

# Political Economy of the Agricultural Sector in a Review of Development Studies in Indonesia

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## ABSTRACT

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During the New Order period, government policy focused on the politics of development in the agricultural sector. The actual result was that the community could directly fulfill food needs independently (self-sufficiency) in the mid-1980s. However, this conducive condition had to end tragically when in the late 1980s and early 1990s, the agricultural economy suffered due to massive protection in the industrial sector and took place through a conglomerate process that laid the foundations of the economy. The history of the agricultural sector during the New Order period can be a precious lesson in building the Indonesian economy. This agricultural sector has been recognized as having an essential role in the national economy, which can be seen from its ability to contribute to the gross domestic product, employment absorption, job creation opportunities, increasing people's income, and foreign exchange sources. This research uses a descriptive-qualitative approach with a library review design. In this research, it can be concluded that agricultural development in this era seeks to develop sustainable agricultural systems that must improve farmers' resources and standard of living to be more prosperous. Therefore, the government must formulate a platform or grand strategy of agricultural development policy so that Indonesian farmers do not get caught up in poverty and unemployment.

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## Introduction

Economics is a science that explains how humans make the best choices in meeting their needs in life. Samuelson & Nordhaus (2010) stated that economics is the study of how people choose, with, or without transaction tools, to utilize scarce resources to produce commodities and distribute them for consumption by the community. Therefore, the government's economic policies, the environment in which the economy operates, and the political economy system are determinants of a country's economic performance.

The policies carried out during the New Order period greatly influenced economic stability, where this policy focused on development politics in the economic sector, one of which was the agricultural sector. Political economy is closely related to power, economic wealth, and politics, where power is bound by mutually influencing relationships. Therefore, in general, the economic development strategy is related to the fluctuating process of the agricultural economy in Indonesia.

In the 1970s, Indonesia could have built the foundation for economic growth after the agricultural sector was integrated with macroeconomic policies. Food self-sufficiency in the mid-1980s is one of the tangible results that can be felt directly by the community. Under these conditions, Indonesia's economic growth has increased, reaching more than 7% per year. Employment increases, increasing the absorption of new workers, have a significant impact on the economic sector. However, these favorable conditions ended tragically in the late 1980s and early 1990s. Indonesia's agricultural economy is deteriorating very seriously. There was a deconstructive phase in the national agricultural sector, and economic growth was around 3.4%. It is due to massive protection in the industrial sector,

The monetary crisis has led to massive unemployment, and the agricultural sector must bear a heavy burden. The resilience of this agricultural sector, which was once proud of, finally could not last much longer. However, in 1998-2000 the agricultural sector was the savior of the Indonesian economy due to a surge in the United States dollar exchange rate for export commodities in plantations and fisheries. When the primary basis of the agricultural sector is forgotten, this sector experiences a slow growth of 1.9% per year. This growth rate is not able to create jobs. As a result, farmers have been constantly cornered and marginalized in the development process in recent years.

According to Damanhuri (2000), the factor that causes the position of farmers to be continuously marginalized is the existence of government intervention in controlling the price of grain/rice. At first, it was thought that control was necessary because rice was the most significant inflation component. However, the results show that rice is not the most significant contributor to the inflation rate. Upon further investigation, it turns out that inflation stems from practices that distort the market.

The history of the agricultural sector during the New Order period can be a precious lesson in building the Indonesian economy. It is indeed inseparable from the role of the political economy of the agricultural sector. This sector has been recognized as having an essential role in national economic development, which can be seen from its ability to increase gross domestic product, absorption of labor, increasing employment, and increasing people's income.

Related to this, similar previous research that discusses the agricultural sector in development (Wardhiani, 2019; Kuntariningsih & Mariyono, 2014; Suradisastra, 2006), political economy (Gultom, 2021; Angi & Wiati, 2017; Irwanto, 2019; Baihaki, 2013, Wijayanti, 1996), market failure in development (Hijri & Adiba, 2019; Wijaya, H. & Sirine, H., 2016). The agricultural sector's contribution to Indonesia's economic development has signaled that Indonesia will be more serious in developing the agricultural sector as an agricultural country. It is because the agricultural sector has been able to play a vital role parallel to the industrial sector. Based on this, this article aims to analyze the political economy of the agricultural sector in a review of development studies in Indonesia.

## **Method**

The object of this research is the political economy of the agricultural sector in Indonesia. This data was obtained from the Central Statistics Agency (BPS). This study uses a literature study with a descriptive-qualitative approach, namely the research method described by a summary of various conditions, situations, and social reality phenomena in the community that is the object of research (Bungin, 2011). In addition, the design in this study uses a literature review. It is done to collect data or sources related to political economy in the agricultural sector in a review of development studies obtained through various sources such as journals, books, the internet, and other libraries.

## **Results and Discussion**

### ***The Link Between Economics and Politics***

In everyday language, the term economics has many meanings. Economics can be defined as a way of doing things. In another sense, the economy can also be interpreted as an activity to obtain something needed. In another study, if the economy is defined as an activity in material provisioning, it will tend to limit the meaning of the economy itself and even allow for a separation between economic and political activities. If the economy is defined as an institution, then the economy is related to social activities and not material activities about life outside the economy (Deliarnov, 2006).

Although politics is not as straightforward as economics, the concept of politics has various definitions. There is an opinion that said politics is who gets what, when, and how; how to struggle for power; the arts and sciences of government; patterns of power; and regulations/authorities. From these various definitions, it appears that politics is related to many things. Politics is also associated with power and authority and with public life, government, state, conflict, and conflict resolution. Based on this definition, the meaning of

politics related to the economy is politics as government, public life, and authority to allocate resources and values (Coparso & Levine, 1993).

Using a political economy approach, various problems that are difficult to solve from one economic or political point of view can be resolved. It can be done by the government, whose function is to regulate and develop the economy. In discussing the political economy, Khaldun (2000) begins with the general language of economics, which concerns the true meaning and explanation of livelihoods and profits. The people's sources of livelihood are agriculture, trade, and industry. Therefore, the ruler must ensure the livelihood of his people and oversee the transaction process between the people so that they act honestly. Therefore, economic development and civilization depend on ensuring the security of property rights and security and the application of justice in economic transactions.

Five things must be considered in analyzing various problems through a political economy approach. First, the political economy approach seeks to accept the existence and legitimacy of differences in political culture both formally and informally. Second, policy analysis can strengthen a recommendation because it prevents deterministic thinking. Third, policy analysis is a preventive action in making conclusions in several alternative actions. Fourth, policy analysis focuses on developing countries not fully adopt a static theoretical orientation. Fifth, interactions between individuals can better be explained through policy analysis (Yustika, 2011). With this relevance, Socio-political dynamics between community groups through a political economy approach are considered to be overcome according to the actual conditions that live in the community. Finally, even with this approach, the reasons why one community group rejects a policy can be understood. On the other hand, there are community groups that support it.

### ***Political Economy and Agricultural Sector***

Political economy has become an exciting discourse in the development of political science disciplines that every political and economic thinker can interpret. Before economics developed, the political economy was the mother of economics. At the same time, political economy is part of philosophy (Yustika, 2011). According to Rachbini (2002), political economy is a combination of two interdisciplinary disciplines used to analyze other social sciences with issues relevant to political economy issues. To find synergies, fill the void that is not found in one economic discipline or political discipline, political economy was born. Furthermore, Caporaso & Levine (1992) explained that political economy talks about social problems and underdevelopment and provides advice to policymakers regarding the management of economic problems.

Based on this definition, political economy is associated with all political administration, and both in institutional aspects and economic activities carried out by the community and the government. However, this political economy approach places politics as subordinate to the economy, where prices, market mechanisms, and investment as economic instruments are analyzed by using the political system regulation through economic policy. In essence, this approach aims to understand the economy to take action, while politics provides space for that action.

Agricultural politics is a government policy in accelerating the pace of agricultural development. Agricultural development is concerned with the activities of farmers and institutions, including companies or government institutions related to agriculture. Therefore, in accelerating Indonesia's economic growth rate, the agricultural sector has a vital role.

During the New Order era, Indonesia was considered to have succeeded in developing the agricultural sector by relying on available natural resources such as rice fields, water, and forests. However, due to pressure from outside and a weak bargaining position, like it or not, Indonesia must implement a policy of food trade liberalization. Revocation of subsidies for farmers, privatization of logistics business entities, and reduction of import tariffs for food products are part of the liberalization policy. However, it appears that Indonesian farmers are not ready to enter the free market, and they have to bear the burden of globalization in the era of globalization.

Farmers feel the policy on the basic price of rice to be ineffective, the abolition of fertilizer subsidies has resulted in an increase in farming costs with the high price of fertilizers, the invasion of imported food has further depressed the prices of farmers' products, and the practice of KKN by officials and dologs or subdologs is added. Farmers are decreasing in terms of income, welfare and experiencing a process of impoverishment. Therefore, do not be surprised if there are farmers who do not have paddy fields, farmers cannot work in the agricultural sector, many farmers lose their sources of livelihood, and the industrialization development process pressures farmers. All of this is an accurate picture of the living conditions of Indonesian farmers in the last decade. Currently, alternative efforts are needed for the development of agriculture that is pro, beneficial,

According to Bustanul (2004), since the mid-1980s, the government's side with the industrial sector has slowed down, especially in the agricultural sector. The government still thinks that development in the agricultural sector can run by itself. This assumption makes the government indifferent to the agricultural sector in the national economic development strategy. The paradigm of economic development that emphasizes industrialization is what

makes the government ignore the agricultural sector. The government places too much emphasis on the industrial sector, which has led to various systematic protection policies. This massive protection has made Indonesia's agricultural sector experience fragility and decline.

In the context of developing countries that have advantages in natural resources, there are many reasons to emphasize the agricultural sector. First, raw materials for the agricultural sector will support the growth of agro-industry, such as cotton, sugar, rubber, and others. Many of these products can be exported, and a means to purchase products abroad (import). Even when countries do not export, they still can increase crop yields, discover new crops, or open new markets. Second, evidence in the history of development patterns can be used as a reference to increase agricultural productivity. Output and employment changes can occur when industrialization is rapid and workers are needed in the factory and the service sectors. At this point, if the agricultural sector suffers a setback, then labor productivity must be increased to enter other sectors. At the same time, food commodities must be produced to fulfill the city's workers. Instead, they sell the excess product to pay for the food they need. In this perspective, mutually supportive and beneficial cooperation can occur. Third, adequate savings can be required to finance industrial development and investment, part of which comes from income in the agricultural sector.

It is what developing countries should do to be more intensive in maintaining their agricultural sector because most of the workforce and economic activities of the population rely on this sector. However, it will be difficult for developing countries to reap success without a strong attitude towards the right domestic policy-making and negotiation process.

### ***The rationality of Farmers in Rural Indonesia***

Farmers are creatures who rationally in taking action will consider the principles of efficiency and effectiveness. In order to get the goal of an independent life without any pressure, farmers will rationally think and work. However, farmers cannot access the market to sell their agricultural products to the market. This farmer's rationality is a moral issue of the farmers' economy who must struggle to live on the poverty line. When facing risks, farmers always put safety first, and it is a rational choice (Ali et al., 2018).

This rational attitude of farmers arises because of the urge to get the maximum profit. In the political economy approach, humans have individual awareness and always use profit and loss calculations (rational) in acting. However, it still does not ignore the social systems in rural areas such as social solidarity, subsistence conditions - farmers who grow food

crops only to meet the needs of themselves and their families - and the production relations of pre-capitalist farming communities (Sukei, 2015). The rational choice theory explains that utility is the basis for consideration to maximize existing resources. As a rational attitude, individuals will optimize their choices and actions. However, this theory has received criticism because even though the knowledge possessed is the same,

Popkin in Utami (2011) assumes that farmers' personal decisions to face economic challenges affect their lives. Poor farmers dare to take short-term and long-term risks. They also invest in having children, livestock, land, and even joining insurance programs or health insurance services. The involvement of farmers in the market economy is not a response to an unfavorable situation but rather a response to a new situation. It is a rational action of farmers who are constantly changing. In responding to changing land tenure institutions, farmers will use their rationality. The actions taken by farmers in cultivating their land show the dynamics of land procurement for farming. The actions of farmers to obtain arable land through pawned land, land leases,

In the famine season, farmers must be rational in order to meet their needs. When the famine season arrives, farmers are faced with the choice of opening a business, raising livestock, or looking for firewood in the forest. Most of them will choose to look for firewood in the forest because there is no need to spend money. In contrast to opening a business or raising livestock, they must first issue capital. However, this pattern has changed, where most will choose to raise livestock. Although they have to spend capital first, this activity can guarantee their survival in the future (Rejeki, 2019).

Farmer resistance is closely related to the characteristics of development program policies. The regional autonomy policy, which should provide many changes in agricultural resources, has fostered conflict, resulting in farmers' resistance. Although peasant resistance emerged after the fall of the New Order, the opening of democratic faucets that had been closed for a long time affected this. Farmers became objects of politics and development by the New Order rulers, showing the opening of the faucet of democracy. However, politically, the community began to organize themselves, even unwanted state projects they explicitly rejected (Suliadi, 2015).

In the current reform era, the existence of the Indonesian agricultural sector is still very much needed to improve the welfare of farmers. According to the 2013-2017 Central Statistics Agency Survey, there was a 3.31% decline in agricultural households, while non-agricultural households increased by 1.18%. The average percentage of agricultural households in 2017 was 24.16%, and non-agricultural households were 75.84% of the total



Indonesian households. The percentage of agricultural households outside Java is greater than that of Java, with a ratio of 34.30% and 17.11%, respectively.

**Table 1. Provincial Farmer's Exchange Rate and Percentage Change, January 2021**

Province	It		Ib		NTP	
	Index	Change (%)	Index	Change (%)	Ratio	Change (%)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Aceh	106.16	2.01	107.20	0.96	99.03	1.04
North Sumatra	122.67	0.64	106.71	0.86	114.96	-0.22
West Sumatra	110.86	0.67	107.77	0.48	102.87	0.18
Riau	141.90	2.49	106.75	0.49	132.92	1.98
Riau islands	107.96	2.17	105.05	0.76	102.77	1.40
Jambi	127.34	1.96	106.80	0.76	119.23	1.19
South Sumatra	106.76	-1.18	106.76	0.63	100.01	-1.79
Bangka Belitung Islands	122.58	2.96	105.48	0.53	116.21	2.42
Bengkulu	133.72	2.50	107.05	0.21	124.91	2.28
Lampung	103.74	0.39	107.43	0.58	96.56	-0.19
DKI Jakarta	103.27	0.53	103.26	-0.20	100.00	0.73
West Java	106.91	0.28	106.84	0.41	100.06	-0.13
Banten	110.25	1.10	108.99	0.68	101.16	0.42
Central Java	108.90	-0.04	107.85	0.47	100.98	-0.51
In Yogyakarta	107.02	-0.39	107.88	0.12	99.20	-0.51
East Java	108.68	0.13	107.96	0.26	100.67	-0.13
Bali	99.59	0.15	106.99	0.66	93.09	-0.51
West Nusa Tenggara	116.49	0.66	106.54	0.55	109.34	0.11
East Nusa Tenggara	103.17	0.71	106.98	0.50	96.44	0.20
West Kalimantan	123.57	0.03	105.63	0.05	116.98	-0.02
Central Kalimantan	117.28	1.47	107.18	0.14	109.43	1.33
South Kalimantan	111.86	0.69	105.64	0.20	105.89	0.49
East Kalimantan	121.97	1.17	104.92	0.06	116.24	1.11
North Kalimantan	108.98	0.38	105.17	0.19	103.62	0.19
North Sulawesi	109.96	1.62	107.53	1.48	102.26	0.14
Gorontalo	107.02	1.06	105.60	0.85	101.34	0.21
Central Sulawesi	103.87	0.52	108.22	0.45	95.98	0.07
South Sulawesi	102.52	-0.27	105.70	0.32	96.99	-0.58
West Sulawesi	124.33	1.43	106.34	0.02	116.92	1.41
Southeast Sulawesi	101.43	-0.34	104.58	-0.05	97.00	-0.29
Maluku	105.27	1.00	106.81	0.10	98.56	0.90
North Maluku	105.46	1.63	106.61	0.18	98.93	1.45
Papua	108.54	0.65	105.10	0.17	103.27	0.48
West Papua	108.47	1.21	106.21	0.17	102.12	1.03
<b>National</b>	<b>110.65</b>	<b>0.45</b>	<b>107.16</b>	<b>0.44</b>	<b>103.26</b>	<b>0.01</b>

Source: BPS (2021)

Based on table 1, it can be seen the exchange rate of farmers by the province in Indonesia. This decline in agricultural households shows that the agricultural sector in Indonesia is lower than the non-agricultural sector. Based on the Central Statistics Agency (2021), the survey results in 34 provinces in Indonesia in January 2021 related to prices,



rationality the farmer's exchange rate rose 0.01% compared to the farmer's exchange rate in December 2020, from 103.25 to 103.26. The increase in the farmer's exchange rate in January 2021 was due to the price index of agricultural production experiencing a higher increase than the increase in the price index of goods and services consumed by households and production costs and additional capital goods. The increase also influenced the increase in the exchange rate of farmers in January 2021 in the exchange rate of farmers in three agricultural sub-sectors, namely the exchange rate of farmers in the horticultural crop sub-sector of 1.00%, the people's plantation sub-sector by 0.42%, and the fisheries sub-sector by 0.50%. Meanwhile, the exchange rate of farmers in the other two sub-sectors decreased, namely the food crops sub-sector by 0.28% and the livestock sub-sector by 0.72%. This decline in agricultural households shows that the agricultural sector in Indonesia is lower than the non-agricultural sector

According to table 1, out of 34 provinces, the increase in the exchange rate of farmers occurred in 23 provinces, and 11 provinces experienced a decrease in the exchange rate of farmers. The highest increase in the farmer's exchange rate in January 2021 occurred in the province of the Bangka Belitung Islands by 2.42%, while the most significant decrease in the farmer's exchange rate occurred in the province of South Sumatra 1.79%. The highest increase in the exchange rate of farmers in the province of the Bangka Belitung Islands was caused by the People's Plantation Sub-sector, which experienced an increase, especially for pepper/pepper commodities, which increased by 3.90%. On the other hand, the most significant decline in the farmer's exchange rate in South Sumatra Province was caused by the People's Plantation Sub-sector, which experienced a decline, especially in the rubber commodity, which fell by 3.34%.

Looking at the condition of the agricultural sector in Indonesia, development in the agricultural sector is experiencing a reasonably slow development process. However, considering that many traditional subsistence farmers still support development in Indonesia, an appropriate pattern is needed to mobilize the participation of these subsistence farmers. What is essential to consider is an initial belief that farmers have their dynamics. If the approach to mobilizing their participation is appropriate, then this dynamic potential will emerge as an essential factor for development in general and agricultural development in particular.

### ***Indonesian Agricultural Political Economy in Development Review***

The main priority for economic development is the agricultural sector because this sector is the most dominant in developing countries. Although the contribution of this sector in the Indonesian economy is decreasing year by year, this does not indicate that the

value and role of agriculture are increasingly meaningless. The majority of Indonesians live in rural areas. The agricultural sector is still used as the basis of their livelihoods. There are five agricultural sub-sectors in the economic development order in Indonesia, namely the food crops sub-sector; plantation sub-sector; forestry sub-sector; livestock sub-sector; and the fisheries subsector (Dumairy, 1996). In Indonesia, the food crops subsector plays the most significant role in shaping economic value. This sub-sector is used as the main livelihood for most Indonesian people, especially those living in rural areas. However, unfortunately, the growth of this sub-sector is not very encouraging. The declining role of the agricultural sector and the increasing role of the industrial sector prove that Indonesia's economic development has undergone structural changes. However, this structural change is still not permanent because the income structure is improving, not yet accompanied by changes in the employment structure. It will impact productivity inequality between sectors because Indonesia's economic development has focused on the industrial sector. This disparity in structural changes means that until now, employment has not been adequate even though the growth of the industrial sector is increasing. The industrial sector has also not been able to absorb excess labor in the agricultural sector, resulting in an overpopulation of farmers. Many workers in the agricultural sector are unemployed, so they are urbanizing to cities. It indicates that the agricultural sector has not been optimally integrated with the industrial sector, which is now the core of the development strategy. Agricultural policy in the context of development places farmers as the leading players in the agricultural sector in a very concerning position. Farmers are not lazy until they are hit by poverty, but the reciprocity that farmers get is not worth their hard work. Because no matter how hard they work, their income is tiny and can only meet their basic needs. Meanwhile, to finance the cost of production for the next period, he had to borrow to maintain agriculture. The main emphasis of the industrialization sector compared to the agricultural sector has the wrong paradigm. The industrialization process has weakened the achievements of the agricultural sector. Existing agriculture should be encouraged to support the industrialization process that occurs, not the other way around. The agricultural sector should be used as the primary material for industrialization so that Indonesia's development becomes more stable and has added value to economic growth. On the one hand, the government should make policies that can save farmers because most people make a living as farmers. Although it is not an easy effort to save farmers, it must be done gradually. It aims to repeat Indonesia's success as a self-sufficient country in rice during the New Order era in the mid-1980s. On the other hand, the government also continues to carry out the industrialization process under the capacity of the community.

Therefore, there is a need for synergy between the agricultural and industrial sectors in Indonesia's economic development. Reconstruction of the agricultural sector is not easy, and many government policies are increasingly pressing the agricultural sector. Yudistika (2003) explains that the agricultural sector has two major problems that are still hanging over. First, the ownership of agricultural land is tiny. Second, some conditions cause the agricultural sector to be permanently eliminated by other sectors. In this case, if the agricultural sector is faced with nature, technology, and institutions, it is almost always desperate. Moreover, when dealing with economic actors, farmers are always at a disadvantage due to asymmetric economic institutions, so that farmers must bear all costs. Next, the fate of farmers is almost at the edge of the abyss when there are two sad facts, namely 1) farmers always lose in dealing with other economic actors due to institutional agreements and the institutional environment that do not reflect the principle of justice. For example, most of the profits are owned by the middlemen because the pattern of relations between farmers and middlemen is asymmetrical. The government's policy to impose an introductory price for agricultural products indirectly constitutes a subsidy to economic actors in the industrial or service sectors and the urban population; 2) conflict between farmers and government officials or owners of capital due to policy penetration. As a result, thousands of farmers have to lose their land without adequate compensation or often have their crops bulldozed against government policies. For example, some farmers do not want to plant sugar cane in the People's Sugar Cane Intensification policy era. Stories like this only tell one thing, that the lives of farmers are on the brink and will soon disappear if there is no proper handling. There is the concept of sustainable agriculture departing from the agricultural sector's economic development paradigm. This concept is very appropriate to improve the welfare of farmers and can be used as a guide for the government in encouraging the progress of the agricultural sector. It is reasonable not to repeat the pattern of agriculture carried out by the government in the past. Indirectly, the top-down pattern decides unilaterally where development actors are the central power, and it kills local knowledge and local institutions in improving the agricultural development sector. At this stage, synergies must be built between top-down and bottom-up patterns to involve farmers as development actors fully. According to Wong (2007), three crucial arguments for the agricultural sector are the primary basis for development. First, the revolution in the field of agricultural biotechnology by developing the science of genetics and microbiology. Second, modern markets are multiplying and can shape the supply chain from agriculture to food. Third, the agricultural sector can be an essential tool in reducing poverty levels and preserving the environment in rural areas. Furthermore, at the Forum on How to Feed the

World in 2050, FAO (2009) discussed the urgency of the new paradigm of agriculture in development based on several arguments, namely: (1) in the event of an economic crisis, the agricultural sector is made the leading actor in development, even though for a return to the classical paradigm is not possible; It is the new paradigm of agriculture for Indonesia's economic development that the government must create in order to improve people's welfare. Therefore, studies from various experts immediately formulate a platform or grand strategy in building the growth of the agricultural sector in Indonesia, including a strategy regarding the welfare of farmers and the community; food security and agricultural efficiency; industrialization process and strategy; and international trade framework. Therefore, thoroughness and prudence in conducting technical analysis to balance several objectives of agricultural sector development are non-negotiable keywords.

### **Conclusion**

Agricultural development in the current era is trying to develop a sustainable agricultural sector that must provide increased resources and farmers' living standards to be more prosperous. However, this increase in resources is limited to increasing productivity and is more about how government policies place farmers in the Indonesian development process. In the context of development, the agricultural sector should be equal to the industrialization sector. Therefore, the government must formulate a platform/strategy for agricultural development policies so that Indonesian farmers are not trapped in the abyss of poverty and unemployment.

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