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<td>Author(s)</td>
<td>Mubyarto.</td>
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The Pancasila Economy And Modernization

By

Mubyarto
THE PANCASILA ECONOMY AND MODERNIZATION

By Mubyarto

Introduction

Even though it would appear that every developing country would like to build its economy through modernization, which promise everything more "modern", more enjoyable, and more "high-tech", the reality remains that modernization patterns actually deployed in each country inevitably vary. This comes through vastly different socio-cultural, and other internal factors coming to play in each country.

The Indonesian nation, which adheres to Pancasila philosophy, appears careful about simply copying patterns of modernization deployed in other countries. A kaleidoscopic variety of internal national interests demand adjustment and accommodation of any modernization model that may have been applied in other countries.

Indonesia, having successfully freed itself from foreign domination in 1945 (after being colonized for 350 years), has strived to develop its economy in accordance with its own char-

1. Prof. Dr. Mubyarto is Professor of Economics, Gadjah Mada University, and Assistant to the State Minister for National Development Planning for Equity and Poverty Alleviation.
acter based on the Pancasila philosophy that had coloured its life-style for hundreds of years.

The history of the Indonesian Pancasila economic system is a long record of serious difficulties that have come from the elements of state capitalism and liberal-capitalism already dominating the economy - particularly in its more modern sectors. Even so, economic life in the traditional sector ("people's economy"), which is still strong, exemplifies other traditional economic systems which may be characterized as "feudal" or moral economies. This creates an Indonesian economy with a dualistic quality: a modern rational economy operating side-by-side with a moral traditional one.

Article 33 of the Indonesian Constitution of 1945, the constitutional basis for the Indonesian economic system, underlines a large role for the state in the national economy. The state "is ordered" to control production sectors of importance to the nation and affecting basic public needs, and to control the land, water and natural resources to the interests of the greater prosperity of the people.

The necessity for the government to always "lead" and "plan" national economic life and the people's economy in an environment of conflicting pressure from modern rational and from moral traditional economic systems, creates the kind of economic problems that have been confronted for the last 48 years.

Since 1945 the Indonesian economy can be viewed as experiencing three 14 year periods:

(1) **1945 - 1959**

The state capitalistic system in combination with liberal capitalistic system began with the "war economy" and concluded with the establishment of BUMN (State-Owned Companies) as
the backbone of the state sector of the economy. In 1959 the nation readopted the 1945 Constitution after adhered to it for only 4 months.

(2) 1959 - 1973
The "National" economy of Indonesia began with an "experiment" in guided socialistic economy (1959-66) which was reversed into a planned economy.

(3) 1973 - 1987
The "non-system" oil economy began with the big oil bonanza which underpinned inefficient economy and then grew into a phase of national efforts to break the dependence on oil and gas.

Over this 3 X 14 year's period, the Indonesian economy strived to find its own identity. This self discovery process took place in a climate of economic power testing of forces at work in the international economy, the western free-market capitalist economies, and "command" economies with strict national focus.

In the next 14 year's period (1987 - 2001), during which Indonesia enters the 21st century, the country is preparing itself to "strengthen the framework", prior to entering the "take off process". If Indonesia can successfully passed the next 14 years, it will step into the 21st century with enough strength and self confidence. Indonesia approaches the second long-term national development phase of 25 years (1994 - 2019) which is hoped to prove truly capable of raising the quality of the Indonesian people, where everyone is always ready to contribute and maintain Pancasila economic principles in economic and daily business life contributing peace and order of the national as well as the global economy.
The Pancasila Economy

The translation of the 5 principles of Pancasila individually into national economic policy are as follows:

1. **Belief in God Almighty.** The national economy is motivated by economic, social, and moral stimuli.

2. **Just and civilized humanity.** There is a strong will from the whole community to achieve equality (egalitarianism).

3. **Indonesian Unity.** The priority of economic policy is in building a strong national economy.

4. **Democracy led by wise policy developed through representation/joint consultations.** Cooperative is the pillar of the national economy.

5. **Social justice for all citizens of Indonesia.** There is a clear balance between planning at national level and decentralization in the implementation of economic activity in the regions.

These five principles of the Pancasila economy are all encompassed under Section 1 Article 33 of the National Constitution of 1945, whereby the economy is organized with the spirit of brotherhood. Brotherhood spirit stresses cooperation and economic agents stress that cooperation be based on the dual calculations of efficiency and justice. In the free market economy of
open competition, efficiency is achieved in a free fight that sometimes sees competitors mutually self-destructive, whereas in the economy based on a brotherhood spirit, mutual prosperity is promoted, and prosperity achieved by an individual must not be at the expense of the general prosperity of the community. This is an economic system of cooperation where people matter. Although capital is important, people hold even higher value. The economic system then is oriented to the people.

Developing an economic system imbued by a spirit of brotherhood, readily links also to the spirit of the principles of Belief in one God, Humanity, Unity, Democracy and Social Justice outlined above. Man, as creation of God, must be in conformity with other members of their democratic big family, and looks for justice for all.

**Economic Growth and Poverty Alleviation**

During the first 25 years of National Development (1969-94) divided into 5 REPELITA (Five Year Development Plan), Indonesian economy has managed to grow at almost 7 percent annually, so that average per capita income increased tenfold from US$60 to over US$600. It is indeed still a poor country. But the big population of 185 million and the size of the country made it extremely difficult to spread the effectiveness of the national economic policies. At present there is uneven growth between the western part of Indonesia (Sumatera-Java-Bali) and the Eastern region. Inequality of income distribution especially among regions is one of the economic problems faced, and the country is at present working hard to overcome this.

At the top of the national agenda the government recognized the fact that 15 percent (27.2 million people) of Indonesia’s population is still living below poverty line (1990). Although some 67 percent of these poor people live in Java a small island covering only 7
percent of the total area of Indonesia, yet the poor in outer islands are spread in so many un-
and-underdeveloped regions. Indonesia has been successful to reduce the poor from 70 million
people or 60 percent in 1970 to 27.2 million (15.1 %) in 1990. But the remainder may not be
so easy to reach.

Concluding Remark

The "moral economy" characterized the Indonesian economy since before Indonesia
became the object of 350 years of colonization. During the period of colonialism the western
system of state capitalism and liberal-capitalistic systems were introduced forcefuly into a
traditional and moral local economy. Since the traditional and moral local economy was strong
and "mature", the imported system failed to destruct it or to change it. This is the "dualistic"
economic system well known in economic and sociological literatures, in which the two
"mature" economic systems work side-by-side. The symbiose-mutualistic system operated
during the whole period of colonialism until Indonesia "regain" independence in 1945.

The moral nature of the Indonesian economic system at present reappear strongly in the
form of giving priority on social development and poverty alleviation vis-a-vis economic
growth. Learning from experiences of some regions such as the Special Region of Yogyakarta,
Bali, West Sumatera, and North Sulawesi, the country is now embarking into a new era of sus-
tainable economic and social development which in the nation's State Guidelines of 1993
called economic development together with increasing the quality of Indonesian people. The
moral economy is egalitarian and religious economic system based on the national philosophy,
Pancasila.

September 13, 1993
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