



The role of Indonesia's Economic Democracy in a sustainable and inclusive development in Indonesia

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Abstract

The idea of economic democracy developed as alternative efforts of the Indonesian economic experts to address the failure experienced by developing countries, including Indonesia, in applying the classical growth theory neoliberal. Application of the theory of growth that has brought success in the State of the European region has led to the fact that it turned out badly in a number of different nations. There are various obstacles in the implementation of economic democracy due to differences in addressing the perception of economic development and improving people's welfare. The discussion in this paper attempts to analyze how is an ideal economic democracy for Indonesia, One tool which can be used to increase the Indonesia's economic growth is by applying the theory of increasing return to scale that is to develop the advance-tech industries, but the government must not skipped to increase the growth in the sector of agriculture and natural resources. This tool can not be realized without the support and active participation of government through a variety of economic policy, both in the field of macroeconomic (monetary and fiscal), microeconomics (industry and trade policy), public policy and political policies that are pro-industry with the characteristics of the increasing economic returns.

KEYWORDS: *Economic Democracy, Economy*

INTRODUCTION

The theory of economic growth which was applied by west European countries and US, mostly unsuccessful to be applied at the other nation countries such as Indonesia, though there are certain countries such as South Korea, Taiwan, Singapore and Brazil which are successful in applying the concept of growth. In Indonesia, during the Suharto regime, the country is relying on foreign borrowing funds to finance the construction, relying on foreign investment, strengthening the export substitution industry, for two to three decades has succeeded in encouraging the growth of national output and provide broad enough jobs for the people. Although Indonesia has been dubbed as one of the eight countries in Asia as the Asian Miracle, because the rate of economic growth is quite steady for three decades, but it is very susceptible to the supply shock (World Bank, 1993).

Almost all studies of economic theory of growth have not concerned with the applicability of growth theories in non developed countries. This lack of attention has led to a tendency to research on economic growth and its determinants in less developed countries. In this line, some studies have been attempted to examine the circumstances under which different government policies, particularly different trade strategies and competitive environments have different effects on growth. Some research has tended to examine the determinants of economic growth rate in less developed countries using cross-sectional data within the neoclassical theory framework. But a few researches have challenged the results of empirical literature in support of neoclassical theory of export-led





growth and the convergence hypothesis in less developed countries and provided a theoretical and empirical alternative.

In spite of much progress in the growth literature, there are still a considerable gap between the logic of academic interests and the needs of policy practitioners of the less developed countries. Unlike in the developed countries, neither the long run growth nor expanding the technological frontiers is the main concern of less developed countries. They mainly interested in short to medium term growth and accelerating technological catch up by adopting existing innovations.

In general, the growth theories have not been successfully able to assess the determinants of growth, particularly in less developed countries. Moreover, the definition and the measurement of theoretically predicted determinants are much difficult and different in less developed countries from those in developed countries. The current economic growth theories do not take into account cultural variables and religion as necessary, while religion is an important aspect of culture offering a set of values essential for economic development (Nezhad and Hosainpour, 2011).

In his study, Pritchett (2006) showed that, in spite of much progress in the growth literature, there remained a tension between the logic of academic interests and the needs of policy practitioners of the less developed countries. According to him, nearly everything about the first generation growth models was in a dispute with the needs and perspectives of policy makers of the less developed countries. The main stream of endogenous models is to focus on the very long run and on the incentives to broaden the technological frontiers. Neither the long run growth nor expanding the technological frontiers is the main concern of less developed countries. They mainly interested in short to medium term growth and accelerating technological catch up by adopting existing innovations.

Promoting the general welfare is a trust that must be implemented by the government on an ongoing basis. This clearly refers to the conception of welfare state paradigm combining economic and social approaches to the role of the main driving force of the government together with the private sector in order to achieve a prosperous people. The concept of welfare state it self is mentioned in the preamble of the constitution of the republic Indonesia (1945) paragraph 4 "to form a government of the state of Indonesia which shall protect all the people of Indonesia and all the independence and the land that has been struggled for, and to improve public welfare, to educate the life of the people and to participate toward the establishment of a world order based on freedom, perpetual peace and social justice".

Indonesian history in 1998 showed that, Indonesia recorded the worst economic performance over the past 33 years, GDP fell 13.2 percent. That year was the most difficult year to lift the economy back on track. According to the Central Bureau of Statistic(1998) some economic indicators show the severity of the economy, such as high inflation (77.61 percent) and rising unemployment rate of 5.46 percent. Rupiah weakened, with the exchange rate had touched 15.000 per US \$, industrial sector output fell, such as industrial machinery fell 71 percent. The use of production capacity is only about 82.4 percent of the normal state, while the value-added industrial sector fell 11.9 percent. Two other sectors that are directly off due to the financial crisis is the construction sector (minus) 40.5 percent and the financial sector (minus) 26.6 percent. Household consumption fell in line with the weakening of Indonesia's purchasing power back into the ranks of "Poor Countries" with a per capita income of about \$ 456 US.





This fact shows us, that the concept and economic development strategy that is successfully applied in a country, not necessarily going to be successful when applied in other countries. The theory of growth by Harrod-Domar, the theory of Rostow, David Romer growth theory, Solow growth theory, built on different community structure from Indonesian society. Neoliberalism, the country's economic well-being (Keynesianism) and the social market economy as one of the initial variant of neoliberalism was initiated by Alfred Muller-Armack (Islam, 2004) can not be equated with economic populist, because both of them are economic system built on the principle free competition. Each theory has always built with certain assumptions, which not all countries have assumed conditions. That is why, to build Indonesia's strong, stable and equitable economy it is not be able to use existing generic theory. We must formulate our own economic development concept that fits with the political demands of the people, and fits with the objective conditions and our subjective situation.

THEORITICAL BACKGROUND

Definition and Characteristics of Economic Democracy

Economic democracy is the national economic system which is structured as a joint venture based on the principle of the family, where the production is done by all, and for all, under the direction or control of members of the community which aims to improve the ability of communities to control the course of the economy (Baswir, 2008). Basically, democratic economy is the whole economic activities that pro-people, and for the welfare of the people. For our purposes we can define economic democracy more widely as a system of checks and balances on economic power and support for the right of citizens to actively participate in the economy regardless of social status, race, gender, etc. (Johanisova and Wolf, 2012)

Actually we can feel the practice of democratic economy in our daily lives, it is not difficult to find the facts application of the principles of democratic economy is in almost all branches of economic activity in the field of agriculture, fisheries, industry and crafts, and services. Likewise, if we have always considered extremely difficult to study the economic life of the people, its mean we consider that economic democracy does not exist, or are considered illegal economic system, then our arguments will be swirling with reference to western economic theory that is not suitable for Indonesia (Mubyarto, 2003)

The Concept of Economic Democracy System

The idea of economy democracy developed as an alternative to the efforts of the Indonesian economic experts to address the failure experienced by developing countries, including Indonesia, in applying the theory of growth. Application of the theory of growth that has brought success in the countries of Europe turned out to have caused another reality in a number of different nations. One hopes that the results of this growth can be enjoyed until the bottom layers of society, there are many people in the lower layers are not always able to enjoy the fruits of development are expected to stream it. Even in most developing countries, socio-economic gap widened. From this experience, eventually developed a variety of alternatives to the concept of development focused on growth.

The concept of economic democracy is developed in an effort to further promote the community. In other words this concept performed to build up welfare through the community empowerment. According to Prof. DrMubyarto, economic democracy system is





an economic system that based on kinship, sovereignty of the people, and prioritizing the welfare of the people, democratic economy can be described as well as the economic network which is connecting the centers of innovation, production and independence of the business community in a network based on information technology, for the formation of domestic market networks and business community.

As a network the democracy economic sought to be ready to compete in the era of globalization, through the adoption of information technology and the most advanced management system as owned by international business organizations. The System of Economic Democracy must take efficiency into account, in order to be competitive in the global market, it could be done by mass production activity which is absolutely requiring a high-tech investment.

Goals and Objectives of Economic Democracy

According to Prof. San AfriAwang (2009), Democratic economic system basically is to achieve social justice for all Indonesian people through increasing the community's ability to control the course of the economy. Further, he elaborates the principal target of democratic economy in outline includes the following five points:

1. The availability of employment opportunities and decent living for all members of society.
2. The implementation of the social security system for community members in need, especially the poor and abandoned children.
3. Ensuring equal distribution of income among the people
4. The implementation of the national education free of charge for every member of the community.
5. Ensuring the independence of each member of the community to establish and join economy unions.

DISCUSSION

Why the economic democracy is crucial for Indonesia?

According to Hutomo, at least there are four reasons why economic democracy system is crucial for Indonesia (Hutomo, 2009):

1. Characteristics of Indonesia

Indonesian experience to rely on foreign borrowing funds to finance the construction, relying on foreign investment, strengthening the export substitution industry, for two to three decades has succeeded in encouraging the growth of national output and provide broad enough jobs for the people. but it is very susceptible to the supply shock that brought Indonesia in a serious economic crisis and in a very short time, the Indonesian economy collapsed.

It is proven that the neo-classical theory may not be applicable at other nations, therefore, Indonesia must formulate its own theory of economic growth which more accurate and accordance to its constitution and public politic.

2. Constitution concerning economic

Economic democracy is based on kinship and is the economic system that gives an opportunity to all people to participate in economics. The system of economic is not monopsony or monopoly or oligopoly, but it is a system of economic constitution which gives the opportunity to all the people or citizens to have assets in the national economy.



3. Empirical Facts

Though formerly Indonesia faced a monetary crisis which led to high inflation, low exports (especially of manufacturing products), low imports, and unemployment rose but it has no negative impact on people's economic where the source of their products did not use the import materials. Surprisingly, though the investment is zero percent, and depreciation of capital, but Indonesian economy could grow 3.4% in 1999. It all proves that the Indonesian economy will be solid if economic agents carried by as many citizens.

4. Failure of Economic Development

Economic development that we have implemented over the years, seen from the aspect of macroeconomic did show results quite well. Economic growth is still above 6 percent per year. Revenue increased sharply year on year, the volume and value of non-oil exports also increased. But in other aspects, we also have to admit, that the number of poor people has remained much, income disparities between population groups increasing, and transfer of ownership of economic assets of the people to a small group of citizens has also increased. Economic paradox occurs.

Although we have implemented various poverty reduction programs, and run the equalization program, but it turns out everything is not able to solve the problems mentioned. Therefore, what we need now is not only poverty reduction programs, but redefined the economic development strategy that is suitable for Indonesia.

Strategic of Economic Democracy to achieve a sustainable economic and Inclusive Development

Scheme 1, The Strategic of Economic Democracy



Central government should decrease its domination on local government, but the local government should increase its own source of revenue with fair competition, developing the farmer unions are expected to serve as the foundation of economic empowerment of the people. Economic development strategies that empower people is implementing a strategy of economic democracy that production is done by all for all, and under the leadership and ownership of community members. Community prosperity precedence over the individual prosperity, the poverty cannot be tolerated so that every policy and program development should benefit the poorest and least prosperous.



Developing the model of economic democracy in Indonesia

Based on the previous literatures and research papers conducted on other nations, the author assumes that the current concept of Indonesia economic democracy need to be developed, as of now, mostly ideas of economic democracy still very normative, moreover, the concepts of Indonesian economic democracy have not been applied in Indonesia it self so far.

As more people are employed, the amount of capital increases, education levels increase, the quality of capital changes, or the technology increases, the productive capacity of the economy increases. Therefore, the economy can increase its output giving consumers more disposable income, promoting an increase in consumption spending, and providing resources for business to use for further investment and government to use to provide public goods and services.

In most well developed countries such as US, West Europe, Japan, South Korea, Singapore, Malaysia and even China, their economy is built on a strong manufacturing industry structure and diverse, integrated, synergistic, with high economies of scale, along with mastery and application of advanced technology to continuously improve productivity. This is because productivity in the manufacturing industry with the application of advanced technology is much higher than the primary sector industries such as agriculture and natural resource-based industries. See the table 1 which contains list of countries that have become prosperous by various political economic system background.

Table 1

Country	Type of Political Economic System	Tendency	GDP/Capita 2013 – (USD)
Japan	Coordinated Capitalism	Strong Government Influence	36,654
South Korea			33,791
Singapore			78,762
Liberal Market Economies			
United States	Liberal Capitalism	Liberalism	53,001
United Kingdom			36,208
Canada			43,253
Australia			45,138
Social Market Economies			
Denmark	Social Capitalism	Socialism	43,080
Sweden			43,407
Germany	Social Capitalism	Midway	43,475
Netherlands			46,440
Belgium			40,760
France			38,813
Italy			34,103
Austria			44,402

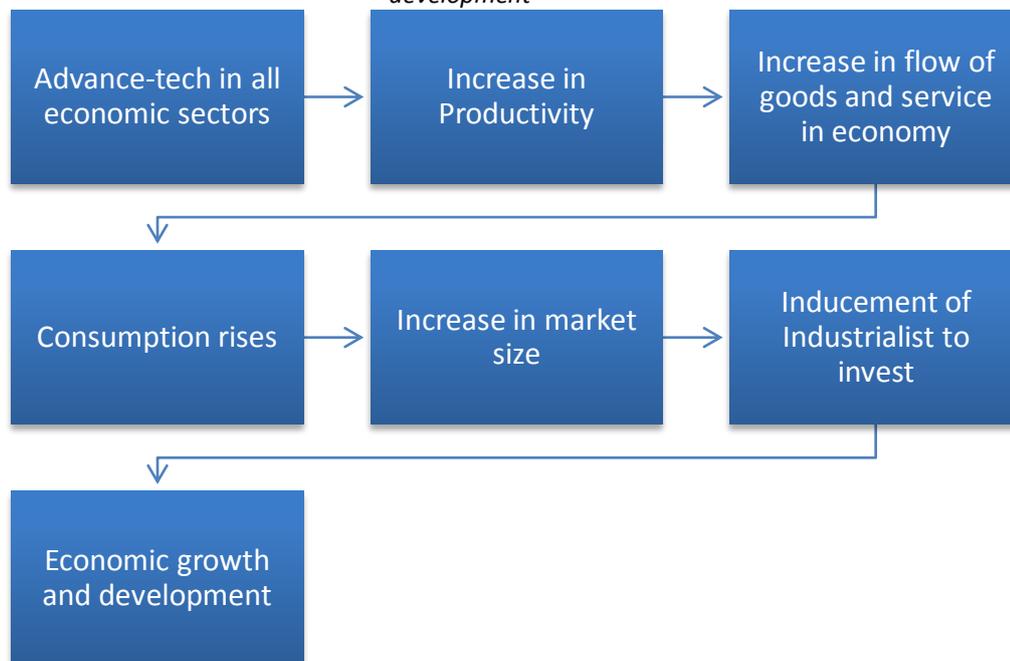
(Source: International Monetary Fund (2013) based on estimates of projected data)

Those countries who possess the high-tech industries and innovative products will be more developed then those countries which are involving traditional factors of economics and less innovative. This issue to the process of economic development in principle will result in economic growth rates that are divided into three categories, namely (1) Decreasing economic returns (2) Constant economic returns and (3) Increasing economic returns. Decreasing economic returns when the percentage increase in output is lower than

the percentage increase in inputs, which mean decreased productivity. Constant economic returns when the percentage increase in output is equal to the percentage increase in the input, which means a constant productivity. Increasing economic returns when the percentage increase in output is greater than the percentage increase in the input, which means increased productivity.

In most underdeveloped economies, the technology used to carry out agricultural activities is backward. There is a low degree of mechanisation coupled with rain dependence. So while a large proportion of the population (70-80%) may be actively employed in the agriculture sector, the contribution to the Gross Domestic Product may be as low as 40% (Misra and Puri, 2010). This points to the need to increase output per unit input and output per head. This can be done if the government provides irrigation facilities, high-yielding variety seeds, pesticides, fertilisers, tractors etc. The positive outcome of this is that farmers earn more income and have a higher purchasing power (real income). Their demand for other products in the economy will rise and this will provide industrialists an incentive to invest in that country. Thus, the size of the market expands and improves the condition of the underdeveloped country.

Scheme 2, the process of how advance-tech in all economic sectors led to economic growth and development



The agriculture and natural resources has the characteristics of decreasing economic returns: natural resources will run out sooner or later. Formerly, Indonesia produced more than 2 million barrels of crude oil per day, but now only 830,000 barrels per day, where it shows the characteristics of decreasing returns. Similarly, productivity in the agricultural industry, are likely to decline in the long term unless discovered new technologies, for example through biotechnology. Improving the farming method, for example by using a tractor compared with manual or animal power, it just increases the productivity of labor, but does not increase the productivity of the land. Land productivity can only be improved through the application of advanced technology and innovation. While the labor-intensive manufacturing sectors with low technology implementation and low wages, such as garment industry, footwear or traditional furniture, has a constant characteristic of economic returns. Competitiveness in this industry is determined by cheap labor. Capital-



intensive manufacturing sector with the application of advanced technologies, such as electronic industry, machinery and equipment machines, and many others, have characteristics of increasing economic returns. Increasing industrial productivity in economic returns can be improved in a sustainable manner in line with the reform and technological innovation.

Therefore, a country can be developed and prosper if it can build the industry with significantly increasing economic returns in economic development. This does not mean we should abandon other industries (agriculture, natural resources, labor-intensive manufacturing). The potential of these industries should be developed, but must be accompanied by the development of industries with characteristics of increasing economic returns. Without it, economic development will not be optimized and the state is difficult to achieve prosperity and welfare.

The development of industry based on increasing economic returns can not be realized without the support and active participation of government through a variety of economic policy, both in the field of macroeconomic (monetary and fiscal policies), microeconomics (industry and trade policy), public policy and political policies that pro industry with characteristics increasing the economic returns.

CONCLUSION

To build Indonesia's strong, stable and equitable economy it is not be able to use existing generic theory. We must formulate our own economic development concept that fits with the political demands of the people, and fits with the objective conditions and our subjective situation.

Economic democracy is system of checks and balances on economic power and support for the right of citizens to actively participate in the economy regardless of social status, race, gender, etc. The System of Economic Democracy must take efficiency into account, in order to be competitive in the global market, and utilizing a high-tech capital in all sectors of economy.

After decades Indonesia has implemented different economic programs under different regimes, but till today the programs which have been implemented showed no bright sign, Indonesia still facing unequal distribution income, unemployment, and poverty. Now, we not only need poverty reduction programs, but redefined the economic development strategy that is suitable for Indonesia. The productivity in the manufacturing industry with the application of advanced technology is much higher than the primary sector industries such as agriculture and natural resource-based industries. Capital-intensive manufacturing sector with the application of advanced technologies, such as electronic industry, machinery and equipment machines, and many others, have characteristics of increasing economic returns. Increasing industrial productivity in economic returns can be improved in a sustainable manner in line with the reform and technological innovation.

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