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Pancasila Economic and The Challenges of Globalization and Free Market In Indonesia

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Abstract. The crisis of economy in Indonesia forces the government to reform its economic development paradigm. The new paradigm development refers to great attention of economic-societies such as cooperation. Those involve in the planning of national economic development as well as the planning of society development. This article aims to define the combination between Islamic economic and economic of Pancasila to pressure the identity of Indonesian state in globalization era.
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1. Introduction

The idea and practice of "market mechanisms" in the economy can not be separated from the paradigm of the "market economy" in line with the economic development of socialist and capitalist. In this case, the government can organize an economy that the prosperity of a country can be achieved (Mankiw, 2006:11). On the other hand, the market economy for some people believed to also be able to bring the economy more efficient, with consideration of existing resources in the economy can be utilized optimally, and also no need for the planning and supervision of any party. Or in other words "just leave everything to the market," and an invisible hand that will bring the economy toward equilibrium, and in a position of balance, the existing resources in the economy more optimally utilized (Deliarnov, 2005:40).

Empirical facts show that the real market economy is far from perfect, where the difficulty of finding market information sufficient for both consumers and producers regarding the price, quantity, and quality of products and resources, and sometimes to get the information required high costs, plus the existence of economies of scale in many sectors the main economy is creating barriers to entry for businesses wanting to do business in the same sector.

At the turn of the above resulted in the allocation of resources that are not appropriate, and it is not intended by these countries when they began to implement a market economy in their country, apparently obtained by them instead of market imperfection, which is precisely bring them "stuck" in economic backwardness.

Capitalist economy saw markets play a very important role in the economic system (Smith, 1966). This requires a paradigm of capitalist free market to solve the problems of the economy, from production, distribution to consumption. The

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socialist economic system requires maximizing the role of the state. Country ought to govern all economic sectors to ensure justice to the people (Marx, 1867).

The views of capitalism and socialism mentioned above have consequences that man on the one hand have the freedom to act economically, although such action is contrary to the values of moral and religious values, while on the other side of humans altogether positioned as robots that are able to be creative and obey whatever the government's economic policy, especially in relation to the market mechanism. Two of the world's economic paradigm then provide greater impact on the economy of a nation that increasingly worse, especially in developing countries.

In contrast to the capitalist and socialist economies, Islam considers that the market economy, the country, and individuals are in balance, there should be no sub-ordinate, so that one becomes dominant than the other. Market freedom is guaranteed in Islam, however, ethical values into consideration in every transaction basis and businesses. Nevertheless, business ethics based on the values of culture and religion is very difficult to realize in practice.

Every business person is stuck in the mindset of globalization with individual freedom that marks the advent of the era of the free market and competition as a form of neoliberalism. Then another problem appears to be related to the values of Pancasila[1] which overlooked in running economic activity. Why do we ignore the economy based on cooperation, which is precisely maintain the existence of any economic power, not mutually paralyzing (disempowering), and even work together towards forming a joint force (macht-vorming) synergistically?

This paper by combining Islamic economics and the economics of Pancasila will try to elaborate fundamental changes occurring in the economic field, especially after the post-reform were unceremoniously left the identity of nationality, namely Pancasila is not used as a source of value in running the economy (Article 33 of the 1945 Constitution). This is causing the economic slump is not just the material aspect which indeed we are experiencing, even our culture are stuck in the mindset of neoliberalism with the typical individualism, competition, and the free market.

2. Review Literature

In a study of the market economy, where the state is a role that does debate, whether to intervene or let go of the market mechanism which takes place particularly in terms of supervision and regulation of prices. Nonetheless, the state plays an important role in the economic life mainly three main functions, namely the allocation, distribution and stabilization.

Some review of the literature on globalization and market mechanisms, among others, may be noted the work of Adam Smith (1966), *An Inquiry into the Nature and Causes of The Wealth of Nations*. This character as a pioneer in capitalism that led to paradigme laissez-faire or free market. Samuelson (2008) also notices it in *Economics*. This work became an important book in the study of economics that brought the tradition of liberalism and free markets. Therefore, Sri-Edi Swasono

[1] Pancasila is the official philosophical foundation of the Indonesian state. Pancasila consists of two old Javanese words (originally from Sanskrit): "pañca" meaning five, and "sīla" meaning principles. It comprises five principles held to be inseparable and interrelated: 1) Belief in the one and only God (in Indonesian, Ketuhanan Yang Maha Esa); 2) Just and civilised humanity (in Indonesian, Kemanusiaan yang Adil dan Beradab), 3) The Unity of Indonesia (in Indonesian, Persatuan Indonesia); 4) Democracy guided by the inner wisdom in the unanimity arising out of deliberations amongst representatives (in Indonesian, Kerakyatan Yang Dipimpin oleh Hikmat Kebijaksanaan dalam Permusyawaratan dan Perwakilan); and 5) Social justice for all of the people of Indonesia (in Indonesian, Keadilan Sosial bagi seluruh Rakyat Indonesia).

criticizes the campus culture that uses this literature without profound criticism because of the axioms of liberalism and individualism.

Other works written Boadway & Bruce (1984) in *Welfare Economics*. This book gives an account of the economic well-being in the perspective paradigm of capitalism. Roncaglia (2006) in *The Wealth of Ideas: A History of Economic Thought* provide an explanation to the economic analysis of the development of economic thought classical to neo-liberalism. Another article about the relationship between the state and the market can be read Rothbard (1977) in *Power and Market Government and the Economy*. This book is important to see the dimensions and the role of a power struggle within the government and the market economy. Wallerstein (1979) in *The Capitalist World-Economy* revealed in the long history of capitalism and globalization are moving rapidly in the modern world.

Another book written George (2002) in *the Republic of Free Market* which describes how the heat of the battle of ideas and ideological wars in spreading the neoliberal market economy and maintaining global capitalism. Ichimura (2009) in *Transition from Socialist to Market Economies: Comparison of European and Asian Experience* also illustrates the triumph of capitalism over socialism.

While the criticism of globalization and the free market among other works of Sri-Edi Swasono (2010). These people's economic figures produced many works that criticize globalization, free markets, neoliberalime and focus on the fight for economic democracy based on Pancasila. Adam et.al. (2004) in *Competition and the Market Economy in Indonesia* exposes the Indonesian economy in the current free market.

Another figure is Mubyarto (1999) who writes the *Economic System Reform of Capitalism Toward Economic Democracy*. This work is important not only the author's academic efforts in criticizing capitalism but also a form of struggle in implementing the social economy. Then Ismawan (2001) in *Success in the Era of Economic Cooperation and Liberal For Small-Medium Company*. This book describes the tips of cooperatives and small-to-medium enterprise in the era of liberal economics. Thoha, et al. (2002), in *Globalization Economic Crisis and the Rise of Populist Economics* provides analysis of the economic crisis in Indonesia due to globalization and to provide alternatives to the development of community economy.

3. Economic Globalization and the Characteristics of the Free Market

Implementation of the state from intervening in the market may be affected by the exercise of political economic policy (Islahi, 1979). In fact, the market and the market mechanism is not "everything", or "invisible hand" is always able to control the chaos of the market towards balance, as suggested by economists institutional (Mubyarto, 2000).

In the economic history of Islam, their makanisme market can be seen in a hadith narrated by Anas r.a., related to the increase in prices of goods in the city of Medina. Based on the hadith, the Prophet Muhammad. does not determine the price. This indicates that the conditions it was left to the market mechanism naturally. Prophet rejected the offer and said that the market price can not be set, because it is Allah who decide.

In the analysis of contemporary Islamic economists, this theory adopted by Adam Smith, with his theory, invisible hands. According to this theory, the market will be regulated by invisible hands. Is not the theory of invisible hands it is more correct to say God Hands (Karim, 2003:76; Islahi, 2005). In this case, the market

makers who determine the price, according to the rate request and offers, as well as continue to consider moral values and religion.

The market mechanism is the workings of the market, based on the existing market system. Market system is now developing a free market system, the market system that uses the principle of laissez faire (Adam, et.al., 2006; Todaro & Smith, 2003). The results or equilibrium of the market mechanism is dependent on the existing market structure, or, in other words, depending on the composition or the building of the market.

Activity known by the trade market in the last decade has focused on the issue of free trade or "international business", i.e. businesses whose activities go beyond the national borders. Free trade is an issue of globalization does not pay attention to variants of the economic situation of a country (Iqbal & Ahmad, 2005), especially in the Third World countries are also affected. It is as affirmed Albert Bergesen, caused by the free market system imposed by force entirely as a new law to regulate the international economic order (global) (Hamdani, 2003). Consequently, every state is required to prepare a lot of things, starting reliability of human resources (HR), the availability of economic infrastructure, natural resources, and legal institutions to ensure the certainty of doing business.

Another consequence of the market mechanism in the form of free trade or free market in the form of their efforts to economic liberalization and privatization or privatization as a consequence of the expansion of capital or capital distributed by the developed countries throughout the world. Each country will recast the structure and national policies to be aligned with global interests, and at the same time, economic liberalization in accordance spirit of globalisation (Wallerstein, 1979, p. 91).

Therefore, the essence of the free market mechanism is; First, their market access, ie access to the widest possible market opens up adalagi no restrictions and obstacles every economic actors to enter and exit the border of member countries of the WTO (World Trade Organization); and secondly, national treatment or national treatment which gives fair treatment to all economic actors who work in the host country, as well as treatment that is given to the national economy or in the country (Shackle, 1972).

Various problems can arise as a result of free trade because of the possibility to realize these hopes are very difficult or even impossible to materialize. Chapra (2001:38) gives the reason that there are some distortions in expressing priority in the market. This leads to bias in the realization of efficiency and fairness. Distortion in expressing priority in the system due to dislike of conventional economic market on normative judgments and excessive emphasis on the maximization of the wealth, and the desire to satisfy the personal needs obviously an aberration basic philosophy of most religions. These religions generally believe that material prosperity, while important, is not enough for human welfare.

4. Markets: Perspective Capitalism, Socialism, and Islam

The capitalist economic system is an economic system dominated by capital or capital, with the profit motive where money is everything. In the capitalist economic system is also known as the existence of freedom in berekonomi, along with a strong interest instruments. Some characteristics of the capitalist economy is inividual actions in the absence of centralized economic planning (Schumpeter, 1950).

While socialism where the absence of private property, only public ownership, where the industry and the factors of production entirely for social purposes as well as their social service motive. Some characteristics of a socialist economy is the

central planning of the economy, the enactment of equitable income distribution and essential assets owned by the public (Rostow, 1967:36-37). Marxism (as cited in Gottlieb, 1984:23-25) is a form of communism where the consumption and production of regulated collective emphasis on social programs and education, and rooted in science and negates God. So that in practice all the methods for collective happiness.

For the role of the state in the economy must be minimized at all, because if the state played down intervention in the economy will only get rid of the private sector so that ultimately disrupt the market equilibrium. So in the paradigm of capitalism, the market mechanism is believed to produce a fair and wise decision from a wide range of interests who meet in the market. Meanwhile, in a socialist paradigm, the market should be maintained in order not to fall into the hands of the investors (capitalists) who greedy that monopoly means of production and perform labor exploitation and use it to get prifit profusely. Because of that equilibrium will never be reached, otherwise injustices will happen in the economy. The state should play a significant role to achieve economic equilibrium and fairness in the market (Boadway & Bruce, 1984).

Islam considers that economic markets, countries, and individuals are in balance (iqtishad), there should be no sub-ordinate, so that one becomes dominant than the other. Market freedom is guaranteed in Islam. The free market determines the means of production and prices, there should be no interference resulted in the destruction of the balance of the market (Ahmad, 1995:34-35).

The market mechanism widely studied in the classical Muslim scholars thought. Abu Yusuf described the laws of supply and demand in the economy with the theory of "when the few available goods, the price will be expensive and when available stuff, then the price will be cheaper (Abu Yusuf, 1979:80; Al-Rayyis, 1961:23-27). Ibn Taymiyah explained that in a free market, prices are affected and considered by the forces of supply and demand. However, Ibn Taymiyah also oppose government intervention with excessive regulation when free market forces are working to determine a competitive price (Ibn Taymiyah, 1986:2; Islahi, 1996:179-180).

In the view of al-Ghazali (1979:135), the role of trade activity and growth of the market price moves in accordance with the forces of supply and demand. The market is part of the natural order. Associated with the market mechanism Ibn Khaldun provides an analysis of "the prices in the city". According to him, the type of items divided into two, namely: first, staple goods, both luxury goods. When a city expands and the population increases, the procurement of goods of basic needs get priority, so as to increase and consequently offer lower prices. As for luxury goods, demand will increase, in line with the development of cities and changing lifestyles (Ibn Khaldun, 1967: 271-278.). As a result, the price of luxury goods to rise.

5. Market Failure and the Political Economy of The State

According to Samuelson (as cited in Margolis & Guitton, 1969; Salanie, 2000), the government has played an increasing role in the modern mixed economy system. This is reflected in (1) the growth of government spending; (2) equitable distribution of income by the state; and (3) direct regulation of economic life. Changes of government functions is reflected in the activities of government include: (1) the direct supervision; (2) the social consumption of public goods; (3) the stability of the country's financial and monetary policies; (4) the production of government; and (5) welfare expenditure.

In the mechanism, the market is experiencing difficulty in creating the allocation of economic resources perfectly, so it failed. The market failure, as revealed Murray N. Rothbard (as cited in Screpanti & Zamagni, 2005), usually caused by the common goods or goods together, elements of market imperfections, public goods and externalities, the market is not complete, limitation or failure of information, unemployment or unemployment, and uncertainty.

In the context of Islam, the role of the state is done in order to continue the prophetic mission (Al-Mawardi, 1995:94), namely the achievement of al-maqashid al-shari'ah (the goals of shari'ah) (al-Shatibi, 1975:6-7). The state as an agent of God to realize al-maqasid al-shari'ah. For example, in the Islamic state allocation of resources that are not in accordance with the purpose of Personality 'is not justified. Therefore, the acceptance of justice and equality become an essential component of public policies. Thus, the benefit of which refers to community needs a keyword.

Similarly, in the economy of Pancasila, the dimensions of justice, equality, and the management of natural resources are used for the benefit of society based on the principle of the benefit. Branches of production for the state and dominate the life of the people controlled by the state and utilized for the welfare of the majority (Article 23 of the 1945 Constitution).

For example, during the 32 years of the New Order, feudalism, paternalism and absolutism of the government is basically a tendency toward sentralisaisme. In such a trend, autonomy, decentralization and deconcentration will not run (Swasono, 2001).

To accelerate regional development, the main agenda of the era of reform is decentralization and democratization of the economy. The central theme of the development policy in the era of reform is to promote the human development paradigm that puts people as actors of development and the regional economy as a vehicle to put the public welfare.

Therefore, people themselves will not be able to alleviate the economic and social poverty, to empower people, especially the poor needed self empowerment from outside, especially from the government. In fact, according to Swasono (2001), people have undergone the process of impoverishment and disablement (disempowerment), which was in line with national development that ignores democratic orientation.

The problem is the system of free trade in this global era can be an alternative for economic progress by increasing growth and development, or on the contrary, he became the new problems for certain countries, particularly developing countries that suffer economic conditions, including the Indonesia. In addition, the system can apply or not for all and to the common prosperity.

In the Islamic economy and the economy of Pancasila, the state has the right to intervene in economic activities carried out by individuals, both to oversee these activities and to organize or carry out some sort of economic activity that are not able to be implemented by individuals.

Economic activity is moving towards a free market. However, developments tend to reveal the complexity and distortions of ethics in economic activity (al-Assal & Karim, 1999:101-102; Swasono, 2001). On that basis, the Ibn Taimiyah (1979:20-22), deems it necessary engagement of the state in economic activity in order to protect the rights of people from the threat of injustice existing businesses, and for the sake of greater benefit. In this regard, the state intervention in economic activities aimed at eliminating poverty as an obligation of the state. For Ibn Taymiyya, a person must live in prosperity and not depend on others, so that they can fulfill a number of obligations.

In the economy of Pancasila, clearly defined objectives Indonesian state in the fourth paragraph of the Preamble of the 1945 Constitution which is to the

intellectual life of the nation, the welfare of the community life, and participate establishment of world order based on freedom and social justice eternal. Therefore, the Indonesian state is obliged to participate in regulating the economic life of society, which is solely intended for their welfare. In this case, the people's economy into a national identity that should be championed and manifested in the economic life of society. Therefore, according to Swasono (2011), free markets or free trade does not have a place in the economy of Indonesia, because it is based on "sovereign market" instead of "sovereign people".

The free market, in principle, is more concerned with a group of investors who continue to embed its economic grip on any economic activity. Therefore, Act No. 38 of 2008 on the ASEAN Charter should be criticized because the tendency in favor of the free market imposed in the ASEAN region, particularly Indonesia (Swasono, 2011). If not, what about our people who are poor, poor economy and poor resources.

6. Islamic Market Transformation in Strengthening Economic Democracy

In the Qur'an and hadith can be found some of the terms that indicate the meaning of the "market" or "trade" in general, such as "al-bai'", "al-tijarah" and "isytara" with various forms of derivation. The term implies that diverse. In the context of a free market, then selling or trading the core of the exchange of goods or services contain elements of freedom on every transaction, but carrying administrative fine. In this case, the freedom of the transaction or the type of goods used as commodities in free trade based on the values of ethical-religious. In addition, business people do not forget their obligations as a Muslim, such as establish regular prayers and spend most of their wealth in the way of Allah, and the transactions are conducted not contain elements of usury.

Islamic Economics is consistent cutting actions and engineering which makes the price go up and down are not natural anymore. Therefore, Islam forbids ihtikar (hoarding of goods, so that scarce and prices rise), forbids talaqi rukban (buy goods at prices below the standard before it reached the market), tala'ub bi al-tsaman (playing the price), taghrir (deceptive in buy-sell), usury, nafs (brokers, ostensibly bid to deceive buyers to pay a higher price), tashriyah (no milking animal to be considered always bersusu a lot), and so forth. Thus, any negative action, either by the seller or buyer who raises the stability of the market be disturbed by the rise and fall of prices is no longer natural, is not allowed in the practice of Islamic economics.

If so, the free market should be controlled in order to ensure social balance. The quality of this equilibrium will control all aspects of human action - as the most important factors on economic behavior. It can be analyzed; First, the basic relationship between consumption, production, and distribution will be stopped at a certain equilibrium, to avoid the concentration of economic power in the palm of a handful of people (exploitative monopoly); secondly, the economic situation that affected the pattern of free trade must be consistent with the distribution of income and wealth equitably and not narrowed (Qur'an, 59:7) (Naqvi, 1981). In this case, Islam also prohibits the hoarding of wealth (Qur'an, 4:37), as well prohibit the consumption of which exceed the limits and extol the virtues infak (Qur'an, 2:195).

The current global economic developments have implications for the welfare state. Limits and strength of the nation-state is fading, dispersed to the locality, independent organizations, civil society bodies supra-national

(such as NAFTA or the European Union), and multinational corporations. Globalization has limited the capacity of the nation-state in conducting social protection.

Economic development is essential for well-being. Globally and in particular in the advanced industrial countries, economic growth has strengthened integration and social solidarity, as well as expanding the capabilities and access to health care, education, housing, and social protection. However, analysis of Suharto (2005:48), in many developing countries, globalization and free market economy has widened the gap, causing environmental damage, undermine the local culture and language, as well as exacerbate poverty.

Policies of privatization, free market and structural adjustment which emphasized the international institutions have pushed developing countries into situations in which they live impoverished population without protection. While economic growth is important, but it does not automatically protect people from risks that threaten it. Therefore, some developing countries began to implement social policies concerning the organization of social security schemes, although it is limited and is associated with status and categories of workers in the formal sector.

Because of this, the economic development in Indonesia needs to be grounded in moral values, especially the trade aspects of the source of foreign exchange. Trade, in the context of Shari'ah and Pancasila culture, became an integral part of human life in business. Man's relationship with another human being has a free space, but this relationship has a transcendent value as a form of economic activity that will be accountable to God. Thus, human freedom, economic realities, and accountability to God be the framework for businesses, so the trading is done can not be separated from how faith-charity-commercial purposes. Is the underlying reality of free trade must conceive of epistemology tauhidi, namely God as Absolute Reality, which includes the following principles (Khurshid, 1980: 178-179): Tawhid (QS. 41:53, 12:40, 6:162), Rububiyah, Khilafah (QS. 2:30, 35:39), Tazkiyah, and accountability (QS. 4:85, 10: 108).

In the era of free markets, economic activities can not pay attention to ethical issues that could lead to all the players in the economy will collide interests, so that this condition may create a force that can destroy other economic actors. Therefore, Islamic business ethics becomes a frame of reference as a form of morality economic actors. Business ethics can help prevent market distortions, so that various forms of economic practice provides mashlahah for human life as a whole.

In the context of Indonesia, as disclosed Swasono (2005), there are six national concern with the development of globalization, which affects people of Indonesia through the following questions:

1. Why development is happening in Indonesia is displacing the poor, not displacing poverty? consequently development becomes a process of dehumanization.
2. Why that is happening just in the development of Indonesia and Indonesia is not development? foreigners who build Indonesia and became the holder of the concession for economic enterprises located, while the Indonesian spectators or waitress globalization.
3. Why "sovereign markets" were left in power, thus displacing the "sovereign people".
4. Should not we be the master in his own country, to be "the masters in our own homeland, not just to Become the host," which only serve the needs of globalization and interests abroad? So, why do we remain a coolie in their own

country, just be master of ceremonies ? consequently GDP growing faster than GNP. Many economists off guard on this.

5. Social welfare still not reached, the gap between rich and poor is increasing.

Sixth, the gap between the rich and the poor who form his frustation-gap on the part of the poor, the gap between the aspirations of a growing along by the advertising of consumer fancy and the increasingly widespread traction affluency party that is rich with all the absurdities that have been attached to them, have encouraged structural imbalances in ownership.

Therefore, the economic life of Indonesia is supposed to set the enactment of "economic democracy" (Article 33 of the 1945 Constitution) as a rejection of the economy through free-market liberalism. Indonesia confirms economic democracy economic relations based on mutualism and brotherhood (and the principle of family togetherness) reject laissez-faire or free market neo-liberalistic. In its form, this economic democracy reaffirm the people's economy.

7. Pancasila and Meaning in The People's Strategic Economic Development

Pancasila as the foundation and soul of Indonesia provides a view that economic democracy has the principles of participation, emancipation, and keterbawasertaan. In the context of development, economic participation and economic emancipation must senantiasi bring people to emancipated. The economic progress of the people must be inherent in the progress of national development entirely. Exclusivism development should not happen, not happen anyway marginalization, alienation or exclusion of the poor and weak.

The economic role of the people need to be placed as a development strategy. Strategic significance in the development of the people's economy, among others: (1) people who are participatory-emancipatory opportunity to be active in economic activity will contribute to ensuring optimal economic value added that they generate can be directly accepted by the people. Equalization will occur along with growth; (2) to empower people is a national duty to improve the productivity of the people so that the people concretely becomes active asset development. Subsidies and protection to the people to establish themselves and their economic life is an investment in the national economy in the form of human investment (not a waste or inefficiency) and encourage the growth of the middle class-based grass-roots; and (3) the economic development of the people's increasing purchasing power of the people who will be the energy of the people to be able to build itself (self-empowering).

Thus, Pancasila should be placed as footing the Indonesian government in developing "new paradigm" through economic policies that reflect economic democracy. Economic democracy principles reflected in UUD 1945, article 33, the economy is structured as a joint venture based on the principle of kinship. Impelemntasi concrete of Pancasila democracy is the cooperative movement with the concept of "triple-co" which includes joint ownership (co-ownership), determination together (co-determination) and the joint responsibility (co-responsibility). In some countries the cooperative grow into the business forward with greater income. The concept of triple-co means big business can be owned by small businesses (or cooperative) "related," both because of the relationship of consumption (consumption common bond), the linkage of production (production common bond) and the relevance of territory (teritory common bond). Its small, medium and large integrated consolidative forming a strong national economic strength to face globalization and global power.

8. Conclusion

Indonesia's economic development amid globalisation should base themselves on economic democracy imbued with the values of Pancasila as the national identity, ie upholding the sovereignty of the country's economy and its people, the interests of the state and people's interests take precedence. Economic democracy as values of independence put the position of the people as the "central-substantial" with deliberation and consensus as a mechanism for mutual nation's intellectual life. It will explicitly reject liberal capitalistic economy with a free market that puts capital as the central-substantial and reduce the position of the people to be the "marginal-residual", make natural economic mechanisms of exploitation and usury.

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