

The Role of the Government in the Indonesian Economy: A Review of the Economic Constitution

Indra Darmawan

Economic Education Study Program, Sanata Dharma University, Indonesia

ABSTRACT : Currently, Indonesia has been independent for seventy-six years since the proclamation of independence in 1945. Various development programs have been implemented, including development in the economy. The debate about what economic system should be implemented in Indonesia has always been a battle of ideas so far. The economic constitution is not always taken into consideration in policy making. The idea of the ideal role of government should be a system based on holistic, multidisciplinary, and community welfare-oriented thinking. The economic system implemented in Indonesia should be based on the principle of building economic independence that is oriented towards all Indonesian people and always strives for public welfare.

KEYWORDS : *the role of government, economy, economic constitution, economic system, welfare*

I. INTRODUCTION

When the founding fathers proclaimed the independence of the Republic of Indonesia, one of the objectives of the establishment of the Republic of Indonesia related to economic issues was clearly stated in the second and fourth paragraphs of the Preamble to the 1945 Constitution (UUD 1945). The second paragraph describes the objectives of the struggle for the Indonesian independence movement which leads to an independent, united, sovereign, just and prosperous country. Meanwhile, the fourth paragraph contains the government's duty to protect the entire Indonesian nation and the entire homeland of Indonesia and to promote public welfare (Constitution of the Republic of Indonesia, 1945).

This study aims to describe various facts about the government's role in the economy in Indonesia since entering the era of independence which includes state financial management, natural resource management, and community welfare. Some questions that can be asked include: has the national economic development and its results touched all levels of Indonesian society? Have the people of Indonesia experienced a state of sovereignty, justice and prosperity as envisioned in the second paragraph of the Preamble to the 1945 Constitution? Has the Indonesian people really felt the existence of general welfare? Has the Indonesian economy, which was built on the basis of the 1945 Constitution, been realized?

II. METHODS

This research is a descriptive research design. The study in this study tries to examine various facts of economic developments that have occurred in Indonesia since entering the era of independence. Philosophical studies become the main framework for writing starting from the development of economic thought in the world, the idea of an economic system based on the constitution, and the development of the idea of building an Indonesian economic system that leads to a sovereign, just, and prosperous nation. The object of research in this paper is the role of the Indonesian government in the Indonesian economy in terms of managing state finances, managing natural resources, and public welfare. The data is revealed from the main source of Indonesia's constitution, namely the 1945 Constitution and various developments concerning the object of research from various sources.

III. FINDING AND DISCUSSION

3.1 Economic Constitution

A constitution is called an economic constitution if it contains economic policies in it (Asshiddiqie, 2010). The discourse on economic constitution actually started since the Soviet Union included economic issues in its constitution in 1918 and the Weimar Republic of Germany in 1919. Then the pattern of constitutionalization of economic policy was followed by many other countries in various typologies. From a number of constitutions being compared, there are four characteristics of an economic constitution. First, the

economic constitutions of liberal-capitalist countries such as America, Australia, the Netherlands, and Germany. In this type, the things regulated in the constitution are guarantees of individual property rights, freedom of contract and competition among business actors. Not the government, but the private sector—whose dynamics are more determined by market mechanisms—which are the main actors in economic activity. The role of the state is very minimal and, if necessary, only makes rules so that market mechanisms can take place freely.

The second type is the economic constitution of countries of socialism and communism such as the Soviet Union, China, Vietnam and North Korea. In this group, the government is the main actor in economic activities, including in making regulations and carrying out economic activities. All natural resources and other means of production belong to the state. The two types above indicate ideological conflicts that affect the character of the economic constitution. The contradictions between the socialist-communist and liberal-capitalist ideologies were evident from the founding of the Soviet Union until its collapse (1918-1991). However, after the dissolution of the Soviet Union, these ideological conflicts gradually drifted apart.

The collapse of the Soviet Union was then the starting point for the birth of a third type of economic constitution, namely the economic constitution of ex-communist countries. In ex-communist countries, there is a process of liberalizing the economic constitution. Countries that have a socialist-communist type of economic constitution shift by adopting the norms that exist in the liberal-capitalist state constitution. This, for example, occurred in the Russian constitution (1993), before the constitution of the Soviet Union (1978), where the provisions on state property rights to land, minerals, water and forests were changed to provisions containing individual property rights that could not be expropriated unless on the verdict. Likewise with the constitutions of Lithuania and Armenia.

While the fourth type of economic constitution is the economic constitution of non-communist countries such as France, Portugal, Spain, the Philippines, and Brazil. In non-communist countries, the regulation of the role of the state and the private sector in the economy is regulated in a balanced manner. Apart from giving a role to the state through special bodies, such as the Economic and Social Council in France, the role of the private sector also has a place. Business competition in economic activities is also something that is guaranteed in the constitutional norms.

If it is associated with the four types of economic constitutions, the economic constitution of Indonesia is more accurately classified into the fourth type, namely the economic constitution of non-communist countries. This is more clearly seen after the amendments to the 1945 Constitution made the role of the state and the private sector in economic activities equally accommodated.

3.2 Indonesian Economic System

Indonesia's economic history has long been inscribed since the colonial period of the Dutch East Indies until now when the Indonesian people have lived as independent Indonesia. Based on the economic system that was implemented during the Dutch colonial period, the colonial economic history of the Dutch East Indies can be divided into three periods, namely (1) the VOC (Vereenigde Oost-Indische Compagnie)-style mercantilism system around 1600-1800 which emphasized increasing exports and restricting imports; (2) the state monopoly system of the forced cultivation system around 1830-1870; and (3) a liberal capitalist economic system from 1870 to 1945 (Mubyarto, 1999). These colonial economic systems on the one hand left poverty for the Indonesian people, but on the other hand gave birth to a culture of cultivation, a money system, and an industrial culture. In fact, the Dutch East Indies government had made Indonesia – which during the colonial period was called the Nusantara Earth – into one of the economic powers in Asia. At that time, Indonesia was the largest exporter of a number of primary commodities, particularly sugar, coffee, tobacco, tea, quinine, rubber, nutmeg and palm oil.

However, the rapid economic development did not provide an increase in welfare for the people. From the income of the Dutch East Indies which was around 670 million guilders at that time, as many as 59.1 million indigenous people only splashed 3.6 million guilders (0.54 percent), while the population of Chinese descent who numbered around 1.3 million people received 0.4 million guilders. While the remaining 665 million guilders (99.4 percent) were enjoyed by white residents – mostly Dutch – which only amounted to around 241,000 people (Tambunan, 2006).

When the Republic of Indonesia was proclaimed by Soekarno-Hatta in 1945 and then followed by the approval of Indonesia's highest constitution, namely the 1945 Constitution. The 1945 Constitution clearly stated the objectives of governance and economic development of Indonesia. In the fourth paragraph of the Preamble to the 1945 Constitution, it is clearly written that the Indonesian state government was formed to protect the entire Indonesian nation and the entire homeland of Indonesia and to promote the general welfare. In Indonesia's highest constitution – which has been amended four times – the management of the national economy is divided into three crucial matters, including management of state finances, management of natural resources, and public welfare. The following is described in more detail about these three things.

3.3 State Financial Management

In the administration of a country, many resources are needed which are manifested in financial needs. In the 1945 Constitution, matters concerning state finances, the authority of the central bank, and the management of institutions related to these matters are contained in Chapter VII Financial Matters and the Supreme Audit Agency.

Fiscal policy is one of the policies in the economy carried out by the government through the State Revenue and Expenditure Budget (APBN) instrument. The APBN is the annual financial plan of the Indonesian government which is approved by the House of Representatives. To meet the financing needs of the state, generally each country relies on revenues from the tax sector, as is the case in Indonesia. The legal basis for tax management in Indonesia is Article 23A of the 1945 Constitution.

The tax ratio in Indonesia is relatively very low. This is because there are still so few Indonesians who pay their income taxes regularly and honestly. On the one hand, low tax rates are good news for taxpayers because their wealth and income are not undermined by taxes. But on the other hand, this is also bad news because it means that the government/state's source of routine income is limited or at least the real tax income is smaller than its potential.

3.4 Natural resource management

The leaders of the Indonesian nation who drafted the 1945 Constitution have the belief that the ideals of social justice in the economic field can achieve equitable prosperity. With that aim it is embedded in Article 33 of the 1945 Constitution which reads:

(paragraph 1) The economy is structured as a joint effort based on family principles.

(paragraph 2) Production branches which are important to the state and which affect the livelihood of the people are controlled by the state.

(paragraph 3) Earth and water and the natural resources contained therein are controlled by the state and used for the greatest prosperity of the people.

Article 33 of the 1945 Constitution was then amended with the following additional paragraph (Constitution of the Republic of Indonesia 1945, fourth amendment):

(paragraph 4) The national economy is organized based on economic democracy with the principles of togetherness, efficiency with justice, sustainability, environmental insight, independence, and by maintaining a balance of progress and national economic unity.

(paragraph 5) Further provisions regarding the implementation of this article are regulated in law.

According to Hatta (1977), article 33 is the main pillar for the political economy and social politics of the Republic of Indonesia. Here what is meant by a joint effort based on the principle of kinship is cooperation. Indonesian-minded cooperatives that give an economic aspect to the old social cooperation: *gotong royong*. The ideals of Indonesian cooperatives are fundamentally against individualism and capitalism. The idea of Indonesian cooperatives creates a collective Indonesian society, rooted in the original Indonesian living customs, but grown at a higher level, in accordance with the demands of modern times.

In Article 33 of the 1945 Constitution, small-scale economic businesses are being carried out by cooperatives. Cooperatives are run by small people with small capital. Large businesses are managed by the state not only that produce "public utilities", but also other important production branches, such as basic industry and mining, which are controlled by the state. Hatta stated that being controlled by the state does not mean that the government itself and its bureaucracy run the company. The management of the company can be delegated to a leader or board of directors or a body that works effectively. Good practice in the construction of the Gresik cement factory deserves to be considered. After the Gresik cement plant was completed, for two years an American contractor led the company. After two years, the Indonesian leaders continued to run as effectively and smoothly as if the factories were still being led by foreigners.

Meanwhile, based on the mandate of Article 33 of the 1945 Constitution, water and natural resources contained in Indonesian soil are controlled by the state for the greatest prosperity of the people. In managing these natural resources, Indonesia has not been able to manage these resources on its own, so it must involve foreign parties, especially the management of oil and gas. In this case, Indonesia is the pioneer of the Production Sharing Contract (PSC).

PSCs in Indonesia have been introduced since 1960. However, a significant contract based on this concept was only signed in 1966 with IIAPCO, a consortium from the United States. This era is commonly referred to as the first generation PSC in Indonesia. The second generation was introduced in 1976, mainly due to the massive increase in world oil prices significant. While the third generation was introduced in 1988, which is considered to increase contract flexibility, related to oil price fluctuations and the increasing various risks of the oil industry.

Observing the management of oil and gas resources in Indonesia so far, it is necessary to revisit the idea of Hatta (1946) about the three things that determine the economy of a country. These three things include: First, the wealth of the land. Second, its position against other countries in the international environment. And third, the nature and skills of the people and their aspirations. According to Hatta, Indonesia should add one more article, namely its history as a colony. Because Indonesia was under the Dutch colony for more than three centuries, the overall economic situation was not as it should be according to the factors mentioned above.

3.5 Public welfare

One of the articles that regulates the welfare of citizens is Article 27 paragraph 2 of the 1945 Constitution which is the fruit of the intelligence of the founders of the Indonesian nation who had good intentions to protect Indonesian workers. The article reads "every citizen has the right to work and a decent living for humanity". According to Hatta (1977), to protect workers, the minimum wage should be stipulated by law by using the current situation as a reference. At that time the minimum wage a day was equal to the price of 5 kilograms of rice.

In the Act, Hatta hoped that it should also stipulate that wages and salaries are sufficient for living. Not only is it enough to eat and dress, but also to pay rent for the house, shop for the children to go to school, and pay taxes and be able to save even a little. Entrepreneurs should provide housing for workers and their families that is worthy of humanity and ensures the health of their families. Each company that is large enough is expected to subscribe to a doctor who comes to check on the health of its workers (Hatta, 1977). Employers are also expected to be able to hold sustainable reserves so that they can help workers when unemployment occurs.

The implementation of economic thought at a practical level will certainly not be separated from the political economy adopted by a country. Hatta (1967) straightforwardly in his speech measuring the Extraordinary Professor at Padjadjaran University explained his ideas about the relationship between economic theory, political economy, and the economic order. Some scholars agree that economics and political economy lie in two completely different areas. Economics says, how it is, the political economy wants how it should be. According to Hatta (1967) economics is an empirical science. Economic theory provides information about human nature which is generally carried out in its actions towards prosperity. Human nature towards prosperity is the object of economic knowledge. But in the natural world, economic action does not stand alone but involves other aspects such as physical, psychological, ethical, technical and juridical problems.

Political economy which is defined as a tactic to implement economic theories rationally in the natural world (Hatta, 1967). Political economy suggests what must be done to achieve maximum results in carrying out plans in the natural world, taking into account non-economic factors. Political economy put forward a normative goal. The pattern is determined by ideology, state politics, and social understanding.

In the end, the blue print for the Indonesian economy must be based on economic democracy, namely prosperity for all. Earth and water and natural resources are the pillars of people's prosperity. So it must be controlled by the state for the greatest prosperity of the people. Bung Hatta described the measure of the achievement of people's prosperity as follows: *"The country is not yet prosperous and has not implemented social justice, if the poor are still wandering in the middle of the road, and children who are expected to be the pillars of society in the future are neglected."*

So what should be the pattern of the Indonesian economy that should be built? Hatta (1967) emphasized that it is our duty to build the Indonesian economy with a pure purpose, in accordance with Pancasila. In building the state and society, we are bound to the ideology that has been embedded in the 1945 Constitution. According to Hatta, the goal of the Indonesian state is Indonesian socialism which is blessed by God Almighty. The guideline for implementing them lies in Article 27 paragraph 2 of the 1945 Constitution, Article 33, and Article 34. While Article 23 emphasizes that in carrying out these obligations, budget and financial management must be prioritized for the welfare of the people. Seeing the meaning of these articles in our constitution, it becomes clearer to us why the founder of this republic emphasized that the state must control various strategic natural resources as stated in Article 33 of the 1945 Constitution. This is because the socio-economic task of the state towards the people is very heavy so that it will rely on natural resources as a source of financing.

The idea of the Pancasila Economic System for the economic system implemented in Indonesia was introduced in 1965. Then Mubyarto (1999) also initiated the Pancasila Economic System which is believed to be the embodiment of the mandate of the 1945 Constitution. The Pancasila Economic System can be explained philosophically with an ontology, epistemology, and and axiology. In the ontology perspective, the existence of the Pancasila Economy, which is mentioned in practice, can easily be found in real life in Indonesian society, as a people's economy, which is moralistic, democratic and independent (Mubyarto, 1999).

If the people's economy is identified with the Pancasila Economy, which is often found in areas, in rural areas and small cities as well as in villages located in urban areas. In general, in these areas, there are many industries/folk crafts characterized by collectivism, where collective ownership of the factors of production that produces collective/individual products applies, with distribution oriented towards local market fulfillment.

Economic system analysis based on an epistemological approach in principle discusses the origin, source, method, structure and validity of the economic system concerned. Rahardjo (2009) stated that based on a sociological approach, the human concept in Pancasila Economy is homo socius and homo religious. In contrast to the concept according to socialist economics; only purely as homo socius, who tend to cooperate and prioritize the interests of the public rather than private. While the capitalist system views humans as homo economicus, with a tendency to be greedy, do not want to be regulated and prioritize their personal interests.

The axiological approach emphasizes values in general, so that in the context of the economic system, the emphasis is on how the system provides goodness for Indonesian citizens. Therefore, the desire to make Pancasila Economy (Populist) as a system will, of course, be related to its goals and final results. The goals to be achieved normatively are the "values" of Pancasila, especially social justice, then linked to their elaboration in the 1945 Constitution, article 27 paragraph (2) The state guarantees its population to get jobs, article 33 which emphasizes the utilization of natural resources potential for prosperity. population, and article 34 which regulates the obligation of the state to care for the poor.

IV. CONCLUSION

The Constitution of the Republic of Indonesia, which is related to the basic concept of the national economic system, should not only be used as a basis for the framework of thinking in setting the paradigm of the nation's economic system, but if you want to dive deeper, it contains philosophical and moral messages that uphold the interests of the nation's safety in order to achieve prosperity. and prosperity of the nation in the true and noble sense. If we listen to Article 33 paragraph (3) of the 1945 Constitution, it does not only contain the functions and roles of the state to realize the prosperity/welfare of the nation, but also the obligation to maintain the sovereignty of the nation and the state as a whole. So that the ideal economic thought to be applied is economic thought that is holistic, multidisciplinary and oriented to the welfare of the community.

The economic system chosen to be implemented in Indonesia should be based on the principle of building economic independence that is oriented towards all Indonesian people who selectively choose and place the functions and roles of the state/government proportionally in establishing national economic policies that are in line with the spirit and soul of the state constitution and applicable to the development and needs of the nation in global dynamics.

REFERENCES

- [1] Constitution of the Republic of Indonesia, 1945
- [2] Asshiddiqie, Jimly, *Konstitusi Ekonomi* (Jakarta: Penerbit Buku Kompas, 2010)
- [3] Mubyarto, *Membangun Sistem Ekonomi: Dari Kapitalisme Menuju Ekonomi Kerakyakatan* (Yogyakarta: Aditya Media, 1999)
- [4] Tambunan, Tulus, *Perekonomian Indonesia Sejak Orde Lama Hingga Pasca Krisis* (Jakarta: Pustaka Quantum, 2006)
- [5] Constitution of the Republic of Indonesia, 1945, fourth amendment.
- [6] Hatta, Mohammad, *Pengertian Pancasila*. Speech commemorating the birth of Pancasila at Gedung Kebangkitan Nasional. (Jakarta, 1 Juni 1977)
- [7] Hatta, Mohammad, *Ekonomi Indonesia di Masa Datang*. Speech of Bung Hatta as Vice President of the Republic of Indonesia at the Economic Conference in Yogyakarta on February 3, 1946
- [8] Hatta, Mohammad, *Teori Ekonomi, Politik Ekonomi, dan Orde Ekonomi*. Speech at the inauguration ceremony of the Extraordinary Professor in Economic Politics at Padjadjaran University, Bandung, 17 June 1967
- [9] Rahardjo, M. Dawam, Menuju Sistem Ekonomi Indonesia, *Jurnal UNISIA*. Volume XXXII No. 72, Desember 2009.