progressive capitalism has several key elements comprising the roles of institutions, the state’s involvement in their design and the recognition of social justice as a parameter for judging economic performance (Sainsbury, 2013).

The United Kingdom has started to employ progressive capitalist elements with the reforms instituted in equity markets and its governance system. The UK has also changed its national approach to innovation and education/training policies. While progressive capitalism sees a role for the state in economic development, it prevents the state from commanding and controlling the economy. Progressive capitalism can thus be seen as a deliberate minimization of neo-liberalism’s preferred policies. The core idea underpinning progressive capitalism remains a belief in free markets, while at the same time enabling governments to guide economic development in the public interest.

The idea of “new socialism” challenges the perceived flaws of neo-liberalism. Adherents of new socialism raised their criticisms after the perceived failures of the free market and the unsolved economic crisis in the western world. According to Lawson and Harris (2010, 1), in the UK and other western liberal democracies, new socialism focuses on the non-material things that promote and ultimately constitute contentment and fulfillment. It argues that capitalism should be shaped and regulated in a more humane direction. Indeed, its proponents argue that if we do not regulate the market, we end up regulating people to behave as the market desires.

New socialism also holds that states are important actors. Thus, in order to fix the crisis within bureaucratic systems, it argues that states need to be accountable and responsive through political and public service reforms.

CONTINUOUS UNCERTAINTY in the global economy since 2008, especially the twin economic crises in the Eurozone and the United States, has given rise to a debate about political economy, progressive capitalism and new socialism in Asia as elsewhere. This article asks where Indonesia, with its founding Constitutional principles known as Pancasila, sits in this battle of ideas.1

I would argue that the concept of a Pancasila-based economy is positioned between progressive capitalism and new socialism and can be seen as a middle way for Indonesia to respond to the global economic crisis and to secure its national interests. It is a mixed model, demonstrating the role of the state in institutional reform, policy design and socio-economic development, while simultaneously promoting the spirit of social justice through effective partnerships between the public and private sectors and other relevant stakeholders.

This essay has three parts. First is a discussion of the political economy of progressive capitalism, outlining its core elements. Second is an examination of the political economy of the new socialism and its main elements. The last section discusses Indonesia’s Pancasila-based economy. I attempt to synthesize core elements from progressive capitalism and new socialism in order to generate policy recommendations for Indonesia’s economy based on Pancasila.

By Beginda Pakpahan

In the aftermath of the 2008 economic crises in Europe and the United States, a debate began that pitted the market-reform approach of ‘progressive capitalism’ against the ‘new socialism’ of greater state intervention to protect national interests. In this context, Indonesia’s approach, based on its founding principles of Pancasila, may have lessons for the rest of the world, writes Beginda Pakpahan.

PROGRESSIVE CAPITALISM

The reformation of capitalism emerged after the dramatic breakdown in 2008 of the mortgage system in the US, which in turn brought on the Eurozone crisis. Since then, many politicians, economists and communities all over the world have critiqued unfettered capitalism. Indeed, in the search for alternative models, Sainsbury (2013) has proposed his own new ideas for the future of capitalism, commonly known as “progressive capitalism.” The political economy of progressive capitalism has several key elements comprising the roles of institutions, the state’s involvement in their design and the recognition of social justice as a parameter for judging economic performance (Sainsbury, 2013).

The United Kingdom has started to employ progressive capitalist elements with the reforms instituted in equity markets and its governance system. The UK has also changed its national approach to innovation and education/training policies.

While progressive capitalism sees a role for the state in economic development, it prevents the state from commanding and controlling the economy. Progressive capitalism can thus be seen as a deliberate minimization of neo-liberalism’s preferred policies. The core idea underpinning progressive capitalism remains a belief in free markets, while at the same time enabling governments to guide economic development in the public interest.

NEWSOCIALISM/STATE CAPITALISM

The idea of “new socialism” challenges the perceived flaws of neo-liberalism. Adherents of new socialism raised their criticisms after the perceived failures of the free market and the unsolved economic crisis in the western world. According to Lawson and Harris (2010, 1), in the UK and other western liberal democracies, new socialism focuses on the non-material things that promote and ultimately constitute contentment and fulfillment. It argues that capitalism should be shaped and regulated in a more humane direction. Indeed, its proponents argue that if we do not regulate the market, we end up regulating people to behave as the market desires.

New socialism also holds that states are important actors. Thus, in order to fix the crisis within bureaucratic systems, it argues that states need to be accountable and responsive through political and public service reforms.

Additionally, new socialism suggests that the
climate change crisis calls into question the pursuit of economic growth without sustainability. It holds that the free market system encourages people to focus on economic gains even though such gains may exploit and damage the environment (Lawson and Harris, 2010, 1).

As a result, new socialism argues that many natural disasters have occurred in the least developed countries due to land, water and forest exploitation. Examples of this include the destruction of rainforests, causing environmental degradation, floods and biodiversity loss in the Congo basin, Central Africa and the Amazon (UNFCCC, 2005, 6). The regulatory role of the state is seen as part of the solution to such things.

Interestingly, new socialism has been modified and transformed within several types of governments across the world. For example, there are the energy-rich autocratic Gulf monarchies and New-Left regimes of Latin America, which appear strikingly different, but both effectively translate the ideas of new socialism into state capitalism. According to Bremmer (2009, 51-53), there are several main differences between free markets and state capitalism. First, state capitalism is a strategic and long-term policy that seeks to nurture a sheltered economy and find a way out of economic recession. Second, state capitalism believes that the market is an instrument to serve the national interest rather than the foundation of freedom for the individual. More precisely, state capitalism encourages governments to use markets to generate political influence and economic leverage both at the social and global levels.

In reality, the key elements of state capitalism in these countries are national oil and gas companies, state-owned corporations and sovereign wealth funds. The best known examples of state capitalism are China, Russia, Iran, the Arab monarchies and Venezuela. The leaders of these countries have used their natural resources to increase social welfare for their constituents. They distribute oil and gas revenues to provide benefits such as cheap education, job creation and health protection. Additionally, they have fast-growing domestic markets that have historically bolstered their economic growth.

In sum, the strategic economic sectors in these countries are effectively controlled by their governments and the state influences the market through its economic muscle at both the domestic and the international level. For example, at the international level over the last decade China has allocated US$75 billion for developmental aid projects in Africa in sectors including agriculture, health, education, mining and transport (Proost and Harris, 2013, 1). State-owned Chinese enterprises have also expanded their activities in Africa to gain access to supplies of oil and liquid natural gas for economic production in China and to provide resources that will be needed by China in the years ahead. At the domestic level, Beijing directs macroeconomic policies and intervenes in markets by guiding state-owned companies in order to allocate economic resources effectively and to set the prices of many commodities for its population. It influences China's domestic banking sector to support state-owned companies and semi-private Chinese firms in order to create jobs (Bremmer, 2009, 60, 134, 137).

In summary, while the political economy of progressive capitalism focuses on the involvement of the state in the design of economic policy and on institutional change (i.e. reform of equity markets) within the free market system, the political economy of new socialism/state capitalism argues that capitalism must be more directly regulated. Interestingly, the state capitalists expand the role of state in economic development through political and bureaucratic reforms, and view the market as a means to protect national interests in the international arena.

WHERE DOES INDONESIA SIT?

In view of the above analysis, where does Indonesia's Pancasila-based economy sit in the debate between progressive capitalism and new socialism/state capitalism? I argue that the Pancasila-based economy is situated somewhere between these two camps.

Indonesia believes through its constitution that its land, water and all natural resources should be under the purview of the state and used to improve social welfare and achieve social justice (State Secretariat, 2013, 1 and 32). This goal is based on the fifth principle of the Five Pancasila Principles and Article 33 of the Indonesian constitution. On this philosophical base, the state aims to create and manage economic policies to support micro and medium enterprises, to create jobs and to empower local economies to produce sustainable development and economic growth with equity. This system has been the basis of Indonesia's political and economic approach since independence in 1945. Thus, in practice, Indonesia strives to use its resources and empower its markets to create economic growth.

However, Indonesia is also integrated into international production networks in various economic sectors. Indonesia exports its natural resources as well as its semi-manufactured products to developed countries. At the same time, Indonesia offers its rising middle class as an attractive target for foreign investors and producers. In other words, global investors view Indonesians as potential buyers of their goods and services.

Based on statistical data, Indonesia's economic growth averaged from 5.02 per cent to 6.23 per cent between 2009 and 2014 (Kompas, 2013b, 17, Bank of Indonesia, 2014, 1, and Suryowati, 2015, 1). This points to Indonesia's position as one of the leading emerging economies and one that will logically eradicate poverty at the domestic level.

At the international level, Indonesia has become part of the Group of 20 (G-20), the main forum for multilateral co-operation on the most crucial global economic issues. The G-20 represents 85 percent of global GDP, two-thirds of the world's population and 75 percent of international trade (G-20, 2014, 1 and Pakpahan, 2015, 39). Additionally, Indonesia contributes positively to the growing Southeast and East Asian regions as an engine for sustainable growth with equity despite the recent global economic downturn (Natalegawa, 2013, 11 and 2014, 2). This represents a gradual shift of the world's economic center of gravity from Europe and the US to Southeast and East Asia (Rampell, 2011, 1).

Domestically, the total number of people living in poverty decreased from 48 million in 1999 to 36.1 million in 2004 (Kompas, 2013a, 18). Since then, it has gradually declined to 27.73 million
people as of September 2014 (Djumena, 2015, 1). However, the quality of economic growth is not yet distributed effectively to all of the people of Indonesia. In 2013, the gini coefficient of inequality for Indonesia was 0.413 (Kompas, 2014a, 17). The income disparity between the rich and poor is growing. The estimation is that the upper 20 percent income group now holds half of Indonesia’s income (Tempo, 2012, 1).

Additionally, 17 out of 33 Indonesian provinces are poor (Kompas, 2013b, 17). Most economic development is concentrated in urban areas rather than rural areas with the result that urban residents receive more economic benefits than people living in rural areas, one example being job opportunities and social security. Consequently, Indonesia should use its natural resources effectively to distribute wealth more fairly to its people. In other words, Indonesia should give more attention to those sectors that may improve social justice and increase people’s income (Hazlitt, 2009, 1).

MORE BENEFITS TO MORE PEOPLE
The benefits of economic growth should be effectively distributed. The principles of social justice. Indonesia has abundant natural resources, such as oil and gas, minerals, metals and coal. It has great potential in its forests, plantations, agricultural and maritime resources. The government of Indonesia should manage these resources in order to improve health services for its citizens, increase the quality of human resources through education, provide affordable housing for the poor and allocate funds for production and innovation.

On Jan. 1, 2014, the government implemented a national health insurance system. In order to fund health insurance, the government now applies a cross-subsidy approach between rich and poor. Under the national health insurance, all patients can go to medical centers for treatment. If they need specialists, then the medical center will refer their patients to central hospitals (Kompas, 2014b, 1). On Nov. 3, 2014, newly elected President Joko Widodo launched the Kartu Indonesia Sehat (Indonesian Health Card) and Kartu Indonesia Pintar (Indonesian Smart Card). The government also launched a monthly cash transfer program to the most vulnerable poor families (Suryowati, 2014, 1). The state and business community can cooperate productively to manage Indonesia’s natural resources. The government can lead national policy design, management and support with implementation from the business community. It may also incorporate civil society organizations and mass organizations into the process of economic development.

In short, the government of Indonesia and non-state actors can create effective partnerships to accommodate people’s economic aspirations and the need for sustainable development in Indonesia.

HYBRID SYSTEM
It is essential to understand the position of Indonesia’s Pancasila-based economy in the above debate over economic models. The Pancasila-based economy is a hybrid between progressive capitalism and new socialism/state capitalism in its response to the current global situation. Indonesia’s middle way is avoiding the arguably polar opposites of progressive capitalism and new socialism/state capitalism. It enables the role of the state in designing, managing and implementing economic policies with the involvement of non-state actors in order to achieve social welfare and social justice for its people.

In order to embed social justice in the system, President Widodo’s government must enforce laws against rampant corruption, reform the bureaucratic system and employ good governance systems in both the public and the private sectors. Properly implemented, Indonesia’s Pancasila-based economy could become an inspiration to policy-makers in developing and less-developed countries. There is even a possibility that elements of the Pancasila-based economy could be seen as an useful inspiration for developed countries.

However, these countries would need to adjust the principal ideas of Indonesia’s Pancasila-based economy, working within their own political and economic systems. In the best case, Indonesia’s hybrid approach could offer an alternative in the on-going debate between various models as a way to respond to current challenges in international politics and the global economy.


