Bank, praised the action claiming that the purge (money cut) had reduced the money supply by 1.6 billion guilders—41 percent of the money supply. However, Bruce Glassburner, an American economic lecturer at University of Indonesia, deemed the results of the reform disappointing. He concluded that money circulation reduced to only 170 million guilders, and according to him, prices of food and textiles actually rose over the period. Glassburner, "Economic Policy-Making," 83-84. Regardless of those different interpretations, it was indisputable that the foreign exchange certificate system and money cut managed to increase the country's revenue to four times the original estimate, successfully combat money counterfeiting, curbing the chaos caused by the presence of various currencies prevailing at the time, and stopping strikes incited by leftist groups for a while. Similarly, although the exact amount of money being reduced became subject to different interpretations, what was clear was the fact that the amount of money in circulation was being reduced significantly, and Indonesian economic and financial conditions were clearly improved by both actions than if the policy had never been carried out. Rosidi, *Sjafruddin Prawiranegara*, 162-163. Sjafruddin himself admitted that the changes and political pressures resulted in economic and monetary developments which further deviated from the line that he had drawn. Political conflicts among civilian politicians and within the military, such as disputes over rationalization in the government bureaucracy and military, were outside the scope of policies implemented by Sjafruddin, but did reduce their effectiveness and positive results. See Prawiranegara, "Membangun Kembali," 199; Feith, *Decline*, 169-171.

rational action and at the time was urgently needed.¹¹¹⁴ Boediono is an economist and served as Governor of the Central Bank of Indonesia (2008-2009) and Minister of Finance (2001-2004).

Another of Sjafruddin's economic and financial policy that stood out was his tight fiscal and monetary policy. He emphasized efficiency and "held the purse strings with all the tightness which his Puritan moral seriousness demanded."¹¹¹⁵ Funds were used by Sjafruddin "for a variety of new economic projects, but rarely for directly political purposes."¹¹¹⁶ Sjafruddin was very strict in his control of disbursements and budgetary allocations. The Natsir cabinet (1950-1951), with Sjafruddin as Minister of Finance, sent a delegation of only five to the UN General Assembly Meeting whereas the Sukiman cabinet, its successor, sent a delegation of 24 members.¹¹¹⁷ He consistently practiced the policy of rejection of patronage requests, in which he was supported by Hatta and Natsir. This policy made persons like him, Hatta, and Natsir highly unpopular with the political elite. In addition, "Sjafruddin drew widespread hostility towards himself by the fact that he left great power to Dutch high officials in his ministry, including power to deal with requests for funds for other ministries."¹¹¹⁸ Later when Sjafruddin was no longer a member of cabinet, he criticized the spendthrift policy of the successive governments' squandering the windfall from the Korean War boom, which he had used efficiently, "on too many imported consumer goods, including durables such as cars, rather than spending the surplus on productive purposes."¹¹¹⁹

¹¹¹⁴ Kompas, "Boediono Tak Sebut Perlawanan Mr. Sjafruddin," Kompas.com, 1 March 2011, accessed August 1, 2011, <http://nasional.kompas.com/read/2011/03/01/0351213/Boediono.Tak.Sebut.Perlawanan.Mr.Sjaf>.

¹¹¹⁵ Feith, *Decline*, 169.

¹¹¹⁶ Feith, *Decline*, 169.

¹¹¹⁷ Feith, *Decline*, 219-220.

¹¹¹⁸ Feith, *Decline*, 170.

¹¹¹⁹ Wie, "Debate on Economic Policy," 8.

Following his tenure as cabinet minister, Sjafruddin was appointed in 1952 as President of De Javasche Bank. In his annual report as president for the financial year of 1952-1953, Sjafruddin criticized the aversion to foreign capital, still alive amongst Indonesian politicians, which had led to economic policies that, in his assessment, impeded production. According to him, this attitude depended on a strict structural separation between “national” capital and “foreign” capital, one that was motivated by nationalist sentiments following the revolution of the late 1940s rather than by a correct understanding of how capital is distributed in the economy. According to this view, the revolution was not yet complete and prosperity would not come unless the Indonesian people ridded themselves of all foreign influence in the economy: “The Dutch lion is dead, but his claws are still embedded in the body of Indonesia.”¹¹²⁰ This is of course an understatement of the huge political problem of the presence of foreign capital imposed upon the new republic. During the Round Table Conference on December 1949, the Indonesian delegation reluctantly agreed that Dutch business interest in Indonesia would continue following the transfer of sovereignty. Nationalization of Dutch enterprises would be allowed only if it was in Indonesia’s national interest and if the right compensation was paid. The other terms of this agreement, stipulated in the Financial and Economic Agreement, Finec, would further guarantee that Dutch economic interests in Indonesia would continue to prosper.¹¹²¹ Many nationalist leaders were understandably critical of this concession. Though a sovereign nation, Indonesia was denied full control over its economic operations under the terms of the Finec agreement, being subject, once again, to Dutch interest. By 1952, fifty-two percent of consumer imports were still handled by four Dutch firms, sixty percent of exports by eight Dutch firms, while private banking were under the control of seven foreign banks, three of them Dutch-

¹¹²⁰ Prawiranegara, “Dasar Politik Kemakmuran,” 89-90; Prawiranegara, “The Causes,” 387-388.

¹¹²¹ Wie, “Debate on Economic Policy,” 2; Glassburner, “Economic Policy-Making,” 79.

owned.¹¹²² No wonder then, that even the most moderate of Indonesian nationalist leaders would argue that the economic phase of national sovereignty had not yet arrived.¹¹²³

Sjafruddin was aware of the complexity of the issue and its political consequences, but nonetheless argued that for the time being foreign capital must be allowed to operate. He represented, along with other economists such as Sumitro, the pragmatist camp that tolerated the presence of Dutch capital, whilst arguing at the same time for the gradual development of human resources and economic conditions that would allow greater participation of national capital in the market in the future. According to Sjafruddin, impatience on the part of politicians who desired an immediate and large-scale economic planning through national funds had led to a number of problems, causing inefficiency and a slowdown in production due to prohibitive taxes and unrealistic schemes of nationalization. Indonesia did not yet have the knowledge and ability to replace foreign management of big and complex industries, while the climate of distrust surrounding foreign capital fed into a turbulent relationship between foreign management and its workers, which resulted in a number of strikes and acts of vandalism.¹¹²⁴ The slowdown in production, according to Sjafruddin, detracted from what he thought to be the government's primary aim, which was to maximize production and increase the flow of capital in the country.¹¹²⁵ It was not enough that there be policies of fair or equal distribution of income; rather the overall capital of the country must also increase in order for prosperity to take hold and further develop at a sustainable and substantial rate. If nationalization and regulatory schemes caused production to fall, leading instead to

¹¹²² Glassburner, "Economic Policy-Making," 79.

¹¹²³ Glassburner, "Economic Policy-Making," 80; Wie, "Debate on Economic Policy," 2.

¹¹²⁴ Prawiranegara, "Dasar Politik Kemakmuran," 90-9; Prawiranegara, "The Causes," 388-389.

¹¹²⁵ Prawiranegara, "Dasar Politik Kemakmuran," 98; Sutter, *Indonesianisasi*, 1187.

inefficiency of management lacking the requisite skills, these uses of national funds “would be needless prodigality.”¹¹²⁶

The alternative Sjafruddin advocated was one where foreign capital should be free to operate in the country as a means to achieving increased production. This goal was, in turn, sought after for the sake of the larger purpose of establishing an educated population who would be skilled enough to take direct ownership of their own industries in the future. Here we see Sjafruddin’s insistence of the importance of development of human capability and the security of enterprise as in Rawls’ theory of the basic structure. The basis of this view was Sjafruddin’s claim that the strict separation between “foreign” and “national” capital has been overstated. He wrote in his 1952 annual report that:

All working personnel and industries actually carrying on any trade or business in Indonesia must be regarded as national capital and national productive wealth, whilst as regards capital, this can be considered to have been produced in Indonesia, even if such capital is the product of activities exercised by means of capital of foreign origin. The only criterion for the definition as to the difference between “national” and “foreign” should be the possibility of effecting transfer overseas [...] Persons and trading concerns for which the government regulations allow no transfer must be regarded as “national”, even if the relative owners of enterprises or persons, to whom no right of transfer is permitted, are foreigners according to the provisions of the nationality of the law.¹¹²⁷

Sjafruddin thus freed the concept of ownership from ideology—namely Marxism.¹¹²⁸ Instead, ownership of capital embraced a social function whose scope was much wider and consequential than considerations of class interest. Since Sjafruddin was able to do away with structural-ideological demands of state ownership he was free instead to emphasize how an arrangement of regulatory authority and realistic nationalizing schemes of the state would be sufficient to achieve the welfare of the people.

¹¹²⁶ Prawiranegara, “Dasar Politik Kemakmuran,” 98; Sutter, *Indonesianisasi*, 1187.

¹¹²⁷ Prawiranegara, “Dasar Politik Kemakmuran,” 95 and 106; Sutter, *Indonesianisasi*, 1185-1186.

¹¹²⁸ Prawiranegara, “Dasar Politik Kemakmuran,” 99; Sutter, *Indonesianisasi*, 1186.

The ideological appeal to structure, namely state-ownership, as a guarantee of equitable income distribution was not based on the reality on the ground and was subject to contingencies of the time, such as lack of domestic capital, unskilled management and insufficient know-how, and the colonial legacy of an inefficient and centralized bureaucracy. Sjafruddin argued that equal distribution of wealth could be achieved through fiscal and social regulations.¹¹²⁹ Furthermore, state-ownership was also a viable option, but only if 1) by doing so production would be raised, 2) there were enough Indonesian skilled management, 3) the government could exercise effective control over management and production standards, 4) the government had enough resources to undertake the enterprise, whether nationalization or establishing a new industry, and 5) the government was able to invest in enterprises that either increased production in a particular industry or set up other vital and otherwise neglected industries.¹¹³⁰ If these conditions were not met, nationalizing schemes would lead to nothing more than a waste of national funds and a decrease in production, jeopardizing the overall economic health of the country.¹¹³¹

Sjafruddin was aware of the monopolistic nature of foreign enterprises that were not organically rooted in Indonesian society. His argument was not an ideological defence of free enterprise—his writings consistently showed that he was not an ideologue of the free market—but was rather an attempt to invite countrymen to overcome a narrow and sentimental perspective with regards to foreign ownership. To deny the development of important industries otherwise outside the reach of state-management would mean depriving many Indonesians of potential income and wealth distribution for the short-term, but also of the long-

¹¹²⁹ Prawiranegara, "Dasar Politik Kemakmuran," 96-98; Sutter, *Indonesianisasi*, 1187.

¹¹³⁰ Prawiranegara, "Dasar Politik Kemakmuran," 97-98; Sutter, *Indonesianisasi*, 1186-1187.

¹¹³¹ Prawiranegara, "Dasar Politik Kemakmuran," 98.

term development of their skills in managing these industries.¹¹³² According to Sjafruddin, the danger that threatened the welfare of the Indonesian people “[i]s not the risk of too much capital, but too little, not in surplus production but in underproduction, not in an excess of economic activity but a lack of productivity.”¹¹³³

The second issue that Sjafruddin identified as the cause of Indonesia’s economic problems was the government’s unbalanced economic policy that focused on the development of heavy and “secondary” industries (i.e. transportation) at the expense of agricultural and medium-sized industries.¹¹³⁴ Sjafruddin argued that since large enterprises and industries yielded large profits and since many of them were in the hands of foreign ownership, successive Indonesian governments wanted to replace them as soon as possible by Indonesian industries.¹¹³⁵ I have mentioned above some of the problems that Sjafruddin believed were found in the government’s premature takeover of large industries, including unskilled management and a lack of technological know-how. Here he pointed out that an emphasis on this top-down approach to economic development ignored the basis upon which heavy industries operated, namely the existence of medium-size industries that either provided support for the running of the big enterprises or were subsidiaries of their activities. These medium-businesses were still in the hands of foreign ownership, and if position-changing was to occur at a viable rate, these should be the first to be supported by the government. Furthermore, these businesses sustained the middle-class and educated them in the fundamentals of management, risk-taking, and other entrepreneurial skills.¹¹³⁶

¹¹³² Prawiranegara, “Dasar Politik Kemakmuran,” 100-101 and 104.

¹¹³³ Prawiranegara, “Dasar Politik Kemakmuran,” 104-105; Sutter, *Indonesianisasi*, 1188.

¹¹³⁴ Prawiranegara, “Dasar Politik Kemakmuran,” 86.

¹¹³⁵ Prawiranegara, “Dasar Politik Kemakmuran,” 87-88; Prawiranegara, “The Causes,” 386.

¹¹³⁶ Prawiranegara, “Dasar Politik Kemakmuran,” 88; “Prawiranegara, “The Causes,” 386.

Indeed, Sjafruddin identified the government's investment in medium-sized businesses as primarily an exercise in human development, rather than simply economic development. Investment in medium-sized businesses resulted in the training of a class of Indonesian entrepreneurs in good organization, efficient and effective management, professional knowledge, and experience in controlling entrepreneurial ventures.¹¹³⁷ He wrote in his memoir that "capital is a creation of human beings and so we must first develop human beings rather than developing an economy based on capital. Capital is a dead thing; it doesn't work without people who can handle it."¹¹³⁸ From such experience, Sjafruddin believed that Indonesian entrepreneurs would learn the non-quantitative attributes of reliability, zeal, responsibility, risk-taking, and stability, among others, all of which had a decisive influence on the success of a business venture. These skills, he believed, could not be learned in an environment where all risks were borne solely by the government.¹¹³⁹

Sjafruddin also criticized the government's neglect of agricultural industries. The top-down approach that relied on heavy investment in big industries did not reflect the economic reality on the ground: that Indonesia lacked a professional middle-class and could not yet supply its own food to a rapidly growing population with an agricultural industry that had been impaired by years of social upheavals and war. Without meeting the basic needs of the population, the government was constructing an economy on very brittle ground, building on huge capital without the human skill to sustain and control it. Sjafruddin argued against Western-trained Indonesian economists like Dr. Sumitro Djojohadikusumo, who insisted on adopting the economic models of industrialized countries: in this case, Keynes monetary policies. Sjafruddin wrote that:

¹¹³⁷ Prawiranegara, "Dasar Politik Kemakmuran," 88; Prawiranegara, "The Causes," 386.

¹¹³⁸ Prawiranegara, "Recollections," 106.

¹¹³⁹ Prawiranegara, "Dasar Politik Kemakmuran," 89; Prawiranegara, "The Causes," 386.

[Y]ou cannot apply these theories in Indonesia because Indonesia is not an industrial country. Keynes's theories can only be applied in a country where production can be changed overnight, according to demand. But we are an agricultural economy so deficit spending seemed to me basically wrong. Inevitably it entailed inflation. I feel that since independence we have been suffering from people who do not clearly understand the relation between human beings and economic development.¹¹⁴⁰

For Sjafruddin, Indonesia's economic model should not only begin by rehabilitating agricultural industries, but should be based on agriculture.¹¹⁴¹ Sumitro, on the other hand, believed that though rehabilitation of the agricultural sector was necessary, industrial development should take place side by side with agriculture, rather than being based upon it.¹¹⁴² Emphasizing on the latter would simply delay Indonesia's industrial development given the already-existing gap between foreign-owned enterprises and national initiatives.¹¹⁴³

There seems to be good case to suggest that Sjafruddin's emphasis on agriculture was overstated and that Sumitro conceptualized the balance of the two more clearly.¹¹⁴⁴ In his analysis of Sjafruddin and Sumitro's approach to development, Wie argues that Sumitro's brand of pragmatism, that more readily embraced efforts at nationalizing large industrial projects, was more sensitive to the "monopolistic" and "oligopolistic" powers of foreign enterprise that would jeopardize Indonesia's economic sovereignty in the future.¹¹⁴⁵ Sjafruddin's counsel for patience seems to be a conservatism that Indonesia could not afford to undertake at the time. In 1989, however, Sumitro acknowledged that much of the economic policy of nationalization he espoused was dictated no less by sentiment than by

¹¹⁴⁰ Prawiranegara, "Recollections," 106-107.

¹¹⁴¹ Prawiranegara, "Recollections," 106.

¹¹⁴² Wie, "Debate on Economic Policy," 15.

¹¹⁴³ Wie, "Debate on Economic Policy," 15.

¹¹⁴⁴ Wie, "Debate on Economic Policy," 15-16.

¹¹⁴⁵ Wie, "Debate on Economic Policy," 17-18.

good economic calculations, and that Sjafruddin's call for patience and gradual development of national industries proved providential:

I admit with sincerity that if we look back to the development and realities of these past decades, then Sjafruddin's position during the '50s contained much that is correct. Indeed, during that time I was driven by a great desire to accelerate the fundamental rearrangement of the colonial economic structure ... I did not realize that this fundamental rearrangement of a colonial economy that weighs heavily on agriculture toward a more balanced economic structure is a process that requires its own stages [of development]; that development in terms of a structural change requires time that spans for generations.¹¹⁴⁶

Indeed, the larger point Sjafruddin made was not that Indonesia should remain irrevocably tied to an agrarian economy, but that the development of agriculture must go hand in hand with that of medium-sized businesses, in that both are primarily an investment in human development that would ensure sustainable economic development and nurture a population that could withstand potential economic turbulence in the future. The key point was the last sentence in the above quotation: human development must come first, even if this entailed relinquishing, at the moment, domestic control over big capital or large industries. The priority of human development before capital was the basis of Sjafruddin's economic rationality. The theme of human development and the need to increase the capacity or capability of Indonesians was a theme that Sjafruddin had consistently voiced, until he passed away in 1989.¹¹⁴⁷

¹¹⁴⁶ Sumitro Djojohadikusumo, *Kredit Rakyat di Masa Depresi* (People's Credit in the Time of Depression), trans. Hasan Basari (Jakarta: LP3ES, 1989), xxi, quoted in Edi Sudarjat, "Pemikiran Ekonomi (1945-1983), 3.

¹¹⁴⁷ In a 1952 paper Sjafruddin not only emphasized education in general, as well as technical and vocational skills and job training, but also stated that an improvement in economic conditions depended on a fundamental change in the attitude and way of thinking of the Indonesian people. According to him, people should be treated as respected subjects, not as objects or the targets of experiments. In this way, he was convinced that people would again seek out and nurture the strength in themselves as human beings with self-esteem. Changes in soul and thought required time and patience to realize. Prawiranegara, "Kesulitan-kesulitan," 72.

Sjafruddin's third concern was the "unwieldy" policy of the centralization of authority and economic activity in Jakarta.¹¹⁴⁸ Following the dissolution of the Republic of the United States of Indonesia in 1950, the measure of regional autonomy was not as fully fleshed-out as was originally intended. The government did not address the immediate problems of the regions outside of Java and did not share fiscal and administrative powers with local governments.¹¹⁴⁹ According to Sjafruddin, the central government still held almost all official authority. As a result, provincial governors had to consult the central government by coming in person to Jakarta on all important matters. Furthermore, the concentration of authority was met with neither an efficient bureaucracy nor a stable central government and parliament. The potential development of these regions was therefore stunted, even when relative political stability and an abundance of natural resources were readily had.¹¹⁵⁰ All foreign exchanges, for instance, were channelled to Jakarta, even though close to three-fourths were earned in the regions.¹¹⁵¹ All this led to the view amongst leaders of the regions that the Dutch colonizers had been replaced by the Javanese, feeding into strong secessionist sentiments. When Sjafruddin became prime minister of the PRRI counter-government in 1958, a major part of his government program was the extensive delegation of power to the regions. The central government's authority was limited to external defence, foreign affairs, finance, inter-island traffic, justice, education, and coordination of regional activities.¹¹⁵² His economic program gave high priority to the development of regional economies. Sjafruddin's main concern was to develop an efficient government, one that allowed

¹¹⁴⁸ Prawiranegara, "Dasar Politik Kemakmuran," 89; Prawiranegara, "The Causes," 387.

¹¹⁴⁹ Kahin & Kahin, *Subversion*, 54.

¹¹⁵⁰ Prawiranegara, "Dasar Politik Kemakmuran," 89; Prawiranegara, "The Causes," 387.

¹¹⁵¹ Kahin & Kahin, *Subversion*, 54.

¹¹⁵² Kahin & Kahin, *Subversion*, 140-141.

freedom for productive enterprises and which decreased the possible channels for corruption.¹¹⁵³

The issue of corruption preoccupied Sjafruddin throughout his career, from his involvement in various government positions during the 1950s to the New Order period. Corruption hindered economic development because it usually festered around a large state bureaucracy that operated on inefficient administrative and legal procedures. The cycle of state inefficiency, corruption, and the resulting underdevelopment of production in various economic sectors and poverty fed upon each other to the detriment of the economic health of the nation.¹¹⁵⁴

The remedy, according to Sjafruddin, was to reduce state bureaucracy and introduce simpler regulations. Reducing public sector workers was not a measure to

¹¹⁵³ Prawiranegara, "Dasar Politik Kemakmuran," 89; Prawiranegara, "The Causes," 387; Prawiranegara, "Recollections," 105.

¹¹⁵⁴ Syed Hussein Alatas, *The Problem of Corruption*, rev. ed. (Singapore: Times Book International, 1986), ix-x; Kingsbury, *Politics of Indonesia*, 188-191. Professor Alatas lists the causes of corruption in developing countries as follows: the absence or weakness of leadership, the weakness of religious and ethical teachings, colonialism, lack of education, poverty, absence of severe punitive measures, absence of environment conducive to anti-corrupt behaviour, structure of government, radical change which brings a transitional malaise, and the state of society. However, he emphasizes that these factors are not by themselves sufficient to explain the phenomenon. Alatas, *Problem of Corruption*, 37-42. However, J. Edgardo Campos et al contended that in several East Asian countries including Indonesia, high rates of growth took place amid a long period of widespread corruption. Although, this observation does not challenge the validity of the Douglas North thesis that an economy will eventually stall if independent and effective legal institutions that foster the rule of law fail to develop, it has posed a real challenge to the generally accepted precept that corruption obstructs economic performance. In the context of Indonesia, for instance, thirty years of impressive economic growth was carried out alongside a culturally-justified practice of corruption. However, we have seen that in 1998 this arrangement was unable to withstand the financial turmoil that hit East Asia. Therefore, in the wider perspective of long term development, corruption was not just one factor that led Indonesia to the brink of bankruptcy in the time of financial and economic crisis, but also has undermined more sustainable economic performance. As corruption continued and morphed from the organized corruption during the New Order to a more unregulated form, it has proven to be deeply detrimental to the moral, economic development and public-interest of Indonesian society. See J. Edgardo Campos, "Introduction," in *Corruption: The Boom and Bust of East Asia*, ed. J. Edgardo Campos (Manila: Ateneo de Manila University Press, 2001), 1-3; J. Edgardo Campos, Donald Lien, and Sanjay Pradhan, "Corruption and Its Implications for Investment," 11-12; Andrew MacIntyre, "Investment, Property Rights, and Corruption in Indonesia," in *Corruption: The Boom and Bust of East Asia*, ed. J. Edgardo Campos (Manila: Ateneo de Manila University Press, 2001), 25-44. For a discussion of practices of corruption and the influence of patrimonial culture in Indonesia, see Kingsbury, *Politics of Indonesia*, 187-205; See also Bresnan, "Economic Recovery," 193-213.

reduce costs, but to address the problems of inefficient working habits—a well-known phenomenon to all Indonesians up to this day—and to increase professionalism of those workers whose services were retained.¹¹⁵⁵ Sjafruddin suggested a concrete scheme for downsizing state bureaucracy. The public sector workers who were laid off should nonetheless remain on the government payroll, in accordance with their current rate and benefits. If within a period of two to three years it was deemed that they were no longer needed on hire, they would be dismissed definitively by getting pension. Those whose services were retained would have their rates increased to minimize the temptation to pocket bribes or pursue other means of corruption. The government should then form an inspection body to oversee this transition. Simplification of administrative and legal procedures was meant to cut down on possible channels for corruption.¹¹⁵⁶ Sjafruddin argued that the current system was too complex for both citizens and public functionaries. The latter could be more easily bribed if they are unable to fully grasp their administrative obligations, while the public would be inclined to give these bribes when the procedure proved convoluted.¹¹⁵⁷ Furthermore, the more complex the procedures, the more workers were required to administer them and the more money the government would spend to retain their services. Laws and procedures were meant to empower citizens to exercise their rights and obligations; but if the bureaucracy was prohibitively complicated, this would serve only to further alienate them from the state. Those who suffered most from this were the less-privileged of society who were most vulnerable to being caught in bureaucratic red-tape, being

¹¹⁵⁵ Prawiranegara, "Membangun Kembali," 200. This article was written in 1966 while Sjafruddin was still in prison but had already been notified of his impending release. He was set free in July of that year.

¹¹⁵⁶ Prawiranegara, "Membangun Kembali," 200-202.

¹¹⁵⁷ Prawiranegara, "Ekonomi Terpimpin," 128-129. This article originally was published in *Suara Masjumi* (Voice of Masyumi), an official magazine of Masyumi Party, on July 10 and 20 and August 1 and 20, 1954.

the most dependent upon government programs for their daily needs and having no means to initiate those extra-procedural manoeuvres that sped up the process, i.e. bribes.¹¹⁵⁸

Sjafruddin's rational approach to economic policies also explained his opposition to government programs that were proposed less on economic viability than on nationalistic sentiments, especially if those sentiments trumped what he considers to be basic moral standards. Such were the reasons for his opposition to a number of economic policies pursued by the government during the 1950s that discriminated based on ethnic lines, even if those policies were provisional, intended to empower indigenous participation in the economy. Part of Sumitro's Economic Urgency Program during the 1951 Natsir Cabinet was the continuation of the *Benteng* (fortress) program that reserved certain categories of goods for indigenous importers, who in turn received trade credits through the Bank Negara Indonesia (Indonesian State Bank, BNI).¹¹⁵⁹ This program began during the Hatta cabinet in 1950 and came to an end in 1957 when knowledge of its abuse by both importers and officials became a national scandal.¹¹⁶⁰

Sjafruddin ran against strong popular opinion amongst the public and its leaders when he vehemently opposed the provisions of the *Benteng* program during his tenure as Minister of Finance in the Natsir government. There was of course a utilitarian principle that Sumitro, Djuanda, and others held in advocating for 'discriminatory' policies such as the *Benteng* program. There existed extreme income disparity between Indonesians and those of Chinese descents on the one hand and the Dutch on the other. While the gap between the latter two groups had narrowed since the 1930s, the income average of Indonesians had more or less

¹¹⁵⁸ Prawiranegara, "Ekonomi Terpimpin," 128-129.

¹¹⁵⁹ Sjafruddin Prawiranegara, "Kesulitan-kesulitan," 67-71. This article was a rebuttal to Dr. Tan Goan Po at a symposium held in Jakarta, 26-27 April 1952. See also Dick, "Formation," 178.

¹¹⁶⁰ Dick, "Formation," 178.

stagnated into the post-independence era.¹¹⁶¹ To establish a true national economy required more participation of Indonesian entrepreneurs in vital industries that were under the control of Chinese and Dutch businesses. The *Benteng* program was intended to allow Indonesian businesses to gain capital and catch up. Sjafruddin's position on the issue stemmed not only from his natural suspicion of policies that seem to feed into nationalistic sentiments than economic viability, but was also, more importantly, derived from a stern moral ground. He argued that the state should not compromise its duty to serve and benefit all its citizens, regardless of ethnicity and other distinctions of class, religion, and political persuasion, if it wanted to maintain the highest standard of justice.¹¹⁶² He wrote that:

The authority and regulations of the state will benefit the people who would in turn abide by them if that authority is executed with consideration of the interest of each individuals and not only in the interest of a few people or a party. In other words, the regulations of the state will only be accepted by the people if those regulations do not transgress the regulations and teachings of any religion. And since the one command of all religions is that all human beings should love and respect one another, then it follows that state regulations and laws should always fulfill that command. Only in this case will the state be considered just.¹¹⁶³

Furthermore, the application of such a principle to property laws was enshrined in the constitution of the country. Sjafruddin reminded his colleagues that Chinese Indonesians were:

[c]itizens of Indonesia, though they are of Chinese descent. And is it not the case that this restriction in property rights against the guarantees stipulated by the constitution, which does not discriminate between the property rights of natives and immigrants? Furthermore, is it not the case that our constitution does not at all make a distinction between property rights of

¹¹⁶¹ Lindblad, "The Late Colonial State," 141.

¹¹⁶² Prawiranegara, "Kesulitan-kesulitan," 67; Prawiranegara, "Ekonomi Terpimpin," 129-134. Here we see that Sjafruddin was against unequal treatment of particular Indonesian citizens even if the measure was intended to correct past injustices; that is, discrimination against the indigenous population under Dutch colonial rule that privileged the Dutch and Chinese. It should be noted that this opinion did not mean that Sjafruddin wanted to maintain a socio-economic gap between indigenous Indonesian and other ethnic groups. Instead, what he suggested was an attempt to decrease inequality through education or the gradual development of peoples' capability and poverty alleviation, regardless of ethnic and religious affiliation. For a discussion of inequality and distributive justice, see Clayton and Williams, "Introduction," 4-9.

¹¹⁶³ Prawiranegara, "Ekonomi Terpimpin," 131.

citizens and foreigners? I ask you then to read the constitution. There is nothing there that distinguishes between the properties rights of citizens and non-citizens. In practice we keep our constitution in some cabinet and are wary to open it!¹¹⁶⁴

Sjafruddin's objection to such policies thus extended not only to distinctions made between citizens of different ethnic groups but also, more controversially, to those made between citizens and non-citizens. The latter point extended to his objection to what he considered to be the premature nationalization of Dutch enterprises, efforts which he believed to be motivated more by "narrow" nationalistic sentiments than by careful economic considerations, as we have discussed above.

For Sjafruddin, therefore, structural schemes enacted by the state under utilitarian principles should never be allowed to compromise individual rights that were guaranteed by the constitution. They were against the principle of justice. For many, this was a tall order that denied the economic condition of the time with the great inequality separating Indonesian enterprises from their Chinese or Dutch counterparts. Sjafruddin's position, however, was not to ignore this reality nor to turn a blind eye to the economic structure that maintained it; rather, he felt that the discriminatory policies of successive Indonesian governments derived more from nationalistic sentiments and resentment against foreigners that were not sufficiently justified by economic factors.¹¹⁶⁵ Here we see again Sjafruddin's ideas resembling the notion of the basic structure, especially that of "the political constitution with an independent judiciary, legally recognized forms of property, and [...] a system of competitive markets with private property in the means of production..."¹¹⁶⁶

¹¹⁶⁴ Prawiranegara, "Kesulitan-kesulitan," 68.

¹¹⁶⁵ Prawiranegara, "Kesulitan-kesulitan," 68-71.

¹¹⁶⁶ Rawls, *Justice as Fairness*, 10.

Sjafruddin's emphasis on justice and the prioritization of human development over economic growth also informed his criticism of the New Order's monetary liberalism and the massive influx of foreign capital that flooded Indonesia during the first decade of Suharto's rule. The New Order moved away from the economic approach of the Guided Economy with its monetary control, protectionist taxation, and nationalization schemes, embracing the free market in order to attract as much foreign investment as possible to increase production. According to Sjafruddin, the attitude that motivated this policy was that Indonesia needed a bigger "public pie" with the assumption of the trickle down effect:

[According to the New Order] we must first make a bigger pie that is possible only through the help of foreign capital. The more foreign capital is invested in Indonesia, the bigger the 'public pie' and the greater portion of this would our people receive. Because of this, the freer foreign money can go to and from Indonesia, the more attractive this area will be for foreign capital to do their ventures and trade.¹¹⁶⁷

With this mindset, then, the New Order rearranged the Guided Economy of the Old Order into a liberal economic and monetary regime and in less than three years, through the aid of foreign loans, was able to improve the general economic condition and state finances. According to Sjafruddin, the fundamental difference between the two economic systems was that the Guided Economy prioritized the development of the indigenous Indonesian people, while the Liberal Economy of Suharto prioritized the tool of development: money. The first was meant to protect and strengthen the national economy and improve the conditions of the poor in society in extreme ways, whereas the second was meant to do away with inflation and maintain the stability of monetary value without attention given to who owned

¹¹⁶⁷ Sjafruddin Prawiranegara, "Kenop 15," in *Ekonomi dan Keuangan: Makna Ekonomi Islam*, vol. 2 of *Kumpulan Karangan Terpilih*, ed. Ajip Rosidi (Jakarta: CV Haji Masagung, 1988), 393. *Kenop 15* is an acronym that stands for "Kebijakan 15 November" [Policy of November 15]: that is, the Indonesian government monetary policy of November 15, 1978 unpegging the *rupiah* (Indonesian currency) from the U.S. dollar along with the devaluation of the *rupiah*.

that money. Money, according to the New Order regime, was the main factor that would bring prosperity.¹¹⁶⁸

We have seen above that Sjafruddin's advocacy for foreign capital was in the context of a nationalistic and ideological fervour that pervaded the successive governments of the 1950s. Economics during this period was subject to the determinations of the ideological communist and radical nationalist politics encouraged by Sukarno. For Sjafruddin, it was important for Indonesia's young national economy to boost production as much as it could and this was possible only through the investment of foreign capital in Indonesian industries.¹¹⁶⁹ During the New Order, Sjafruddin found himself in another extreme, one that turned a blind eye to the human development of Indonesians and the national economy in favour of foreign credit and capital for the sake of mostly production of consumptive goods and monetary circulation.¹¹⁷⁰ The result of this policy was that Indonesia accumulated a large foreign debt in offshore loans that were used to finance the economy. Furthermore, national businesses (private or state-owned) were overwhelmed by the influx of foreign enterprises with whom they were unable to compete for lack of capital and knowledge. The Indonesian government did very little to encourage the development of a national industry that could compete with foreign imports. Foreign capital systematically replaced and eventually gained control over domestic, medium-sized capital, leaving Indonesian entrepreneurs with

¹¹⁶⁸ Prawiranegara, "Kenop 15," 393.

¹¹⁶⁹ Sjafruddin Prawiranegara, "Herorientasi di Lapangan Pembangunan Ekonomi" in *Ekonomi dan Keuangan: Makna Ekonomi Islam*, vol. 2 of *Kumpulan Karangan Terpilih*, ed. Ajip Rosidi (Jakarta: CV Haji Masagung, 1988), 55-60.

¹¹⁷⁰ What is meant here by Sjafruddin is the New Order government invited foreign capital in order to produce many of the luxury consumption goods that were not needed by most people of Indonesia and an excessively free flow of foreign capital that could cause problems such as capital flight. Prawiranegara, "Kenop 15," 393.

little participation and control over their own economy. Indonesians, according to Sjafruddin, had become the servants in their own land.¹¹⁷¹

Though Sjafruddin was nonetheless inclined towards the idea of free enterprise, he argued that the government must complement this by mobilizing the creative and entrepreneurial potential of Indonesians. This required public investments in domestic industries as well as regulations on the flow of foreign capital, especially on imported goods. It also required the selective appropriation of foreign knowledge, so that development could be implemented in accordance with natural condition and the needs of Indonesians in general.¹¹⁷² The ideal of social justice in the *Pancasila* should be the main reference point for all economic policies:

It is not that we should not appropriate the outside world; rather, we must do this selectively. We should differentiate between [imported] goods that we can appropriate for ourselves and those that we should not appropriate. The good are those that would unite our nation and increase the people's quality of life without increasing the gap between the rich and poor. The good is what actualizes Pancasila. Prioritizing capital is clearly in opposition to Pancasila, which prioritizes the human condition without denying its material needs that ought to be enjoyed by the people for the realization of social justice.¹¹⁷³

Sjafruddin thus proposed a 'middle-way' between the priority of money—the instrument of economic development—and the priority of the human condition—the purpose of economic development. He proposed for the New Order government to be truthful to and consistent with its own promises, eradicating or reducing budget deficit, delimitating freedom of foreign exchange flows,¹¹⁷⁴ and raising

¹¹⁷¹ Prawiranegara, "Kenop 15," 395-396.

¹¹⁷² Prawiranegara, "Kenop 15," 394-397.

¹¹⁷³ Prawiranegara, "Kenop 15," 397.

¹¹⁷⁴ Sjafruddin's proposal for restrictions and oversight of the flow of foreign exchange and private loans or credit proved prescient. One of the main causes of the economic and financial crisis that hit Indonesia in 1997-1998 and put the country on the brink of bankruptcy, as discussed by Prof. Mohammad Sadli in Part Two of this thesis, was overborrowing on the part of the private sector. According to Sadli, the debt overhang of the private sector was U.S. \$ 80 billion, and government indebtedness stood around U.S. \$ 50 billion. See Sadli, "Indonesian Crisis," 18-19. Already in 1978 Sjafruddin warned, "[t]his free foreign exchange has effected that Indonesia today, beside government debt which amounted to U.S. \$ 14.5 billion, also reportedly is facing a so-called off-shore-loans, [i.e] the private enterprises' debts to foreign parties for U.S. \$

society's productivity, rule of law, public order and safety. His ideological commitments did not pertain to structures, whether capitalistic or socialistic, but rather to the potential for citizens to meaningfully participate in the economy and improve their conditions.¹¹⁷⁵

When arguing for his economic policies and opinions, Sjafruddin would often marshal religious and moral reasoning. This was consistent with his belief that morality should also form the basis for policy-making, rather than simply relying on purely utilitarian principles whose formal features could often (conveniently) mask the immoral or oppressive effects it brought to bear upon the people. One case in point was his criticism of the *Benteng* Program and his defence of Dutch ownership of enterprises that many in the country wanted nationalized through coercive means. He wrote:

State regulation cannot be based upon hate for a certain group of people or nation. In this case, Islam is very strict. The sort of justice that Muslims must consider and implement is one that does not discriminate based on social groups, as the Qur'an and Hadith have shown. As we have shown above, state regulations and laws can not change people's character but can only regulate/organize the relationship between individuals ... From the perspective of Islamic law, good state legislation and regulation are those which concretize the guidance and signs that God gives to human beings, and which does not run against the letter and spirit of those guidance and signs.¹¹⁷⁶

Chief amongst these "guidance and signs" was the concept of promise and agreement. He cited a number of Qur'anic verses that stated the importance of holding true to an agreement and avoiding subterfuge and betrayal for material ends. Sjafruddin brought up three verses: An-Naḥl 16:91; Yūsuf 12:52; and al-Anfāl 8:58, commanding the honouring of agreements including in dealings with non-

10 billion, so that the payback would put the state at a very difficult position." Prawiranegara, "Kenop 15," 395-396.

¹¹⁷⁵ Prawiranegara, "Kenop 15," 399-401.

¹¹⁷⁶ Prawiranegara, *Ekonomi Terpimpin*, 131.

Muslims.¹¹⁷⁷ Hence the Qur'an enjoins the believer towards fair dealings with others, regardless of religion or social groupings. Furthermore, it also affirms the moral imperative of holding true to agreements. Sjafruddin's criticism against the *Benteng* program related to the first principle, while his criticism against the coercive means of nationalization related to the second.¹¹⁷⁸ On this point we discern the expression of religious humanism in Sjafruddin's ideas of economic development and social justice.¹¹⁷⁹

In addition, Sjafruddin showed a strong spirituality, a sense of human beings' dependence on God's will in dealing with problems in all fields of life, including economic development issues. For him there was no conflict between religious beliefs and economic rationality. He said:

If we truly want to find the right, which can lead us out of the difficulties we are experiencing now, then first we have to disassociate from all remarks which are mostly diatribes rather than rational reasons, which is based on healthy mind ... Economic progress, for example, is only one aspect of a deeper problem, namely our *drang* and *levensbeschouwing* (passion and outlook on life). [I think we have to] put emphasis firstly on human volition, whether individual or collective, in an effort to improve the lot, but the final emphasis is rested on God's power.¹¹⁸⁰

Therefore, according to Sjafruddin, Indonesia's development and economic policy should not only be based on requirements of the ability to work and to take into account short-term and long-term factors, but should also be based on the

¹¹⁷⁷ Chapter An-Nahl 16:91: "Fulfil any pledge you make in God's name and do not break oaths after you have sworn them, for you have made God your surety; God knows everything you do." Chapter Yūsuf 12: 52: "... God does not guide the mischief of the treacherous." Chapter Al-Anfāl 8:58: "And if you learn of treachery on the part of any people, throw their treaty back at them, for God does not love the treacherous."

¹¹⁷⁸ Prawiranegara, *Ekonomi Terpimpin*, 131-132.

¹¹⁷⁹ Prawiranegara, "Membangun Kembali," 219. Sjafruddin consistently defended this view almost two decades later during the New Order period. He wrote that "economic development essentially requires peaceful and friendly circumstance. Peace and friendship among us, peace and friendship between us and other nations. If we yearn for peace and friendship, it is easy for us to get help."

¹¹⁸⁰ Prawiranegara, "Kesulitan-kesulitan," 70-71. As the basis for his opinion Sjafruddin quoted the Qur'an, ar-Ra'd 13:11: "Surely God does not change the condition of a people, until they change what is in themselves. And when God wills harm on a people, there is no averting it, and apart from Him, they have no protector."

ability to be grateful and to pray. Thus, he says, "we can carry out development in earnest, with a quiet mind, open heart and firm faith."¹¹⁸¹

In conclusion, a consistent pattern emerges in his proposal of economic and financial policies, one that clarifies not only his theoretical approach to the issue of social justice, but also his practical methodology given the circumstances of the time. Sjafruddin was the main driving force behind a policy that attached high priority to the economic and social development of the country, the strengthening of law and order, an intense concern with the administrative regularization and consolidation, the maximization of production, and planned economic development in cooperation with the West and compatible with Western lines in large measure. The pattern of Sjafruddin's economic proposals centered consistently around his persistent advocacy for decentralization of state institutions and regional autonomy; efficiency of government bureaucracy; increasing domestic capital and production circulating inside the country, not only the equal distribution of pre-existing resources; fair treatment to all participants in economic activities; friendly and reasonable policies towards foreign capital; and promoting the rule of law.

Given his pragmatic approach and the long-term reach of his proposals, Sjafruddin seemed in the eyes of many to have been in favor of the interests of foreign capitalists and those who were economically stronger. To his political opponents, his nationalistic credentials were not convincing. But in the long term, Sjafruddin's ideas proved to be more pertinent in defending the interests of Indonesian people who, during the 1950s, mostly lived in poverty and underdevelopment in terms of both education and social skills. As we have seen above, anti-foreign political groups and policymakers of nationalistic economic planning were motivated by the desire to realize equality and economic

¹¹⁸¹ Prawiranegara, "Herorientasi," 60-61.

independence as soon as possible. There is no doubt that there was a deep social economic gap in Indonesian society during the 1950s. However, forced nationalization and affirmative action policies, meant to undo the injustice in the past, only served to widen this gap, putting the objective of social justice further out of reach and worsening the economic condition of the people. Sjafruddin's pragmatic and long-term proposals were made in view of increasing production (of medium-sized agricultural industries) on the one hand, and planting the seeds of a more skilled and knowledgeable working, intellectual, and managerial class through universal education on the other. Thus, Sjafruddin's economic development ideas to realize social justice put priority on wealth creation, investment in education, and poverty alleviation, rather than on equal distribution of wealth and (immediate) economic independence from foreign influence, both of which Sjafruddin deemed to be unattainable at the time. These persistent emphases on increasing production and on efforts to develop skills, knowledge, and independence through education reminds us of modern concepts of social justice as advanced by Leonard Hobhouse, Anthony Giddens, and Amartya Sen. These thinker give preference to equality of opportunities and underline the capability to use them effectively, rather than focusing on equality of the availability of social and material goods.¹¹⁸² However, the patience required in carrying out this approach was not shared by many other Indonesian political leaders, not only those from radical nationalist and communist groups but also by other policymakers whom Sutter calls "the hesitaters among the

¹¹⁸² Anthony Giddens, "The Question of Inequality," in *The Global Third Way Debate*, ed. Anthony Giddens (Cambridge: Polity Press in association with Blackwell Publishers, 2001), 178-179; Miller, *Principles of Social Justice*, 3-4 and 270-271. The theories of social justice developed by scholars such as Westel Willoughby, L. T. Hobhouse, and T. N. Carver as well as Pope Pius XI's encyclical *Divini Redemptoris* contended, in Miller's assessment, that social justice does not only guarantee fair treatment for individuals, but also encourages strong economic activities as a whole, pursued in a safe and orderly atmosphere that contribute to the prosperity and progress of a society through the cooperation of all elements.

moderate nationalists and socialists”¹¹⁸³ such as Sumitro and Djuanda, whose governments spearheaded the nationalistic policies of the *Benteng* Program, nationalization schemes, and heavy industry projects. However, despite his opposition to a politically-driven socialist economy, Sjafruddin was not an ideologue of the free market. As we have seen above, during the New Order regime, when the government reversed the earlier trend of nationalistic economic policies and emphasized a pragmatic approach to economic development, Sjafruddin still remained a foremost critique of the government. According to him, the New Order’s excessive liberalization of the market and indiscriminate habit of taking out loans would result in Indonesia’s economic dependency upon foreign powers at the expense of Indonesia’s development.

Sjafruddin’s realism and non-ideological approach to economic development does not cast him off as a pragmatist. Rather, as we have seen, he took an approach that was at once practical, sober, and holistic, very unlike the revolutionary fervour that influenced even the most moderate leaders of the time. This was because he had an integrated worldview that did not compromise the primacy of the individual over the state, nor, most importantly for him, the spiritual over the material. The fundamental consideration in his approach to economic development was not the interest of the state in the context of nationalism or independence, but rather the livelihoods of the people who must bear the full consequences of any economic policies. This approach also explains his willingness to adopt Western ideas and expertise in economics at a time when such expertise amongst Indonesians was rare. Again, perhaps John Sutter best summarized Sjafruddin’s proposals and policies of economic development:

¹¹⁸³ Sutter, *Indonesianisasi*, 1189.

Sjafruddin was a humanitarian, who sought the maximum prosperity for all the people in the most efficient manner, and who combined the “democracy” and “social justice” principles of the Pantja Sila with its “humanity” principle or “internationalism”—the one most neglected by Indonesian political parties. His ideas were directed perhaps more towards the hesitators among the moderate nationalists and socialists than towards the more incorrigible xenophobes and “neo-caste-ists” (especially those of the Marxist orthodoxy). Since Indonesia was still a very young nation-state, however, Sjafruddin may have been too far ahead of his time.¹¹⁸⁴

I would like to add to this assessment that Sjafruddin’ humanitarian economic ideas and policies were inspired, as we have seen, by Islamic moral teachings and modern ideas of social justice.

¹¹⁸⁴ Sutter, *Indonesianisasi*, 1189.

PART SIX: CONCLUSION

Sjafruddin's concern for and idea of social justice, like those of Indonesian nationalist leaders and intellectuals, were rooted historically in the Indonesian experience of oppressive Dutch colonial policies driven by exploitation and racial discrimination which resulted in socio-economic discrepancies and impoverishment. Consequently, the principle of social justice continues to deeply influence the socio-economic thought of Indonesian intellectuals and to shape consecutive Indonesian governments' development policies. Sjafruddin's conception of social justice contained ideas and practices implemented by Western social-democratic countries as well as moral-ethical foundations he derived from Islamic teachings. Sjafruddin's religious, socio-economic, and political thought was influenced by his upbringing in an aristocratic and devoutly Muslim family of Bantam/Banten, his personal rational character, his Dutch Western education, and his penchant for exploring philosophical issues, including Marxist literature.

Sjafruddin referred to his ideology as religious socialism, a term used for the first time by Mohammad Hatta, one of the two most prominent leaders of Indonesian independence and former vice president (1945-1956). Sjafruddin's religious understanding could be classified as liberal-modernist, signified by an emphasis on *ijtihad*, reason-based interpretation, and the integration of modern ideas and institutions with the moral and social orientation of the Qur'an.¹¹⁸⁵ When discussing Qur'anic teachings concerning justice and equality, he argued that the government must be democratic in form and must treat all citizens as equal without distinctions based on religion, ethnicity, or gender. Similarly, in defending freedom of speech and

¹¹⁸⁵ Rahman, *Islam*, 222; Rahman, "Islam: Challenges and Opportunities," 319-322; Rahman, "Roots," 30-31.

thought as important elements in democracy, Sjafruddin tied the issue to the Qur'anic obligations of *shūrā*, mutual consultation, and *ijmā'*, consensus, in Islamic tradition. He defended democracy and freedom of expression throughout his life with little regard to the consequences this brought upon his personal life. In the democratic system, especially the checks and balances between the executive, legislative and judicial branches of government, he saw a mechanism to prevent politicians and the state from becoming authoritarian. In addition, he also used the argument of fundamental human rights derived from natural rights to defend freedom of expression. Sjafruddin's concern for the rule of law, individual liberty and human rights situates him as an Indonesian intellectual who had deeply absorbed the traditions of European social democracy and integrated them with the religious and moral values of Islamic modernism.

As was the case with modernists in other Muslim countries, Sjafruddin responded to the realities of colonialism and tried to resolve the problems that arose from modern developments in science, capitalism, and statehood over aspects of Islamic tradition. These issues ranged from the relationship of faith to reason, politics, economics, and society to the reinterpretation of religious teachings according to the dynamics of modern society. On matters regarding the relationship of faith to reason, Sjafruddin deployed two different methods to conceptualize the issues and resolve some of their difficulties. With respect to beliefs that had nothing to do with the worldly arrangements of human life and which were considered instead to be purely spiritual concerns (*ghayb*, unseen), such as the *Isrā'* and *Mi'rāj*, he chose to believe them at face value. Sjafruddin did not see this as a concession to blind faith or a compromise of rationality. The epistemology of modern science, especially the social sciences, was not neutral or value-free, for the natural sciences would continue to evolve and theories of various phenomena of nature were constantly changing. For

Sjafruddin, this reflected both the capabilities and the limitations of the human intellect. To accept matters of the unseen at face value was to recognise that some realities of the world are beyond the reach of human knowledge. As for the issue of legal injunctions in the Qur'an and Hadith texts related to the regulation of social life, Sjafruddin adopted an approach that re-interpreted these sources in light of the contemporary situation, which was manifestly different from the social and historical conditions at the time of the Prophet. These injunctions were therefore not always relevant and applicable to modern times.

This rational approach is displayed in a number of Sjafruddin's interpretations of Islamic teachings related to social issues. Here we see how Sjafruddin was an independent-minded and at times idiosyncratic thinker. In many of his writings he presented his opinion on Islamic subjects and socio-political and economic issues not on behalf of a certain organization but as an individual. Although he joined and led several Islamic social organizations during the New Order period and was a member of the Masyumi leadership from 1945 through the 1950s, Sjafruddin always displayed his own individual character and independence in expressing his views. Of course he wrote and spoke on behalf of the Masyumi on several occasions, especially on economic matters, and he had maintained his status as the official spokesperson of Masyumi on economic policies during 1950s. But he often differed in opinion from other Masyumi leaders or from popular opinions among Muslims. He was known to be adverse to gestures of populism, never trying to draw the sympathy of Masyumi members for the sake of his popularity as a politician and party leader. For instance, he chose to defend the operation of foreign companies and investments in Indonesia against the strong current of popular opinion in 1957-1958. He was too honest and plainspoken a personality to be a politician.

Most of his writings related to Islamic law concerned the problem of usury. Although he mentioned the need for a reinterpretation of *zakāt* and inheritance, he did not elaborate further on these subjects, perhaps because of his limited ability in accessing the sources of classical Islamic tradition. Though he was never antagonistic towards traditional scholarship as such, he was critical of the ‘ulamā’, who for him were too conservative in their interpretation of the religious sources and too tolerant of the unscrupulous political attitudes of many Indonesian leaders, who often showed blatant disregard for public ethics once they came to hold office. Sjafruddin sometimes showed an apologetic bent on certain issues, especially during the late period of his life. However, he still maintained his liberal and rational attitude towards interpreting Islam. Sjafruddin’s rational understanding of religion was also coupled with a sense of deep spirituality. He believed that behind all human endeavours was the active role of the will of God, who ultimately determined the outcomes of human action. He also mentioned that his belief that he would face God in the Hereafter to account for his deeds—an article of faith in Islam—was his motivation for criticising Sukarno and Suharto openly and fearlessly. The same motivation also led him to be an honest critic of certain popular opinions of Muslims and Indonesians of which he did not approve. This conviction was the source of Sjafruddin’s moral integrity in his political and intellectual career. Throughout his life he was never tainted by corruption.

His intellectual activity focused primarily on economic development and politics. His secular Western educational background enabled him to understand the socio-cultural problems resulting from economic change. He insisted that religion was not only relevant to the modernization of Indonesian society, but moreover should play a role in social and political life. In his view, the fact that the first principle of *Pancasila*, the state ideology, was belief in One God meant that religious

teachings should be taken into consideration in formulating government policies, especially those related to ethical or moral issues with deep social consequences. Sjafruddin believed that religion, particularly Islam, could and must provide a moral and ethical foundation in the public sphere. The incorporation of religion into the process of political and economic development should be carried out through the sincere and consistent implementation of the Pancasila and the Constitution of 1945. It is clear that Sjafruddin, along with other Muslim leaders and groups in Indonesia, aspired to modernity without secularism.

Sjafruddin's liberal-modernist orientation informed his conception of social justice. His approach to economic development was not only determined by rationality and efficiency in stimulating economic growth and material welfare, but was also concerned with the principle that the fair distribution of wealth must involve the participation of society through a democratic political system. During the period of the New Order he voiced the need for political restructuring in order to restore the institutions of democracy and the system of checks and balances between the executive, legislative and judicial branches of government. He further held that on a more microcosmic scale, economic development must begin by purifying the moral being of individuals from worldly attachments and fostering virtues based on religious and spiritual teachings. Through this, humans were to be liberated from undue attachment to material goods and gain control over their desires. The elevation of an ethical and moral human being was the purpose of development, for development was intended to achieve not only material prosperity but also spiritual happiness. Sjafruddin therefore stressed the importance of moral development in changing one's fundamental outlook on life. He believed that only those human beings who were in control of their desires could work to eliminate poverty, improve the material welfare of society, and establish social justice. He also

stressed the need to reduce poverty, establish equal opportunities in education, improve health services, and close the inequality gap between the haves and the have-nots. The first priority of socio-economic development was education, on the basis that investment in human development would ensure the sustainability of economic development and nurture a population that could withstand potential economic turbulence in the future. The prioritization of human development before capital was the basis of Sjafruddin's economic rationality.

Sjafruddin's emphasis on the importance of moral instruction, scientific and technological education, and development of vocational training in the curriculum of the education system was prescient. He also argued that Indonesia needed a genuinely democratic educational system accessible to all Indonesians. Both these proposals were aimed at finding a long-term solution to fundamental problems in Indonesian society: poverty, underdevelopment, inequality, and patrimonial/neo-patrimonial culture. Instead, however, the New Order strategy of advancing crude economic growth and development has shaped Indonesia into a consumptive, hedonistic, and materialistic society and widened social-economic inequalities. Though foreign economic aid provided by Western countries was partially used for productive purposes, a large chunk of it was spent on imported goods to support the consumptive lifestyle of the upper class and thus did not advance or improve the living standard of ordinary people. This consumptive lifestyle instigated further corruption among many government officials and military officers. Foreign economic loans eventually became a burdensome debt, putting pressure on the state's finances and bringing misery to people as social services were compromised. Furthermore, massive agricultural, plantation, and textile industries, which outmuscled smaller-scale enterprises, as well as the capital-intensive and labour-saving techniques of foreign economic activities, had created unemployment, unfair

competition and conflicts of interest. These eventually brought about the economic and political crises that resulted in millions of lost jobs, riots, and social strife. Sjafruddin had criticized the New Order's development strategy long before the crisis hit. His proposed alternative was not simply to return to the principle of equality—emphasized strongly during the days of the Guided Democracy, of which the ideologically-driven economic program led to much bloodshed and suffering—but also to prioritize the need for efficiency (economic rationality) and freedom (democracy).

Although Sjafruddin was actively involved in governmental economic and monetary policies during the parliamentary democracy era (1949-1957), he was critical of what he believed to be the irresponsible political attitudes of many politicians, government officials, and military officers. During this period there were sincere attempts to bring together the principles of equality, liberty and efficient economic development in the government's economic program. Yet many leaders, political parties, and groups abused the freedom and were not patient enough to solve the existing problems in a gradual and realistic manner. Sjafruddin was among the few who insisted on a reasonable and moderate response. This period ended with the loss of freedom and the neglect of efficient development under the authoritarian Guided Democracy system. Sjafruddin was among the many victims of the policy of "continuing revolution".

Sjafruddin's conception of social justice also required a political system that ensured three components of social justice: equality, freedom, and efficiency. In many cases in developing countries, either the principles of liberty and equality were put aside to make way for economic development, or equality was emphasized by sacrificing economic development and freedom. Sjafruddin's works show how it is possible to simultaneously and harmoniously realize a just and prosperous society

as aspired to by the Indonesian constitution. The key to this approach is moderate, gradual, reasonable, and pragmatic policies in solving economic and social problems. Sjafruddin's manner of presenting the concept was distinctive: he did not simply propose a general concept in an idealistic or normative way but also showed in detail how the concept could be implemented in a comprehensive policy of development. Because Sjafruddin was involved intensively in the Indonesian government's economic policymaking during the 1950s, his proposals for social justice always assumed and required that the government would carry out certain programs and implement certain policies. Not surprisingly, his conception of social justice also emphasized and pointed to practical and efficient ways to achieve economic prosperity. His conception of social justice is in line with John Rawls' two principles of justice and his idea of the basic structure. Sjafruddin formulated economic policies where the economically-disadvantaged in society should not be asked to make sacrifices; or, if an economic policy required sacrifice, the burden must be borne by all segments of society with an attempt to secure the least amount of sacrifice for the least privileged in society. In contrast, the upper class was the group of people who had to make the most sacrifice. He implemented this kind of strategy, among others, in the monetary policy known as "Sjafruddin's cut" in 1950.

Sjafruddin's persistent emphasis on increasing production, willingness to work, and efforts to develop skills, knowledge and independence through education is reminiscent of modern conceptions of social justice as advanced by Westel Willoughby, LT Hobhouse, TN Carver, and Pope Pius XI. They argued for a society where the principles of social justice were implemented in a way that ensured the fair treatment of individuals and fostered the growth of economic activities. This

was to be achieved through the cooperation of all elements of society, which would in turn contribute to the prosperity and progress of the whole.¹¹⁸⁶

Although Sjafruddin's concept of social justice was based on his observations and practical experience as an economic expert and policymaker, he integrated his approach with the principle of faith in the One God (*tawhīd*). According to his interpretation, this principle guarantees the equality of all human beings before the Divine. Upholding this primordial state of equality, especially in a way that is just and that leads to mutual prosperity, is an obligation for Muslims. Like other Muslim intellectuals, Sjafruddin embraced *tawhīd* as signifying the unity and integrity of all human experiences and the normative consequences this brings to the realm of human action. In his conception of social justice, therefore, Sjafruddin constantly reminds us of the essential relationship between the teachings and moral principles of Islam and political, economic, and social issues.

However, unlike proponents of Islamic economics, Sjafruddin's integrated approach in conceiving of the aforementioned issues did not lead him to propose an alternative economic system. Nor did he argue for the necessity of an Islamic state. For him, commitment to Islam was better expressed through fostering universal humanitarian solidarity to achieve peace and cooperation with other nations for the realization of justice and prosperity. But it is important to note that for Sjafruddin, the goal of socio-economic development did not end at this point. As a Muslim he believed that all human action should be undertaken for the sake of the pleasure of God (*marḍāt Allāh*) to whom all human beings will return and account for their deeds.

Sjafruddin was also an independently-minded Muslim economist. He derived the spirit and ethics of social justice from the teachings of the Qur'an and the

¹¹⁸⁶ Miller, *Principles of Social Justice*, 3-4 and 270-271. An organic conception of society and social justice is discussed in Part 3 Chapter 1.

traditions of the Prophet. However, at variance with many Islamic scholars, he used the scriptures not to advance a normative-legalistic approach but as a source of legitimacy. His references to the verses of the Qur'an and the Hadith invigorated his ideas and proposals for the repair and development of the Indonesian economy, including economic policies such as an increase in production, efficiency in the management of governmental affairs, especially in economic execution, and promotion of prosperity and just distribution. His proposals were accompanied by frequent references to the experiences of development in Western nations and societies.

Sjafruddin's ideas of development are consistently located within the framework of social justice since the late 1940s to the 1980s. During that time, a number of his ideas and proposals underwent changes. He was known as an advocate of economic liberalism during the late 1940s and 1950s for his proposal and defense of foreign aid and investment and his encouragement of the role of the private sector and market mechanisms. However, he did not agree with the excessive liberalism applied by the New Order government, such as allowing private firms to borrow money from foreign financial institutions with minimum government regulation, the removal of controls on the flow of capital and foreign exchange in and out of the country, and the importation of luxury goods that the Indonesian public did not need. He also opposed the New Order government's utilitarian approach in promoting sex tourism as a source of government income. Furthermore, he was against the expansion of big foreign capital into small industries owned by Indonesians.

For Sjafruddin, the pragmatism of the New Order regime was excessive and unprincipled. His pragmatic policies during the 1950s were intended to cultivate efficiency and maintain economic stability so that people's economic condition did

not become worse but instead slowly improved. They were not intended to prolong Indonesia's dependence upon foreign influence or to maintain the status quo. Sjafruddin stressed, for example, the importance of education and training in specialized industrial and technological areas for Indonesian workers who would eventually replace foreigners. This was quite different from the pragmatic policy of the New Order. The New Order government, in order to accumulate economic gains derived from trade, finance, and other economic activities, turned a blind eye to corruption and under-the-table commissions (taken from private or state companies) by government officials and military officers. The prevalence of these practices caused much resentment among the less-privileged classes. Under this regime, Indonesia had become a haven for crony capitalism and corruption in the region. Worse still, many private companies borrowed money to finance bubble projects and were not able to pay out their creditors. The government often stepped in to bail out these companies. This practice was one of the chief causes of the economic crisis of 1998 which finally toppled the New Order regime.

Successive post-New Order governments were expected to bring about social justice that would ensure equality, prosperity, and freedom for the people. But while people have gained political freedom within a democratic system after nearly forty years under two authoritarian regimes—a situation that intensified expectations and promises of prosperity and equality—it turned out that inequality, corruption and inefficiency, as the embodiments of injustice, have taken a definite turn for the worse. Similarly, excessive liberal (neo-liberal) economic policy has allowed the expansion of foreign capital, through privatization, into public sectors that touch the basic livelihoods of ordinary people. These sectors, such as drinking water, electricity, schools, oil and gas, hospitals, and toll roads, are even in Western countries very often restricted from private ownership, given their importance as

essential public goods. Yet currently in Indonesia these industries are controlled by foreign companies. Sjafruddin's liberal development policy was very different from the neo-liberal policies adopted by the New Order and post-New Order governments.

Sjafruddin was against the idea of a non-interest banking system, which is the cornerstone of Islamic economics. For him, proponents of this theory were more preoccupied by form than by substance. It is very rare to find, in the works of proponents of Islamic economics, even a mention of the issues of free speech or constitutional forms of government with democratic institutions run by elected representatives of the people. In modern social justice theory, however, freedom of speech and democratic political freedom are very important components. As we have already discussed, social justice is a broader concept than economic justice. An absolute monarchy in the Middle East may carry out economic justice: that is, the distribution of economic benefits and burdens. But the absolute monarchy and other systems of authoritarian and autocratic rule clearly do not fulfill the modern concept of social justice. The problem that stands out, aside from the lack of freedom of expression, is the issue of whether the clear separation between private/individual ownership and public wealth and property emphasized in the teachings of Islam can exist under such a system of government. Nevertheless, these issues are rarely discussed by proponents of Islamic economics. Islamic injunctions on wealth distribution have never been brought to terms with the realities of poverty and inequality in those very countries where support for Islamic economics is most outspoken, almost all of which are characterized by varieties of absolute monarchy or autocracy. In those countries the concentration of wealth and power in the hands of the ruling families contradicts, and has become a major barrier to, the achievement of justice as a goal of the teachings of Islam, as stated by proponents of

Islamic economics. In the view of liberal-progressive Muslim groups, all forms of autocratic rule, including systems of absolute monarchy or military or civilian dictatorships, are illegitimate. It can be said the standard of justice in most absolute monarchical and semi-autocratic or autocratic rules in Arab countries still operates within the context of a pre-modern political culture or dynastic system. Although modern European ideas and Islamic reformist-modernist ideas have attempted to force fundamental change since the nineteenth century, the old paradigm of justice has not changed significantly. Similarly, the absence of freedom of expression, freedom of association, free press and media, and an independent judiciary as an important cornerstone of a trustworthy and ethical administration, is an obstacle for the realization of a modern Islamic-oriented social justice. Moreover, the realization of social justice in many Arab countries has been hampered not only by the rulers who want to perpetuate their power and live indulgently with luxurious possessions, but also by Western democracies seeking to maintain their economic interests by providing military and political support to the unelected Arab rulers. The emergence of social justice and democratic movements in the Arab world is always a source of worry for repressive and corrupt Arab monarchies and military and civilian dictatorships as well as for Western governments.¹¹⁸⁷

For Muslims involved in struggle to realize social justice, their efforts are aimed fundamentally at establishing one of Islam's most important injunctions for the believers.¹¹⁸⁸ However, the concept of social justice in Islam should be reinterpreted within the paradigm of modern society and not based on patrimonial-

¹¹⁸⁷ See John L. Esposito, *Islam and Politics*, 320-321; Chandra Muzaffar, "Islam, Justice, & Politics," in *The New Voices of Islam: Reforming Politics and Modernity; A Reader*, ed. Mehran Kamrava (London: I.B. Tauris, 2006), 226.

¹¹⁸⁸ Farid Esack, "In Search of Progressive Islam: Beyond 9/11," in *Progressive Muslims: On Justice, Gender and Pluralism*, ed. Omid Safi (Oxford: Oneworld, 2003), 81—82, 84-85 and 92; Farid Esack, *On Being a Muslim: Finding a Religious Path in the World Today* (1999; reprint, Oxford: Oneworld, 2000), 23-27 and 89-93.

traditional concepts and institutions.¹¹⁸⁹ Through this, the concept of equality in Islamic teachings can be extended to non-Muslims and ensure that equal rights are given to all citizens irrespective of gender or class. This reinterpretation should also include the establishment of democratic governance and representative elections and the protection of freedoms of speech, assembly and association. All this should replace the current authoritarian governments that rule much of the Muslim world. Lastly, the ownership of property and natural wealth should be administered by an elected government whose mandate is to use these resources for the public interest. These considerations above are very close to Sjafruddin's modernist interpretation of Islam: one that is inclusive, rational, and progressive, presenting Islam as a truly universal message intended for the modern world based on justice and humanity.

Sjafruddin's concept of social justice is a model to be continued and improved by the younger generations of Indonesians for the well-being of the nation. For Indonesian Muslims he is a model of deep and sincere commitment to Islam, the nation, and humanity, possessing superb expertise in his field. He was also a person of courage and integrity, who was firm and steadfast in his principles, but tolerant of different opinions and ready to discuss them thoughtfully.

Sjafruddin's concept of social justice is all the more relevant now as a response to the challenges posed by neo-liberalism which, while promising the efficient production of economic activity and wealth, has resulted instead in economic inequalities on the domestic and international levels, environmental destruction and deterioration, unevenness of employment between social classes,

¹¹⁸⁹ Cf. Rodinson's instigation of the way which should be taken by believing Muslims "... who would fight against reactionary interpretations of Islam... [to draw from the scriptures] ... valid precepts of social morality, [and to accomplish] within the religious framework an organic synthesis (and not a juxtaposition) between traditional religious values and the humanist values which exalt (*inter alia*) economic construction, ..." According to him, this is "... the only way to ensure a worth-while life for the members of the community." Rodinson, *Islam and Capitalism*, 233-234.

and a widening wage gap.¹¹⁹⁰ Muslims can fight injustice by building coalitions with others based on common causes and regardless of religious affiliation. They should be inclusive. Muslims and non-Muslims' solidarity and cooperation against injustices engendered by corrupt and authoritarian regimes and global fundamentalist economic capitalism are crucial to creating a just and peaceful world.¹¹⁹¹

Finally, in the figure of Sjafruddin and his conception of social justice we have the model of a person who responded to the situations and problems he faced reasonably and rationally, and who fought to realize the common good and ideals of humanity on the basis of a common ground that could be shared by all groups of people regardless of their religion, ethnicity, and nation. All this he based on the conviction that the struggle was not only for the benefit and happiness of human beings in this world but was a duty accountable to God in the Hereafter.

¹¹⁹⁰ Stilwell, *Political Economy*, 22.

¹¹⁹¹ Farid Esack, *Qur'ān, Liberation & Pluralism: An Islamic Perspective of Interreligious Solidarity Against Oppression* (Oxford: Oneworld, 1997; reprint, 1998), 194-203; Muzaffar, "Islam, Justice, & Politics," 227-229.

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APPENDIX: Highlights of Sjafruddin Prawiranegara's Life

Born on February 28, 1911 in Anyar Kidul, Banten, West Java.

1917-1930: elementary schooling at an Europeesche Lagere School (ELS, European Primary School) in Serang, Banten, West Java, and Ngawi, East Java, and a Meer Uitgebreid Lager Onderwijs (MULO, Advanced Primary Education) in Madiun, East Java.

1931: Finished his secondary education at an Algemene Middelbare School (AMS, General Middle School) in Bandung, West Java.

1939: Graduated from RHS (Rechts Hogeschool) in Jakarta with the degree of *Mr.* (*Meester in de rechten*, Master of Law).

1939-1940: Worked in a private radio-broadcast and became editor of its publication, *Soeara Timur* (Voice of the East).

1940-1942: Worked as an employee in the Department of Finance and was posted at the tax office in Kediri, East Java.

1942-1945: Head of the Kediri tax office and was then moved to become head of the tax office in Bandung.

1945: Secretary of the Indonesian National Committee (KNI) of the Priangan Residency in Bandung.

1945-1946: Member of the Working Body of the Central Indonesian National Committee (KNIP) in Jakarta with Sjahrir as its chairman.

1945: Joined Masyumi Islamic Political Party.

March to October 1946: Junior Minister of Finance in the second Sjahrir's cabinet.

October 1946-June 1947: Minister of Finance in the third Sjahrir's cabinet.

1947: Chairman of Indonesian delegation to ECAFE (UN's Economic Commission for Asia and the Far-East) meeting in Manila, the Philippine.

January to December 1948: Minister of Prosperity/Economic Affairs in Hatta's cabinet.

December 1948-July 1949: Chairman of the Emergency Government of Republic of Indonesia (PDRI) in Sumatera.

August to December 1949: Vice Prime Minister in the second Hatta cabinet.

December 1949-September 1950: Minister of Finance in the Hatta cabinet of Republic of United States of Indonesia.

September 1950-March 1951: Minister of Finance in the first Unitary State of Republic of Indonesia's cabinet under Prime Minister Mohammad Natsir.

July 1951-July 1953: President of De Javasche Bank.

July 1953-January 1958: First Governor of Central Bank of Indonesia (BI).

February 1958-August 1961: Prime Minister of the Revolutionary Government of Republic of Indonesia (PRRI) and Republic of United States of Indonesia (RPI), the counter government to the central government of Republic of Indonesia.

August to December 1961: Free Citizen in North Sumatera.

March 1962-July 1966: Political Prisoner under the President Sukarno's Guided Democracy regime in several places in West Java, Central Java, and Jakarta.

July 1966-1989: Founder and member of boards of various social, religious, and economic organizations; a leading critic the New Order regime.

February 15, 1989: Passed away and buried in Jakarta.

