

## Indonesian Sustainable Economic Development in The Institutional Perspective

Syamsul Amar<sup>1</sup>, Alianis<sup>2</sup>, Ariusni<sup>3</sup>, Alpon Satrianto<sup>4</sup>

<sup>1</sup> Universitas Negeri Padang, Padang and Indonesia, syamsul\_amar3@yahoo.com

<sup>2</sup> Universitas Negeri Padang, Padang and Indonesia, alianis@yahoo.com

<sup>3</sup> Universitas Negeri Padang, Padang and Indonesia, ariusni.fe.unp@gmail.com

<sup>4</sup> Universitas Negeri Padang, Padang and Indonesia, alpon.unp@gmail.com

### Abstract

Sustainable development is a comprehensive and balance concept to achieve a human quality of life all the time and generation. The sustainable development concept is a correction of the classical model of economic development that concentrates on economic growth despite failing to attain public welfare. Otherwise, the implementation of sustainable development is still hampered by the weak of an institutional system. Weak institutional system causing a conflict of interest and activities of economic rent-seekers and Free Rider, which accelerates the process of destruction and scarcity of natural resources, especially unrenewable resources. Therefore institutional arrangement and enforcement of the rules through the instrument of taxation, subsidies, quotas, and increased community participation with the local wisdom approach should be considered by the policymakers.

**Keywords :** Sustainable development, economic growth

### Introduction

National development in the era of the New Orde government showed an encouraging performance, as shown by the average economic growth above 6%. Relatively high economic growth, closely related to the development strategy implemented at the time. The Development Trilogy, which consists of three development dimensions, is a goal that must be achieved simultaneously in the development process. The dimensions consist of: economic growth, equity, and economic stability, although at each stage of the medium-term development (Pelita) these dimensions have different priorities, this is in accordance with political interests at that time. All of that contained in the State Policy Guidelines (GBHN) as the main reference in the development process.

The New era government has succeeded in bringing the Indonesian state into a group of countries that have a low, middle income per capita income of \$ 1992 based on purchasing power parity. This condition is possible at the end of The First Phase Longterm Development economy of Indonesia will be able to reach the take-off stage. However, in reality, economic growth and high income per capita do not go hand in hand with the achievement of other development dimensions. When economic growth accelerates, the problems of poverty, unemployment, and income distribution are almost insoluble. In the 1993-1998 period according to BPS data (1998), the average poverty and unemployment rates were still relatively high at 18.43% and 4.4% respectively, while income inequality as indicated by the Gini ratio coefficient was relatively high at 0.42.

Growth theory as mainstream Neo-Classical theory assumes that unlimited natural resources, no public goods, no transaction costs, symmetrical information, no economic externalities, and no moral hazard, but this is difficult to find in the real economy. This fact was reported by the World Bank (1996) that growth-oriented development without meeting the underlying assumptions would give birth to five excesses in development: (1) high economic growth, but not followed by the increase of job vacancies (2) growth high, but not followed by community participation (voiceless growth), (3) high growth, but the value and culture are damaged (rootless growth), (4) high economic growth, not followed by income distribution (ruthless growth).

High economic growth has made the gap even wider between high-income groups and low-income

groups. This occurrence is due to weak policy support to encourage the work of the trickle-down mechanism. Development policies that are not in favor of lower-income groups and are biased towards higher income groups cause various social, economic, and political problems. On the other hand, high economic growth must also be paid handsomely in the form of social costs (social cost) by the community as a result of excessive exploitation of natural resources (over exploration, which causes environmental damage

The development problems that occurred during the New Orde era were thought to have been caused by the government's failure in formulating public policy formats. Public policy is considered right (on the right track) if the path of economic development is within the framework of the system, which is supported by available resources. Yoon Hwan (2000) states that the New Orde government made three policy mistakes during the period of his administration. These policies include: First, a political-economic priority. The New Orde government has given many privileges to certain elites. It has enriched the activities of rent-seeking, as shown by the development of corruption, collusion, nepotism, which causes inefficiency, high-cost economy, consumerism, and the effects of domination.

Second, political exclusion, the government with various development programs has limited the access of a group of people to take advantage of public utilities, both in economic and political aspects. Political exclusion tends to give birth to economic exclusion in the form of limiting access to a group of people to the main market. This condition gave birth to artificial poverty, dependence, and low community participation in development. The third is dependence on other countries (international dependence). Since the first Repelita, Indonesia began to depend on foreign financial institutions such as CGI, World Bank, ADB, and IMF. It is done by the government to improve macroeconomic performance especially to enhance economic growth. Foreign loans are shortcuts that can be taken by the government to obtain an injection of funds to improve macroeconomic performance, as a result of low domestic savings. Foreign loans tend to increase; as a result, the burden of debt is getting heavier and has an impact on the poor Debt Service Ratio; in 1995 it reached 67.4 percent. This condition was also exacerbated by weak debt management which resulted in high leakages and weak economic fundamentals which in turn resulted in a false economic growth (bubble economy). Weak economic fundamentals have an impact on the country's low ability to fend off external shocks, whose climax occurred in 1997 and eventually continued to be multi-dimensional research.

### **Sustainable Development in Institutional Perspective**

Sustainable development was initially introduced during the United Nations Summit on development and the environment in Stockholm (Sweden) in 1972. In 1987, It was explicitly defined by The World Commission on Environment and Development (WCED) in his book "Our Common Future". According to WCED, sustainable development is the development that meets the needs of the present without compromising the ability of future generations to meet their own needs. Sustainable development emphasizes the balance between development and environmental aspects and efforts to create environmental sustainability without compromising development needs and social justice for the present and the future. The concept of sustainable development in principle is as anticipation of development activities that exceed the carrying capacity (carrying capacity) of natural resources and the environment. If this condition is not anticipated, it is feared that there will be trade-offs between development outcomes and environmental damage such as natural disasters, global warming, deforestation, and germplasm damage.

This condition has hit many developing countries such as Latin America, Africa, and Asia, which until now continues. Deforestation and forest fires are examples of the most serious cases that have occurred in developing countries in the last few decades. Particularly for Indonesia, FAO indicated that the rate of deforestation would result in the next 15 - 20 years Indonesia would become a country without forests because every year the forests had been damaged as large as 1700 ha. If this is left unchecked, it will cause various problems relating to the quality of life of humanity such as the availability of water, oxygen and environmental health which will ultimately trigger global warming and socio-economic problems.

Damage to natural resources is an inseparable part of the efforts of developing countries to increase their

income and economic performance through the exploitation of natural resources without planning. The results of studies in several developing countries reveal that environmental damage is closely related to the poor economic performance of a country as indicated by low income, high poverty, and unemployment. Hayami (2005), argues that development that occurs in developing countries tends to prioritize economic development, but ignores social and environmental aspects such as unemployment, poverty, environmental damage, and low access to information. For this reason, harmonization and balance towards various aspects of development are needed, as agreed at the UN Summit in Rio De Janeiro in June 2012 called the document "The Future We Want."

According to Todaro (2015), development is a multi-dimensional change, which includes changes in social, economic, behavioral, and institutional structures to create better-living conditions. Development is not only to improve economic welfare but also includes changes in non-economic aspects from generation to generation. Specifically, Bruntland (1987) states that sustainable development is a process of change in the exploitation of natural resources for development needs through investment, technology, and institutional changes. Therefore, harmonization between investment, technology, and institutions is the main key in implementing sustainable development.

An institution is a rule of the game or organization that functions to regulate and minimize obstacles in interacting and contracting in economic activities. An effective institution is an institution that grows and is rooted in people's lives which is bound by a certain value system. Thus the institution will be able to regulate the order of community life better and orderly such as the Subak system in Bali and Julo\_Julo in West Sumatra. The role of the institution will directly affect the costs of economic transactions borne by economic actors in an economy. Empirical findings prove that countries whose economic supporting institutions play an effective role have a significant effect on the low economic transaction costs incurred by economic actors. On the other hand, for countries whose economic institutions do not play an effective role, they tend to bring up the black market, which in turn will lead to illegal fees, which in turn will increase the cost of economic transactions and reduce national competitiveness.

The environmental damage that occurs in developing countries can not be separated from the problem of the weak role of the institution and the incompatibility of policy settings with the application of investment and technology. It includes illegal logging, excessive mineral exploitation, and excessive fishing (overfishing) due to non-compliance with the rules of the game and weak law enforcement that have been established as a consequence of violations that have been committed. Besides, there is no calculation of the value of natural resources in the calculation of production costs in natural resource exploitation activities or the calculation of national income. As a result of the low costs that must be incurred by natural resource managers cause an unlimited increase in demand for natural resources. If this is allowed, it endangers the sustainability of natural resources in the future, especially for natural resources that are not renewable (unrenewable).

More broadly sustainable development includes three policy spheres, including economic development, social development, and the environment with the principle of balance. The application of the concept of sustainable development must be able to actualize: first; justice (equitable) in the sense that development activities must be enjoyed by all groups of people or generations (development for all). On the other hand, a development that is biased towards certain groups and generations is a form of inequality in development (inequality) and neglect of the core values of development. Second; development must be carried out sustainably. To realize sustainability, development activities must be adjusted to the carrying capacity of natural resources. Therefore, over-exploitation may not occur, which in turn will cause a scarcity of natural resources in the long term. Third; development that takes into account the carrying capacity of natural resources, in the long run, will be able to create sustainability and the availability of natural resources and be able to withstand their fullness (bearable). Fourth; development must be able to improve the quality of life and avoid negative impacts on the preservation of natural resources in the long term (viable). Factually, in the 1970s in Indonesia there was an over-exploitation of fossil energy resources known as oil bombs, only within 25 years had they felt scarcity, and it was estimated that the energy only had reserved for another 15 years.

This condition has changed the position of the Indonesian state in the organization of the world's petroleum-producing countries (OPEC), which was originally a fuel exporting country to an importing country. Economically, the greater the volume of imports and the higher the price of fuel at the level of the world market, the greater the allocation of the state budget that must be done by the government for subsidies. In 2018 the APBN allocation for fuel subsidies had reached IDR. 156.9 trillion and LPG in the amount of IDR. 54.3 trillion. Directly the size of the budget allocation for fuel subsidies will affect the decrease in budget allocations for other public activities such as education, health, defense, and security as well as other infrastructure developments that also play an important role in realizing prosperity.

The concept of sustainable development is a concept of development that is comprehensive but difficult to realize at the same time. Therefore, several phases of implementation are needed: The first phase is to realize development that is able to create a balance between economic productivity and ecological sustainability. The second is to create a balance between economic productivity, ecological sustainability and social justice (social justice and the third phase aims to create a balance in broader aspects which consists of economic productivity, ecological sustainability, social justice, political participation and social culture. By applying the concept of sustainable development it is hoped that trade-offs between aspects of growth economics with other aspects of the life of the human race will be minimized. In contrast to the classic development concept that makes economic growth as the main goal of development, but the concept tends to give birth to a greedy economy with various problems in the life of mankind, while the concept of sustainable development is based on the principle of harmonization between economic, social and environmental aspects.

In its implementation, sustainable development is still far from expectations due to ambiguity and conflict between stakeholders. It is due to the weakness of the rules of the game as part of the institutional system and political support in the government system. In the absence of legal certainty in enforcing the rules and weak supervision are the causes of free riders in managing natural resources which in turn accelerates the scarcity and damage of natural resources and the environment. On the other hand, regional autonomy, which has given wider authority to local governments in providing all forms of licensing in natural resource management has had a less favorable impact on the sustainability of natural resources.

This condition is a dilemma in the management of natural resources with the reason to increase local revenue, but the people who will feel the consequences immediately. It is part of the tragedy in natural resource management, which is called the tragedy of the common because natural resource management is not followed by strict rules of the game. It happens because there is still a gray area in the application of the rules for the management of natural resources, including rules at the higher level, namely Law Number:4 of 2009 concerning Mineral and Coal Mining. The law gives broad authority to the local government, but it is not followed by an increase in the competence of the government apparatus. This condition has the potential to encourage the practice of free riders that can harm national development in the long run.

To minimize negative impacts in the long run, it is necessary to review the existing institutions to limit access to natural resources such as the implementation of progressive taxes, quotas, standards for natural resource management, taking into account the costs of environmental damage in production costs and penalties strictly for violators and increasing community participation through a local approach (local wisdom).

## **Conclusion**

Sustainable development is a comprehensive development concept that aims to improve the quality of human life both in the present and the future in a balanced way. The concept of sustainable development is a correction of the classical development model that focuses on economic growth, even though the concept of the model has failed in creating public welfare. However, the implementation of sustainable development is still far from expectations due to the weak institutional system that governs it. As a result, there are often conflicts of interest between actors such as the emergence of economic rent seekers (rent seekers) and free

riders (free rider) which in turn will accelerate the process of scarcity, especially unrenewable natural resources.

Along with the enactment of Law Number. 32 of 2004 concerning local government and Law Number. 4 of 2009 concerning Mineral and Coal mining, has given extensive authority to local governments in granting licenses to manage natural resources, but it has not been followed by an increase in the competency of the apparatus. On the other hand, excessive exploitation of natural resources without strict rules, will result in damage and scarcity of natural resources in the future and result in the misery of human life (tragedy of the common).

Therefore, institutional arrangement and creating rules that limit access to resource exploitation such as the implementation of a progressive tax system, setting a quota for natural resource management and implementing a strict penalty system and community participation in overseeing natural resources with a local wisdom approach are policy offers that need to be considered by policymakers in the future.

## References

- Anonimus (1998). Statistik Indonesia. Jakarta : BPS.
- Brutland (1987). Report of the world commission on Environment and Development: Our Common Future, Oxford : Oxford University Press.
- Gary D Labecap, 2005. *State Regulation of Open Access, Common Pool Resources. Hand Book New Institutional Economics*. New York: Springer
- Galina, Elias Silva, and Lianne de Olivera Cruz , 2017. *Brazilian Public Policies and Sustainable Development that Influence the National Bioindustry*. Sustainable Development Economic Development. Switzerland: Springer Nature
- Hayami, Yujiro, and Yoshihisa Godo, 2005. *Development Economics From Poverty to the National*, Third Edition. New York: Oxford University Press.
- Hill, Hall 2000. **Perekonomian Indonesian. Jakarta : Grafindo Persada.**
- Shin, Yoon Hwan (2000). *Indonesia's Chinese Minority: Impacts of Economics crisis and Democratization*. Economic Crisis in Southeast Asia and Korea. Bangkok: ASEAN University Network.
- Tietenberg, Tom (1994). **Environmental Economics and Policy**. New York: HarperCollins College Publishers.
- Thomas, Vinod, and Mansoor Dailami (2000). *The Quality of Growth*. New York: UNDP.
- Todaro, Michel P, and Stephen C Smith, (2015). **Economic Development**. Eleven Edition. **New York: Wesley Longman, Inc.**
- World Bank (1996) *World Development Report*. Oxford University Press. New York.