

The Relation Between Economics With Education in Indonesia and Its Impact on Economical Building

Erisa Kurniati^{1,*}, Jufrizal¹, Jufri¹ and Ahmad Fauzan¹

¹*Doctoral Program of Education, Universitas Negeri Padang, Indonesia*

**Corresponding author. Email: erisa.kurniati@unbari.ac.id*

ABSTRACT

The research aims to find the relation between economics with education in Indonesia and its impact on economic building. It is qualitative research by using a theoretical review approach. The data are taken from the Education in Law no. 20 of 2003 concerning the national education system and some theories related to economy and education, then analyzed in the review forms of theory. The result of this research is education, and the economy in Indonesia are two interrelated sides. A strong economy is needed to build the quality of education. Meanwhile, to create a strong economy, educated people are needed. Parents with better economic status tend to provide quality education. One of the ways that can be done to implement education is the government's commitment to budgeting education financing at least 20% of the State Revenue and Expenditure Budget / Regional Revenue and Learning Budget (APBN / APBD). Building the economy builds the economic, social, and moral sectors so that monopoly does not occur. Human capital investment in the form of education will be more profitable than physical investment. It is concluded that a good education will produce people who can drive the economy better.

Keywords: *Economic; Education; Economical Building*

1. INTRODUCTION

Education and the economy are two inseparable sides of the coin. Both have a relationship and are interdependent. A healthy economy is needed to build a good education, and a healthy economy will be easily achieved through educated people.

Education in Law no. 20 of 2003 concerning the national education system is a conscious and planned effort to create an atmosphere of learning and the learning process so that students actively develop their potential to have religious, spiritual strength, self-control, personality, intelligence, noble character and skills needed for themselves and society. To realize education, as mentioned above, of course, requires adequate facilities and other components. Efforts to meet the needs of all components of education, of course, require financing. Sufficient financing will be obtained from a stable and healthy economic system.

The economic system is a system used by a country to allocate its resources to individuals and organizations. Another opinion states that an economy is a form of system that functions to regulate and establish cooperation in the economic field through human and institutional relationships [1]–[4]. Because the economy is a system, skilled personnel are needed to generate quality educational activities to drive the system.

Today, it appears that the quality of education in Indonesia is still not satisfactory. Based on the Organization for Economic Cooperation and Development (OECD) with

reading, mathematics, and science indicators, Indonesia's education ranking is only ranked 57 out of 65 countries [5]–[7]. Based on global school rankings, Indonesia is in position 69 out of 76 countries. This ranking indicates that the quality of education in Indonesia must be improved. All efforts must be made by the government and all related parties so that Indonesian education can be in a better position.

Likewise, in the economic sector, Indonesia is still categorized as a developing economy. Based on a World Economic Forum (WEF) report in Davos, Switzerland, there are 60 ranked best countries globally. This ranking is based on an assessment of several categories related to a country's economy. Indonesia is ranked 42nd. Wealth inequality between rich and poor in Indonesia is among the worst in the world. Based on a Swiss financial institution survey, Credit Suisse, the wealthiest 1 percent of Indonesia, controls 49.3 percent of the national wealth. Indonesia is ranked 4th in economic inequality. This condition is only better than Russia, India, and Thailand⁵. Indonesia is in the 4th rank with the highest inflation among the G206 countries.

Based on the data above, of course, it can be understood that Indonesia is still lagging behind other countries in the world in terms of education and the Indonesian economy. Moreover, to build education, a strong economy is needed, while to build the economy requires energy from the results of a good education [8]–[10]. Therefore, a comprehensive effort from the government and the Indonesian people is needed to build education and the economy. This article is prepared to provide information on education and economic development.

2. METHODOLOGY

It is qualitative research with a literature review approach. The subjects of this research are theories related to the economy and human resources related to education. Data were collected from the Education documents in Law no. 20 of 2003 concerning the national education system and books that discuss the economy and human resources related to education. The data in the form of a theory is studied in-depth, in detail, then it is concluded and presented in the form of a narrative description.

3. RESULT AND DISCUSSION

There are several theories relating to the economy and human resources. These theories are interconnected with one another and form a reciprocal relationship to the education zone. In this case, the theories are analyzed based on Education in Law no. 20 of 2003 concerning the national education system. The result of the theories' review is below, namely.

- 1) The classical theory of Adam Smith (1729-1790) [11]–[15] mentions humans as the main production factor that determines nations' prosperity. The reason is that nature has no meaning if there are no human resources to process it to be beneficial for life. Adam Smith's opinion emphasizes the importance of human resource development. As the capital, humans are a precious model compared to other capital. With human capital, competitors will find it difficult to imitate what has been done than investing in other capital forms.
- 2) J.B. Theory Say (1767-1832) argued that each supply would create its demand (supply creates its demand) so that there is a balance [16]–[18]. The need for goods is always related to demand. When there is much demand, the price can be higher. To create such growth requires well-educated and trained human resources.
- 3) Malthus's theory (1766-1834) states that humans develop much faster than agricultural products' production to meet human needs [19]–[21]. Human creativity has no limits. When humans create something, they will continue to think about modernizing or changing what they have found.
- 4) Keynes's theory (1883-1946) states that there is no automatic adjustment mechanism that guarantees that the economy will achieve equilibrium at full employment level [22]–[25].
- 5) The Harrod-Domar (1946) theory of investment not only creates demand but also increases production capacity [26] [27]–[29].
- 6) Coale Hoover's theory states that population change is only felt in the population due to the production process after 30 years [30].
- 7) Ester Boserup's (1965) theory of population growth led to a more intensive agricultural system in a primitive society and increased output in the

agricultural sector [31]–[33]. This theory sees the enormous influence of education in the progress of the economic sector. Population growth is not only in terms of numbers but in terms of quality and ability.

- 8) Rational Expectation Theory (1970-1980) states that society is not stupid, and people are always trying to pursue their interests by using all the information they have to predict what will happen and that prediction is based on all their behavior [34]–[38].

Based on the description above, it is known that the economy significantly affects education. People with an excellent economic level will provide better quality education. Likewise, a country with a developed economy will find it easier to carry out and advance education in a country [39], [40]. Today Ireland and Sweden are known as countries with the best education systems. If we look at the two countries' economies, we will also know that these countries are also economically developed.

Several theories suggesting the relationship between various production factors and economic growth include Schumpeter's theory, Solow-Swan theory, and Endogenous Growth theory. Schumpeter's theory emphasizes the importance of the role of entrepreneurs in creating economic growth. The Solow-Swan theory states that factors that can influence economic growth are needed in increasing economic growth, including labor factors. Endogenous growth theory provides a broader theoretical framework in analyzing the factors that influence the growth process from within the economic system, one of which is technological progress.

3.1. The Effect of Economics on Education

Economics influences education. Communities that have economic strength are certainly more able to provide quality education than people who are deprived. Otherwise, without economic growth, there would be no increase in-country welfare, employment opportunities, productivity, and income distribution [40]–[43]. Therefore, it is necessary to grow the community's economy by increasing its per capita income.

Many efforts can be made to improve the economy of a nation. One of the most recent eras of Joko Widodo administration is tax amnesty. It is hoped that tax amnesty efforts will increase state revenue, which has implications for economic growth. Economic growth is the process of increasing per capita output in the long run. Economic growth is a process in which an increase in gross national product or real national income occurs. Herein, parents who have high economic status are more likely to provide better education for their children about education [44]–[47]. Moreover, socioeconomic status is the status of a person in society regarding income, wealth, and position. Meanwhile, a person's socioeconomic status is a condition that reflects one's position in society as seen from three factors, namely work, education, and income. Education is an essential part of the national development process.

Besides, education is also an economic determinant of a country. Economists agree that human resources are not in the form of physical capital or material form but are factors that will determine the character and speed of a nation's social and economic development [48]. In families, socioeconomic factors are a factor that significantly influences household decisions in investing in children's education.

Not surprisingly, several countries worldwide are quick to respond to the importance of human investment as a top priority for non-physical investment, according to classical economists such as Theodore Schultz, Harvey Leiben Stein, and Garry S Backer (1968). They developed their analysis, considering education as part of an investment that will provide future returns of the higher in socioeconomic status, the better the learning outcomes of a child. Parents with good socioeconomic status will be able to provide better facilities for their children in education. Children can focus on learning without the need to participate in helping the family economy.

Concerning continuing education, it is also known that socioeconomic background affects the interest in continuing education.

The costs of continuing higher education in Indonesia are very high. To be able to continue education to higher education requires much funding. The free education offered by the new leaders was limited to primary and secondary education. Therefore, considerable funds are needed so that the entire community can be highly educated for free. Free education in primary and secondary schools is also limited to public schools. The number of public schools is known to be unable to accommodate all school-age children [49], [50]. There are also no regulations for public schools to accommodate children from economically disadvantaged groups. Based on the above facts, it can be felt that education is still expensive, both primary education and higher education.

In developing countries, generally, the return value to the investment in education is relatively higher than that of physical capital investment. Meanwhile, in developed countries, the return on investment in education is lower than that of physical capital. This situation can be explained by the fact that the number of skilled and skilled educated workers in developing countries is relatively limited compared to the needs so that the wage level is higher and will cause the return value to education is also high.

If it is related to the quality of education, of course, the free education that the government is promoting today must also be questioned. The free education that is offered sometimes seems to be far from good quality. Some schools previously of good quality with regulations that did not allow collecting money from parents caused previously high-quality schools to decline.

Therefore, to build a good education, a stable economy is needed [4], [9], [51]. Economic growth must always be a priority so that the state can guarantee the implementation of quality education. The government's budgeting of 20% of the state budget for the education sector must also be

appreciated, although, in numbers, it will always fluctuate depending on the size of the state budget.

Likewise, the mandate for regional governments with regional autonomy so that 20% of the APBD is allocated for education also needs to be continuously supported and maximized. Even though DKI Jakarta can still allocate 20% for education for the first-level regions, this is improved from a policy perspective. Indeed, to build quality education requires a large amount of money.

3.2. The Role of Education in Building the Economy

In building the economy, educated people are required [10], [50]. The development in the economic sector indeed cannot be separated from educational activities, including research. The higher a person's education level, the higher the degree of his economic life. Meanwhile, the higher a person's economic status, the greater the potential for improving his education.

In a country, the economic system is a system from the supra-state system. As a supra system, the economy is influenced by other systems such as politics, social, culture, and education. Furthermore, to improve the economic system, other systems besides the economy must also be improved. Herein, thinking like a system makes us not see one subsystem as more critical than other subsystems.

Education, which is a component in the state, contributes to the economy [9]. Improving education has improved part of the economy. Not to mention that some people have implemented their economy from the education sector, such as owning private schools, opening school canteens, or providing school equipment. Of course, improving education will have an impact on the economy.

Education is needed to increase knowledge and skills to increase labor productivity [47], [52]. Increase the average education level of community members, which means an increase in the number of potential consumers willing and able to consume sophisticated (current) products. The latest products are one of the drivers of the economy. Not to mention that Indonesian society is known as a highly consumptive society. It causes an educated society to become a demand for these products.

Educated human resources will be the principal capital of national development, especially for economic development. The more educated people, the easier it is for a country to build its nation. Human resources have mastered skills, science, and technology to make it easier for the government to drive national development.

Education is a tool for economic development and not just economic growth [41], [47], [53]. In modern educational management praxis, one of the five functions of education is a technical-economic function both at the individual and global levels. The technical-economic function refers to the contribution of education to economic development [44], [54], [55]. For example, education can help students to gain the knowledge and skills necessary to live and compete in a competitive economy.

When it is related to the labor market, the role of education will be prominent. Advances in technology and knowledge make companies or the business world need an educated workforce. An educated workforce will be able to contribute more than an uneducated workforce. Therefore, educational planners must develop an education system that can meet the needs of an educated workforce.

Furthermore, economic development is not only limited to economic variables but also moral and social. The economic sector's ability will be lost without being followed by high morals and societies, leading to economic monopoly and sharp economic inequality. Prominent entrepreneurs will act arbitrarily against small entrepreneurs if they do not have high moral and social values. It is proven because the more educated a person is, the better his income level is. It is because educated people will be more productive than those who are not educated. The productivity of a person is due to the technical skills acquired through education. Therefore, one of the goals that must be achieved by education is to develop life skills.

Human capital theorists argue that education is an investment in human resources that provides monetary or non-monetary benefits. The Non-monetary benefits from education are obtaining better working conditions, job satisfaction, consumption efficiency, satisfaction from enjoying a retirement period, and the benefits of a longer life due to improved nutrition and health. Monetary benefits are economic benefits, namely in the form of additional income for someone who has completed a certain level of education compared to a graduate education income below. Educated human resources will be the principal capital of national development, especially for economic development [56]. The more educated people, the easier it is for a country to build its nation. Human resources have mastered skills, science, and technology to make it easier for the government to drive national development.

Economic growth cannot be separated from the fair distribution of income and wealth for each individual in all generations [42], [57]. Fair distribution and the ability to share from wealthy groups to underprivileged groups will lead to harmony. Moral and social values must be able to be inculcated in educational activities.

If we look at America, Dale Jorgensen's research (1987) in Nurtanio states that 46% of America's economic growth is due to capital formation, 31% due to labor and human capital growth, 24% to technological advances. Based on the research results above, it is known that humans largely determine humans' progress. The growth of labor and human capital are two aspects related to the human person. Meanwhile, technological progress is the result of human creation and creativity. So, at least 55% of economic growth is determined by human factors.

Seeing that education in the economy is quite large, the government must pay attention to human capital. Moreover, concerning human capital, several things must be considered in determining the quality of human resources according to Nurtanio [58], namely: a) Health aspects; b) aspects of education; c) Economic aspects; d) Self-actualization aspects, and e) aspects of social life. When linked with income after work, it is known that workers

with higher education tend to get higher wages. Becker, Denison, and Schultz in Nurtanio suggest that humans with higher education levels, which is also measured by the length of school time, will have better jobs and wages than those with lower education.

The educational investment provides a higher return (rate of return) than physical investment in other fields. The return value of education is the ratio between the total costs incurred to finance education with the total income obtained after someone graduates and enters the world of work.

The inclusion of public funds (social cost) into education financing makes social benefits worthy of consideration as a measure of human capital investment's effectiveness [42], [43], [55]. In other words, the education subsidy to a student should be of practical value to society. Apart from social benefits, education also provides private benefits through income or access to decent work. In the education economy, these two benefits are always used to measure education's effect on economic value, including economic development. Among the many national development agendas, education is one of the most critical and strategic agendas that require serious attention from all parties. It is because education is a determining factor for the nation's future progress. If we, as a nation, succeed in building the basics of national education properly, it is hoped that we can contribute to progress in other fields. Education is a form of human capital investment, determining the quality of a nation's human resources (H.R.).

Many research results state that education contributes to or affects the economy. Puput's (2014) research results suggest that the level of education and infrastructure affect economic growth. 48.7% of total GRDP in a province [59]. The results obtained are significantly influenced by the number of workers who have completed high school and the proportion of road lengths in each region. Furthermore, Devi's research results show that education affects economic growth in Mojokerto Regency by almost 64%, where the level of high school education has a significant positive effect. In contrast, higher education has a positive and insignificant effect on economic growth in Mojokerto Regency. These two studies indicate that to advance the economy so the educational factor must also be improved. In living as a state, the development of the education sector is an excellent investment. Although it does not have an immediate impact, it dramatically affects the economy and other fields. According to Sukirno in Devi, education is a beneficial investment for economic development. Besides, the education sector is considered to play a significant role in shaping a developing country's ability to absorb modern technology and develop production capacity to create sustainable growth and development.

Seeing this, investment in education is undoubtedly a very profitable one. With a good quality of human resources, it will ensure that other fields will be better. The objective of economic development (Islam), [60] according to Asmuni, is to improve the real income level of individuals, uphold fairness in income distribution and create a climate conducive to the greatness of Islamic values in a society with material prosperity. Even though his writings refer to Islamic economics, it is very relevant to conventional

economics. As a nation, a state's goal is, of course, as stated in the preamble to the 1945 Constitution, and to achieve that requires a strong economy. A strong economy is characterized by high per capita income, economic justice, and upholding unity and integrity values.

According to Yusuf in Asmuni, building the economy must pay attention to time discipline values, maintaining the property, work value, congregation to increase production, determining consumption, and knowledge[60]. The values above must be upheld not only by economic actors but all Indonesian people. It is in line with what Ozturk argues: education plays an essential role in saving social and economic progress and improving income distribution.

In conventional development theory, H.R. problems have not received proportionate attention. This theory still believes that the source of economic growth lies in the concentration of physical capital invested in a production process, such as factories and production tools. Physical capital also includes infrastructure development such as transportation, communication, and irrigation to facilitate economic transactions. However, recently, a shift in the theory of development that spurs economic growth is the human capital factor, which relies on education. Education has such a high economic value.

In theory, this shift coincides with a shift in the development paradigm, which initially relies on the strength of natural resource-based, then changes to relying on the strength of human resources-based or commonly known as a knowledge-based economy. This paradigm shift emphasizes how the H.R. aspect is very strategic in development.

In contemporary development theory, it is argued that education has a very close relationship with economic development; there is a significant relationship between education and economic growth in a country. Therefore, investment in human resource development is of very strategic value in the long term because it makes a substantial contribution to development progress, including spur economic growth.

The affirmation of education can contribute to economic growth based on the assumption that education will give birth to a productive workforce because they have sufficient competence, knowledge, and skills. An educated workforce with adequate quality is a determinant factor for increasing production capacity, thereby providing stimulation for economic growth. So it is concluded that the economic value of education lies in its contribution in providing or supplying a highly educated, skilled, knowledgeable, and competent workforce to be more productive. More than that, education can develop visions and insights about life in the future and instill a high mental attitude and work ethic. These things, psychologically, will give birth to the energy that can encourage and move productive works to achieve progress in the future.

4. CONCLUSION

From the explanation and literature review, it can be concluded that boosting Indonesia's economy needs human

resources with a good education. Furthermore, to develop a good education, a healthy economy is required. Skilled individuals are going to be more effective than those who are not educated. Skills, science, and technology make it easier for the government to push national growth. The purpose of education is to develop skills in life. The more educated individuals, the easier it is for a nation to develop its economy.

Thus, economic growth seeks to boost individuals' real income levels and ensure equal income distribution. The economy building must pay attention to the time discipline values, property maintenance, job value, and congregation.

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