

## The Role Shifting of the State in Public Sector Affairs in Indonesia

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### **Abstract**

The Implementation of public sectors such as transportation, oil and gas is done by the government as a regulator and the State Owned Enterprises as operators. First, the form of business was a state company. Next, it was transformed into a public company which later has become a limited liability company (PT). Such changes serve as development paradigm of the government administration from old public administration to new public management (NPM) and new public services. In the era of NPM, the shifting of public sectors has become commodities. It was intended to be more efficient in serving the public through the market mechanism. But the role shifting of the state has adverse effects on wider community. For example, the phenomenon of PT. Pertamina raising LPG price by 68% on January 1, 2014 got a strong reaction and the president intervened. The controversial incident was the evidence of the truth of the hypothetical statement above.

**Keywords:** public management, public sector, public services

### **1. Introduction**

Matters related to the public sectors, such as clean water, transportation, electricity, energy, minerals, LPG, health, education, defense, etc., referred to as public goods. Along with the running of time and changes in the paradigm of governance, the form of institutions taking care of the public sectors is also changing. At first, the form of SOE was a "state enterprise" then, it was changed to "a Public Company" which has later become "a Limited Liability Company (PT)". The mechanism of the prices of the public goods such as clean water, electricity, transportation, fuel oil (BBM), LPG, etc., was set by the government, by taking into account the purchasing power of the people. But when the form of the public sectors has become "a limited liability company (PT)", the prices of public goods are determined based on the market mechanism.

### **2. The Conceptual and Theoretical Approach**

The study of the public sector affairs is including the scope of the study of public management. The focus of attention of public management studies is among others, related to the capabilities of the public service management.

According to Graham and Hays (1991) public management is defined as: "public management is concerned with efficiency, accountability, goal achievement and other managerial and technical questions". The expert's opinion completes the entire scope of managerial actions that lead to the final result which is to achieve the efficiency and accountability to the public.

In a study of public management paradigm, there are three approaches of paradigm called "old public administration," "new public management" and "new public services". The view of the "old public administration", in practice of governance is influenced by bureaucratic thinking of "Max Weber". The thought of the ideal bureaucracy must be eligible for instance; the demands of specialization, the command line hierarchy, impersonal relationships among employees, communication is closed, the distinct separation between personal assets and the official ones. The application of the paradigm of "old public administration" in Indonesia was not running well but raising collusion, corruption and nepotism, bureaucracy. The portrait of bureaucracy which was still not optimally performed was enhanced by the application of the paradigm of "new public

management“(NPM). The new paradigm was much influenced by the thought of David Osborne and Ted Gaebler (1992), in his book "Reinventing Government", Patricia Ingraham and Barbara Romzek (1994), in the "new paradigm government" and Kathreen Lauder (2001), in the "good governance". Paradigm principles of "new public management" in governance are among others; the role of government as a regulator (cathartic government), the revitalization of the public sectors, decentralization, performance management, smooth, fast and excellent public service, the relations between the government and people without a gap (insulation), transparency, participation, responsibility, public accountability, and others.

In the Indonesian context, policy-related areas of the state apparatus on "bureaucratic reform", shows the seriousness of the government in implementing the above paradigm. Although the success rate of the bureaucratic reform has not appeared significant such as the strength of collusion, corruption and nepotism in good governance in the central, regional and local levels. Basically the government realizes that the paradigm change requires a long time. Therefore, the road map for reforming the bureaucracy is needed and the government has proclaimed a clean and prestigious government to be realized.

When looking at the implementation of the government from the New Order era until the Reformation era, although in that era, NPM paradigm has been implemented, the basic problem is not yet solved completely; first, growing social inequality is sharp. Second, different income communities are still high. Third, the power of foreign investors increasingly dominates the natural resources. Fourth,

Indonesia is still a market arena for foreign goods. Fifth, the public services are still not satisfactory. The big question above has actually been responded by the government through several policies such as the "freedom of public information, public services, the Social Security Agency, and the banning of the export of raw materials, minerals coal and others. The series of policies related to the public sectors is an effort to restore the role of government to address the market failures and the failure of the state in advancing the welfare of the people. Government actions that try to address the major problems mentioned above, in the perspective of public administration paradigm, includes in the study paradigm of "new public services"(NPS).

This paradigm of the thought of Denhart (2003) in his book "The public services", the essence of this book is a criticism of the weaknesses of the paradigm of "new public management". The thought of Denhart focuses on the bigger role and function of the state in providing services to the citizens broadly and evenly. The weakness of the NPM paradigm practiced in Indonesia is described above. The explanation of the concepts and theories as a foundation of study on public sector affairs can be said actually, in the governance, changes are made to make the state administration a more modern state (country). Both NPS and NPM paradigms have been accommodated in several government policies, although the implementation is not optimal. Some characteristics of both NPS and NPM paradigms in the governance, are as follows, first; democratic political system; second, the decentralized system of the government; third, the implementation of economic sectors following the free market mechanism; fourth, given up some authorities to the private sectors to

participate in public services (privatization); fifth, easily accessed public information services on / through the internet; sixth: the establishment of Social Security Agency; seventh: the establishment of public services regulation.

NPM thinking actually provides an alternative to take care of the public services in order to satisfy the customers and can utilize the concept and theory of business management the implementation of the public sectors. However, the public sector affairs and the private sectors are something very different. The public sectors which are regulated by the government are complex public organizations. Besides, the government authority is monopolistic, the financial resources of the government are from taxes, public sector owners me all the citizens. As for the private sectors, the owners own limited number of share. Financial resources is obtained from the customers, profit oriented. The authoritative strength is gained through excellence in competition. In reality, the outcome of business management is more efficient and productive. Therefore, the changes in the management of public sectors by immitating the style of business management become logical in the perspective of economic calculation. When there is a market failure, the role and function of the state should be carried out, namely the functionof “the allocation, distribution, and stabilization.

### **3. The Role Shifting of The State in Public Sector affairs in the Perspective of Public Service.**

The implementation of the new public management in the governance of the public sector affairs inspires the government to change the original form of the state from the owned

companies, “public companies” to limited liability companies. The changing of the amendment represents a new chapter in the New Order era and is continued to the era of the Reformation and is oriented to the business management style. Advanced countries such as Britain, the United States, Western Europe, Australia, Singapore, have first implemented the new public management in the affairs of the public sectors, namely the so-called "privatization".

In the concept of "privatization", government delegates powers to the private sectors to participate in organizing and providing public services affairs such as clean water, transportation, LPG, electricity, shipping valuables, health, education and others. The model of such privatization succeeds in giving the satisfaction in public services to the public at large. In Indonesia, when the affairs of the public sectorsmanaged by the state owned companies (BUMN) have been transformed into the "limited liability companies", some of the academics assess the goverment having business characteristics. Business management style that is attached to the Indonesian government at this time is to shift the public sectors to commodity items, which the utilization is determined based on the market mechanism. The logical consequence of the pole shifting of the state has implications as stated by "Gerry Hamel in Rian Nugraha (2006) that" the truth is no longer there to "the state authorities "but" the truth has been shifted to the "market authority". Shifting the role of the state as described above will have effect on the service static faction towards the public at large.

#### **4. The Government doing Business**

Although the Indonesian government has implemented a business management style as it follows the paradigm of New Public Management, the effectiveness of public services is still not optimal. Even the life burdens of Indonesian people are getting harder and the poor are in creasing unable to enjoy the public services that are provided by the state for instance roads, railway trains, LPG, education, health and others. The characteristics of the implementation of New Public Management paradigm the Indonesian government are as follows: first, Indonesia adheres to the system of a free market economy; second, the government has embraced democracy and decentralization; third, performance management has become the basis in the preparation of the budget; fourth, the government has embraced the principle of "The best government is the least government" (David Boaz, Rian Nugraha, 2006); fifth, program is a priority policy.

Empirically, the effort of the government implementing the New Public Management paradigm faces several obstacles, among others, first, supporting an ineffective bureaucracy; second, a less synergistic inter- sector policies; third, a weak law enforcement; fourth, low integrity of leadership in all levels of government; fifth, ideological resistance conflict. These five factors can be bridged with the founding of paradigm of the New Public Services (Denhart , 2003), to return the more significant role of the state in the event of market failure or state failure. The role of the state that mainly strengthens public services that is out of the public at large, are fair and equal.

If observed, the state apparatuses have done a combination of both paradigms, the New Public

Management and New Public Services, with the presence of the policy of "public services set in the regulations". The efforts of application of New Public Services become a strategic momentum in returning the policy of being more-pro-public oriented. So rearranging the role of the state owned companies that go public and go international which tends to shift the shareholding of foreign investors, should be a priority of the coming government policy, the 2014 election result. For example, the shareholding of foreign investors in PT. Indosat is 49 % owned by PT. Temasek Singapore, Aqua Water Supply is 74 % owned by PT. Of France Danone, PT. Indocement, 61.70 % owned by the German Heidelberg and PT. Semen Cibinong 77.37 % owned by Swiss Holcim. The question for us is whether or not the policy of the large share composition of the foreign ownership has been on target in the perspective of the people's income equity and people's welfare improvement? The question reflects the dilemmatic problem between the roles and functions of the state on behalf of the people's mandate to promote the welfare of the people who prefer being business oriented which in fact imposes more burden on people's lives.

#### **5. Restoring The Public Sector Affairs to reach people's Welfare**

As it is known that when the policy of the government to open the influx of foreign capital was a requirement of the International Monetary Fund (IMF ) and the World Bank, the Indonesian government was required to have the policies, among others; economic deregulation, economic liberalization and privatization. One form of the new regulations from the study result of the World Bank was changing the form of the State-Owned Enterprises (Companies)" from the state

enterprises (companies) and public companies" to "limited liability companies" (PT). In a study of the State-Owned Enterprises (companies) in the form of "limited liability companies", theoretically in the economic outlook, it is intended to be a more flexible business expansion both domestic and abroad.

The significant change in the tariff policy, while still being a form of "the state companies or public enterprises companies", is that the tariff was set by the government. When the tariff was set by the government, of course, the government still considers the condition of the purchasing power of the people. Similarly, when the state-owned companies were still in the form of the state enterprises (companies) or public enterprise (companies)", SOE's assets are still listed as "government equity" (PMP). The change of form to "limited liability companies" has carried implications for several aspects, such as: first; tariff is determined based on the market mechanism. Second, the government's capital participation (PMP) has become the assets of the state-owned companies. Third, the government allowed SOE's (BUMN) the state-owned companies. Fourth, the government promoted the professionals as directors who do not meet the requirement, for example, a professional accountant becomes a managing director in a state-owned aircraft company.

The shifting of the strategic role and function of the above state-owned companies has brought the logical consequences of some aspects, namely; First, tariff was set through market mechanism such as for trains, LPG, toll roads, it empirically harms the public at large who have a low purchasing power. Second, state-owned assets are the government's capital participation (PMP) that its legal status was included as the state

finance in its development by a "forum of directors and supported by the Ministry of State Enterprises; they filed a "judicial review", proposing of the SOE's assets to be separated, as not to be included as the state's financial. Third, the sale of the state-owned shares that went public in its development the share ownership of the foreign investors has been greater as in PT .Indosat, PT. Indocement and PT. Semen Cibinong. Furthermore, the statement of restoring "the affairs of the public sector toward the people's welfare, raises the critical question of whether the maintenance of the public sectors by state-owned companies has been unable to improve the welfare of the people.

Based on the above discussion, there is a tendency of the condition of the people today facing increasingly difficult living burden especially the low purchasing power of the people. However, the prices of consumer goods for the basic needs are getting higher. On the other hand, the social gap is widening and different income is also higher. The condition of the people as described above has been ascertained that the level of welfare of the people will be worse. Some of the phenomena described above indicate a trend towards the loss of the people (public) to the status of the state-owned enterprises in the form of "the limited liability companies". A study of the theory says that if there is a shift of public sectors to a commodity item and its use through the market mechanism so that it would harm the people public with low purchasing power. Based on the explanation of some cases above, the loss experienced by the people has been proven true. Therefore, a deeper research needs to be done on the relationship of form of "limited liability "on SOE with improving people's welfare. Thus if it has been

proven that the management of the public sectors by the State-Owned Enterprises with a form of "limited liability companies" poses an increasingly heavy burden on the people as described above, it should be re-evaluated. For as Hammel said that the truth is now no longer on the authority of the state but the truth is on the market authority?

## 6. Conclusion

The discussion of the role shifting of the state in the affairs of the public sectors in Indonesia can be concluded as follows: first, the management of the public sectors related to the economic activities dominates the life of people controlled by the state in the form of State-Owned Enterprises Companies. Second, the forms of State Owned Enterprises (companies) consist of three kinds, namely: state enterprises, public companies and limited liability. Third, the majority of SOEs in Indonesia have turned into a form of "limited liability companies. Fourth, the difference between the form of the state enterprises companies and public companies with limited liability companies is the tariff setting policy; the tariffs in state and public enterprises (companies) are set by the government whereas in limited liability companies, tariffs are set based on the market mechanism. Fifth, a shift in the role of the state is reflected through the changes in the form of management of SOEs. Sixth, the form of "the limited liability companies" is a shift in the public sectors to commodity items which the utilization is determined based on the market mechanism. Seventh, the cases in Indonesia where public sectors which the utilization is determined by the market mechanism, for example; train fares, LPG or fuel and toll roads, are in fact detrimental to the low-income public. Eighth, shifts reflect that "the truth no longer exists on

the authority of the state but has been shifted to the market authority. Ninth, based on the above study, it is recommended that the government should set the tariff of the State Owned Enterprises which manage the public sectors such as transport, energy and basic needs, which is taking into account the purchasing power of the people.

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