Indonesian Market Economics Is Reviewed of the Constellation of Law

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Abstract:

Economic activity is strongly influenced by the layout of economic actors (political economy theory), the design of the rules of the game (the economic theory of transaction costs), the norms and beliefs of an individual / community (terori of social capital), incentives for collaboration (collective action theory).

Arranged agreement (contract theory), choice of ownership of physical and non physical assets (theory of property rights), and others. In essence, there is always an incentive for individuals to behave so that the economic system can not only be guided by the market. In this case, non-market institutions are needed to protect the market from being trapped in endless failures by designing the rules of the game.

At the macro level, the institute contains a set of political, social and legal rules that establish production, exchange and distribution activities. And at the micro level, institutions contain governance issues in order to exchange between economic units can take place both through cooperation and competition.

Keywords: market economy, buyers, sellers and transaction costs.
1. Introduction

In every position of economic life that every country needs, both developed and developing countries want the smooth running of the economic process. So, it requires obedience in every economic process. Given the legal aspects of the economy that regulate every course of the economy, it will smoothen and regulate the economy with the rules that have been determined and made by agreement. Many people are abusing the rules of economic law. Which should be run in accordance with the rules specified, but because want ease or smooth faster so he changed the rules. Here are how the rules in the economy should be carried out.

The collapse of Communism in the Soviet Union and Eastern Europe in the 1980s has been one of the most important changes in the world for half a century. Where these countries previously believed that centralized planning by the Government in the economy was the best. So, the Government is then trusted to decide on goods and services that will be produced and who will consume them in the economy. Where this is based on the theory that the government can organize an economy so that the prosperity of a country can be achieved.²

Finally, most countries that originally embraced a centralized (centralized) economy began to abandon the system, and began trying to develop the market economy. Where in a market economy, centralized decisions on the Government are replaced by decisions of millions of companies and households. The company decides who will be employed and the goods to be generated, then the household determines which companies will work, and will buy what with the income they have. Companies and households will interact with each other in the marketplace, where price and personal interest guide decisions they make.³

The essence of the market economy is the decentralization of decisions related to "what", "how much", and "how" the production process. Every individual is given the freedom to make decisions. It also means that within the market economy mechanism there are enough independent individuals both from the producer side and from the consumer side.⁴

Furthermore, the market economy for some people is believed to bring the economy towards a more efficient, where the resources available in the economy can be utilized more optimally, and also does not need any planning and supervision from

² N. Gregory Mankiw. Introduction to Macroeconomics, 3rd ed., (Jakarta: Salemba Four, 2006), p. 11.
³ Ibid.
⁴ Samuel Siahaan, “Market Economy, Competition Protection and Business Actor Guidelines,” in the book Competition and Market Economy in Indonesia written by Rainer Adam, Samuel Siahaan and A.M. Trianggraini. Jakarta: Friedrich Nauman Stiftung-Indonesia. P. 43.
any party. Or in other words "leave it all to the market," and an invisible hand that will bring the economy towards balance, and in a balance position, the resources that exist in the economy are utilized maximally.\(^5\)

Then most of the developing countries, in the 1980s and 1990s at different speeds, began to move toward the market economy system. Although it is likely that some of these countries are doing so at the advice of the World Bank, which often makes it a requirement for aid-assistance. And there seems to have emerged a kind of consensus that the government's active role in the economy needs to be reduced, and the market needs to be given a greater force for the growth of a more efficient economy.\(^6\)

Furthermore, most developing countries hope that by applying market economies, and starting to reduce the number of government interventions, can lead them to the progress that western economies enjoy today, the economic welfare. But the reality of the above is not as easy as imagined by these countries, because the effectiveness of the market requires the support of certain institutional, cultural and legal instruments, which most are not or have not been owned by developing countries. In many developing countries, its legal and institutional tools, even if there are still very weak in order to support the operation of the market economy effectively and efficiently. Without an established legal system, for example all contracts and business deals will only remain on paper; Copyright is just a byword; And currency or currency can change at any time. Where the legal certainty situation is so minimal, it is clear that business will not grow so well.\(^7\)

Not to mention the fact that the market economy is far from perfect, where it is difficult to get sufficient market information for consumers and producers regarding the price, quantity, and quality of products and sources, and sometimes to obtain information required high costs, plus the existence of economies of scale in various key sectors The economy creates entry barriers for business actors seeking to work in the same sector. So, in turn the above results in inappropriate allocation of resources, and this is what the countries do not expect when they begin to implement market economies in their countries.

And when these countries apply the market economy as their economic system, it turns out that they get imperfect market, which is feared will bring the countries towards the trap of backwardness. In fact one of the main sources of problems is not achieving the aforementioned objectives of the countries because markets and market mechanisms are not

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\(^5\)Deliarnov, Development of Economic Thought, Revised Edition, (Jakarta: PT Raja Grafindo Prada, 2005), p.40.

\(^6\)Michael P. Todaro and Stephen C. Smith, Economic Development in the Third World, (Yakarta: Erland, 2003), p. 80.

\(^7\)Ibid., p. 81.
"everything" or "invisible hands" that are always able to control market turmoil in the balance direction, as institutional economists put it (Institutional economist).8

Furthermore, classical and neo classical economic thinkers assume in zero transaction cost and instrumental rationality. And the implication is that every individual is assumed to work only according to economic incentives, regardless of various aspects, such as sociocultural, political, legal, and so on. And for institutional economists are considered not relists.9

In fact, according to economists, institutional economic activity is strongly influenced by the layout between economic actors (political economy theory), game rules design (economic theory of transaction costs), norms and individual beliefs. / Community (social capital), incentives to collaborate collective action theories), model of agreement (contract theory), choice of ownership of physical and non-physical assets (theory of property rights), and others. In essence, there is always an incentive for individuals to behave in order that the economic system can not only be guided by the market. In this case, non-market institutions are needed to protect the market from getting caught up in unrelenting failures by designing the rules of the game. At the macro level, it contains a series of political, social and legal rules that define production, exchange and distribution activities. And at the micro level, institutions that have governance issues to exchange between economic units can take place both through cooperation and competition.10

And referring to the view of neoclassical economic flow assumes the market runs perfectly without any costless because the buyer (consumer) has perfect information and the producers compete with each other for a low cost. But in fact the opposite is true, where information, competition, contract system, and buying and selling process can be very asymmetric. This is what then leads to transaction costs11 And leads to inefficiency in the economy.

According to the 1945 Constitution article 1, paragraph 3, Indonesia is a legal state. Can you interpret the legal state? What are the characteristics of the legal state? The state of law can be defined as a country where its government is based on law. In principle, the legal state has three principles, namely:

- Recognition and protection of human rights (HAM);
- Free and impartial judiciary; and
- The existence of legal certainty (legal legality).

8Mubyarto, Membangun, Economic System, First Printing, (Yogyakarta: BPFE-Yogyakarta, 2000) p.100.
9Ahmad Erani Yustika. First Edition, Institutional Economics: Definition, Theory and Strategy (East Java: Bayu Media Publishing, 2006), p.xi.
10Ibid., p. Xii.
11Ibid., p. 104.
In a state of law, all acts of government and citizens should always be in accordance with applicable law. The law is used as the basis and guideline for organizing the life of society, nation, and state in all aspects. Notice picture 2.1 What does the police do to traffic offenders? Why is that? In daily life, there are various types of regulations/law. For example, the Law on Traffic and Road Transportation that governs traffic is on the road. The rules are forcing. This means that those who violate the rules can be forced to accept sanctions, either in the form of confinement or fines. Another example is the Criminal Code (KUHP) which regulates criminal provisions for any person who commits a crime.

The entire laws that apply in the Indonesian state are interrelated, complementary, and functionally determine each other so as to constitute a system. The whole law in force in a country is called the legal system. What is the legal system? The legal system is the elements of law and the enactment of the law in life. In general, can be mentioned elements of the legal system consisting of three things:

1. The substance of law or legal matter, namely the rules used by the perpetrators of the law at the time of doing the deeds and legal relations that occurred. Legal material related to the rule of law by type, such as criminal law, civil, trade, state administration, and law based on religious belief (Islamic law). The legal material is also related to the formal form of law which includes the national legislation, namely the Constitution, Law / Perppu, Government Regulation, and so on.

2. The structure of law or the composition of the law, namely the pattern that takes into account how the law is run according to the provisions of formal law and legal process run. The legal structure is linked to the legal institutions and law enforcement agencies working in it.

3. Legal culture or legal culture, i.e., customs in the prevailing law practice. The legal culture is concerned with the interests of good law enforcement, namely the birth of order and justice which is the demands and expectations of the people or the users of the law.

Before you understand more about the elements of the national legal system, it is necessary to understand in advance about the elements attached to the legal sense. The law is an abstract, so to understand the true meaning of law, you can recognize from the elements of the law. The elements inherent in the law consist of four things, namely:

1) rules on behavior in the community,
2) the regulation is made by the authorized official body,
3) the rule is generally coercive, and
4) sanctions against violators of the rules are firm.

Our national laws can be grouped according to some people's point of view of the law itself. Law can be seen from the dimensions of the form, the time of its entry
into force, the nature or power, its function, its content, and its enactment. According to its form is divided into two kinds of law.

1) Written law, that is the law written in the legislation. You can see the Civil Code, the Criminal Code, the Criminal Procedure Code, and other legal books.

2) The unwritten law, the law that is in belief and obeyed by society. Indonesian people generally believe that cheating or lying is not good. Because lying is not good, then for liar will get sanction from society. In a more formal sense, there are good principles of government, although they are not set forth in law, such as the openness, honesty, legal certainty, and not beyond the authority in making decisions.

According to the validity period it is divided into two kinds of law.

1) Positive law / constitutional constitution, the current law.

2) Law of ideals / ideas / ius constituendum, that is the law in effect in the future.

According to the nature or power is also divided into two kinds.

1) The law of coercion, the law of coercion, must be obeyed.

2) Complementary law, which is a law that is complementary and regulating.

According to the function of law also divided into two kinds.

1) Material law, namely the law whose function contains the contents of the law.

2) Formal law, namely the law whose function contains the procedure of enforcing material law (also called procedural law).

According to its contents or interests it regulates is divided into public law and private law.

1) Public Law, namely the law whose contents regulate the public interest, namely regulate the legal relationship between citizens and the state (government). Public law consists of four kinds.

   a) Criminal law.
   b) Constitutional law.
   c) State Administration or State Administration Law.
   d) International law.

2) Private Law (Civil Law), which is a law whose content regulates individual interests or legal relationships among fellow citizens. Private law consists of two kinds.

   a. Civil law.
   b. Commercial Law (Trade).

According to the territory of entry into force, the law is classified into three kinds.

1) Local Law, the law applicable to the local area (village, area, customary territory).

2) National Law, that is the law that applies nationally.

3) International law, that is the law that applies to two or more countries.

4) Foreign law, that is the law that applies to foreigners.
Based on the legal objectives discussed above, it can be stated that the law has three functions.

1. The function of protection, which means to protect the community from the threats of danger and actions that come from fellow human beings, both on behalf of individuals and groups/ institutions.

2. The function of justice, that is to safeguard, protect, and give justice to the unjust law if the law concerned violates the values and rights which we believe.

3. The function of development, meaning the means of achieving development goals as well as development control tools to be implemented fairly.

2. Research Methodology

This research uses survey method with quantitative research approach. To obtain the desired data, data collection techniques used in this study are questionnaires. Questionnaire is a list of questions given to others willing to respond (respondent) in accordance with user demand. There are two sources of data used in this study, namely primary data and secondary data. Primary data is data obtained by way of direct research into the field through the questionnaire. While secondary data is data obtained through literature searching books, news, research reports, regulations and policies related to the right to education.

Data collection techniques used in this study are: 1) Library Research (Library Research). Aims to obtain secondary data through literature tracking, legislation, international legal instruments, government policies and other relevant information. 2) Field Research. Aims to obtain secondary data through questionnaires containing 10 questions related to the right to education. Data analysis method used in this research is qualitative analysis to produce descriptive data.

3. Research Result and Discussion

3.1 Role of Law View in Economy

1. Law is seen as an obstacle to economic activity. Because the law will limit every economic activity in accordance with their respective rules. In order for economic activities can run smoothly as desired.

2. Law is not used as a foundation, guide, and enforcer in any economic activity. Because it is considered too annoying in every economic activity undertaken. So that law or rule is not used. As a result, 'droplets' of sustenance to the poor who will then bear fruit prosperity society as conceptualized the economic architecture was never happened. At that time the law that should be used to guide at the same time as a foundation for economic actors in carrying out its activities never get attention or even harassed its existence.

3. Law is used as a tool for the authorities to defend the interests of conglomerates, multi-national corporation and state economy. By the time the Suharto regime was in
power, most Indonesians did not have time to imagine that their country would be as poor as it is today. At that time Indonesia's development program received much praise from the international world, because of its high economic growth so that it was dubbed the "Asian miracle".

However, it turns out that the high economic growth shown by the Soeharto regime is a window dressing that is used to deceive the eyes of the world and the people of Indonesia. The economic fundamentals used to sustain such high growth are actually very 'porous', this is due to the conglomerate and the banking world that has been the backbone and always get the privilege of the government is not entrepreneurship and banker in the real sense, but they are only rent seeking (Rente) and looters of the Indonesian people's wealth. At that time the law used to regulate economic activity was jungle law, who was strong or close to the Soeharto regime was the one who received various privileged facilities. Regarding the law and development there are 5 (five) elements that must be developed so as not to impede the economy, namely:

1. Stability, investment law as part of economic law must have a stability function, that is how the potential law can balance and accommodate competing interests in society. So investment law can accommodate the interests of foreign capital and at the same time can also protect local entrepreneurs or small businesses. In this connection, investment will be greatly influenced by political stability. Investors want to come to a country is strongly influenced by political stability factor. The occurrence of political elite conflict or community conflict will affect the investment climate. Foreign investors will come and expand their business if the country is built a process of political stability and a constitutional democratic process.

2. Predictability, laws in economics must be predictable or predictable. The need for the function of investment law to predict (predictability), is to require that the law brings certainty. Investors will come to a country if they believe the law will protect the investments made. Legal certainty will provide assurance to investors to obtain economic opportunity so that investment can provide economic benefits for investors. The existence of legal certainty is also one of the main factors to create a conducive climate for investors, because in making investments other than subject to the provisions of investment law, as well as other related provisions and can not be released as a consideration for investors to invest.

3. Fairness, like equal treatment for all people or parties before the law, equal treatment to all and the standard of government behavior patterns, by many experts emphasized as a prerequisite for the passage of maintaining market mechanisms and preventing excessive bureaucracy. In relation to the aspect of justice here, the accountability factor by conducting constitutional reform and improving the judicial and legal system is an important condition in order to attract investors. If this is not done in the end it will result in weak law enforcement and lack of regulation especially in the field of investment that can provide a sense of security, comfortable for investors and the lack of friendliness
of the legislation to investors, especially foreign investors. In other words the existing legislation is perceived as less accommodating the interests of investors in investing.

4. Special development abilities of the lawyer.

The economic system of Indonesia is an economic system oriented to the Supreme Godhead (ethical and religious morality, not materialism); A just and civilized humanity (not knowing extortion or exploitation); Unity of Indonesia (enactment of togetherness, family principles, socio-nationalism and socio-democracy in the economy); Democracy (prioritizing economic life rakyat and livelihood of many people); And Social Justice (equality / emancipation, the main welfare of society, not the prosperity of the people).

As we know that what determines the form of an economic system unless the basic philosophy of the nation upheld, then the criterion is the institutions, in particular the economic institutions that became the embodiment or realization of the philosophy. The struggle of thinking about what economic system should be implemented by Indonesia has started since Indonesia has not reached its independence. Until now the struggle of thinking is still ongoing, this is reflected from the development of thinking about SEP Pancasila economic system. According to Sri-Edi Suwasono (1985), the struggle thinking about ESP is essentially a dynamic interpretation of the articles of the economy in 1945.

Article 33 of the 1945 Constitution, which is meant by branches of production which affect the livelihood of the public are goods and services that are vital to human life, and are available in limited quantities. A review of the vitalness of a particular good continues to change in accordance with the dynamics of economic growth, improved living standards and increased demand.

3.2 The Role of Law in Market Economics

Indonesia is also experiencing as experienced by most other developing countries, although it does not explicitly state that Indonesia as one of the "adherents" of the market economy system, in fact Indonesia has begun to implement this economic system to guide its economy, since engaging in trade organizations World both regionally and multilaterally such as GATT, AFTA, WTO, and others.

The reorientation of the economic system to the market economy has also actually been done since the launching of deregulation policies in 1983. Where the deregulation policy aims to strengthen the workings of the market economy in Indonesia. In this case the Government began to direct the allocation of all resources and prices according to the desire and the will of the market.\(^{12}\) Even more so,

\(^{12}\)Normin S. Pakpahan, "Principal Thoughts of the Rules of Reference for the Draft Law on Competition." In the Journal of Business Law Volume 4 of 1998. p.26.
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according to Normin S. Pakpahan, for three decades since Pelita I actually Indonesia has held a market economy.\[^{13}\]

And then what happens to most developing countries is also affecting Indonesia, where the market economy system adopted by Indonesia can not work optimally as expected earlier, it is because of the many internal constraints that exist in Indonesia itself, which then makes the market economy Can not run properly. The market economy system is expected to be healthy for the Indonesian economy, which in turn, on the contrary, the market economy system even fosters monopolistic practices and unfair business competition in the market, and causes the market to become more inefficient.

Referring to the view of neoclassical economic flow assumes the market runs perfectly without any costless because the buyer (consumer) has perfect information and the producers compete with each other for a low cost. But in fact the opposite is true, where information, competition, contract system, and buying and selling process can be very asymmetric. The malfunction of the market economy system is also due to the fact that Indonesia previously had no pre-existing rules or rules in the market, which would direct the behavior of economic actors in the market, so that they would not behave in a market, by avoiding a healthy competition Among the economic actors, with the intention that they can exploit the consumer surplus as much as possible and get the most profit.

One of the non-market institutions that is expected to protect the market from being trapped in endless failures is through strong institutional economic laws. The absence of strong institutional economic law is thought to be the cause of the market economy not working as expected, ie creating welfare for the masses.

Strong institutional law of economics when referring to the opinion of Prof. Erman Rajagukguk is an institution of economic law that is less able to create "stability", "predictability" and "fairness".\[^{14}\] The next two things are the prerequisites for any economic system to function. Included in the stability function is the legal potential of balancing and accommodating competing interests.\[^{15}\]

The need for a legal function to predict the consequences of a given measure is especially important for a country where most of its people for the first time enter economic relationships beyond the traditional social environment. Fairness aspects,

\[^{13}\]Normin S. Pakpahan, "Summary of ELIPS Seminars The Discovery of Competition Law: A Comparative Analytical Service." In the journal Business Law Volume 4 of 1998. p.19.

\[^{14}\]Erman Rajagukguk, "Indonesian Economic Law Strengthens National Unity, Encourages Economic Growth and Extends Social Welfare," Paper presented at the VIII National Law Development Seminar and Workshop organized by the National Legal Development Board, Ministry of Justice and Human Rights, Denpasar, 14-18 July 2003.

\[^{15}\]Ibid.
such as, equal treatment and standards of the Government's patterns of conduct are necessary to maintain market mechanisms and prevent excessive bureaucracy.\textsuperscript{16} And that is not less important, if a little quote Prof. opinion. Charles Himawan that the existence of a reliable judiciary is also crucial for the legal process of business disputes faced by economic actors.\textsuperscript{17}

While the institutional economic laws that exist at the time when Indonesia began to apply the market economy system, if it refers to the opinion of Prof. Hikmahanto Juwana, has no longer appropriate with the existing development.\textsuperscript{18} So it is necessary to adjust the existing institutional economic laws in order to support the work of the market economy in Indonesia. And the institutional adjustment of economic law is done by one way through the process of legal transplantation from the United States and Europe\textsuperscript{19} Into Indonesian economic law institutions.

This legal transplantation process is expected to make institutional economic laws that exist in Indonesia can be more modern, and can better accommodate the needs of the present associated with economic activities that can not be met by the institutional economic laws in Indonesia.

Then, if referring to Lawrence Friedman's opinion about the three elements of the legal system, namely structure, substance and legal culture when associated with the institutional economic laws. Then the structure is the frame or frame, the surviving part, the part that gives some form and restriction to the whole. In Indonesia, for example, if we talk about the structure of the legal system, it includes the structure of law enforcement institutions, such as police, prosecutors and courts.\textsuperscript{20}

And when we talk about the structure of law enforcement institutions that existed at a time when Indonesia began to implement its market economy, still not so friendly with the market (market friendly) or can be interpreted the institutional structure of law enforcement has not been able to support the running aktfitas economy well. This can be seen from the protracted legal process of a case that makes the loss of legal certainty in the existing law enforcement process, not to mention the results of the existing law enforcement process can not guarantee the right party that will win. And this is what then makes law enforcement institutions can not be expected too much to resolve business disputes that occur among economic actors in the market well. So, it is not surprising that economic actors in Indonesia prefer to settle their

\textsuperscript{16} Ibid.
\textsuperscript{17} Charles Himawan, "Economic Recovery Needs" Reliable Judiciary ". In the book Law as Commander. Cet.1. Jakarta: Book Publisher Kompas, 2003. p.35.
\textsuperscript{18} Hikmahanto Juwana, "Political Law of Economics Law in Indonesia." 2nd lecture material Legal Aspect of Economic Policy Force XV PD Master Program of Public Policy Planning-FEUI. P.7.
\textsuperscript{19} Ibid, p. 9.
\textsuperscript{20} Achmad Ali, "The Fall of Law in Indonesia: The Cause and Solution," Jakarta: Publisher Ghalia Indonesia, 2002. p. 7-8.
business dispute by using arbitration institution than they have to entrust their business dispute settlement to court in Indonesia.

Further on the substance of the law, still refers to Friedman's opinion, is the rules, norms, and patterns of real human behavior residing in the system. And substance can also mean the products produced by those within the legal system, including the decisions they make, the new rules they are compiling. Substance also includes living law, and not just the rules of the law.21

And when Indonesia implements a market economy system, the substance of economic law that must exist as a prerequisite that can support whether or not the market economy is not available at that time, that is, among others, have a law of business competition. The law of business competition is one of the rule of law that must be owned by each country if they apply the market economy system as its economic system. And the law of business competition is one of the instruments that is believed to be able to repair market failure resulting from imperfect competition in the market.22

And the law of bankruptcy at that time which is still a legacy of the colonial period also contribute to the unprotected economic actors from the behavior of economic actors who should not be eligible to run its business but because the existing bankruptcy law is not good and the process of peneggakannya still take a long time to make Many economic actors have been victimized by a group of economic actors who should not be worthy to continue their business in the market.

More about the legal culture according to Friedman is the attitude of man to the law and legal system, values, thoughts, and expectations. Or in other words if in the opinion of Prof. Achmad Ali, legal culture is the atmosphere of social thought and social forces that determine how the law is used, avoided and abused. Without legal culture, the legal system is powerless.23

The low legal culture prevailing in Indonesia also contributes to the inadequate functioning of the market economy. Lack of respect for contracts that have been made in the business is one of the unfavorable forms of legal culture manifestations.

And the lack of a good legal culture is also enough to contribute to the non-functioning of several legal institutions being transplanted from developed countries in Indonesia, because the existing legal culture is so different from the legal culture of the country where the institution of transplanted economic law originated.

And a little quotation from Prof. Satjipto Rahardjo that the economy is less able to work and plan well without being supported by the prevailing normative order,

21 Ibid. hal 8-9.
22 R. Shyam Khemani project director, “A framework for the design and implementation of competition law and policy,” World Bank, OECD, 1998. hal.2.
23 Ibid. hal.9.
which is nothing but the law.\textsuperscript{24} Or in other words without the strong support of the existing institutional law of economics, of course the market economy system adopted by Indonesia will not work as expected.

5. Conclusion

In order to make the Indonesian market economy run as expected, it can make the Indonesian economy more efficient, largely determined by the support of strong institutional economic laws. Without the support of strong institutional economic laws, it is difficult for the market economy to go well. The market economy with institutional economic law is an inseparable unity, although sometimes the institutional development of economic law always lags behind the development of the market economy. However, institutional economic laws should always follow the development of the market economy.

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\textsuperscript{24} Satjipto Rahardjo, "Liberalism, Capitalism, and Indonesian Law," in the book "The Other Side Of Law In Indonesia," Jakarta: Book Publisher Kompas, 2003, p. 21.