

Contextualization of Social Market Economy in Indonesia Development

Edy Suandi Hamid¹

Abstract

This study is intended to provide an overview of the social market economic system and its contextualization in the Indonesian economy. Data used in this research are secondary data obtained from Statistics Indonesia, Department of cooperatives and small businesses, National planning agency of Indonesia, World Integrated Trade Solution, World Bank and CYBEX Exim Solution. The data in this study consisted of time series data (time series) and latitude series data (cross section). The method used is qualitative analysis in the form of analytical descriptive. The study provides an illustration that the socialist market economy known as Pancasila economy is one of the alternative solutions of an economic system compatible with the Indonesian nation.

Keywords: Social market economy, people's economic, populist economy, Pancasila economy.

1. Introduction

During sovereign, Indonesia has run various economic system. It is then built the character of the economy. The leading government then makes various policies that are in harmony with existing systems and characteristics. The old-order government was more of a socialist system. Thoughts of socialism more dominate during the reign. With these thoughts, governments put forward policies to improve income distribution. These policies are not accompanied by human resource development policies. The policies imposed have precisely leveled poverty. The purpose of that is rich people are required to distribute their wealth over taxes. However, policies to increase the purchasing power of the poor have not been done, even spelled out many failures. The next government period is the new order era. In this period various policies refer to the State Policy Guidelines (GBHN)². The government of this period took the lesson to not take too much policy on the basis of socialism. Despite rejecting socialism, the government does not openly acknowledge that capitalism is the basis for managing the economy. The GBHN prepared for economic development is then formulated into a development trilogy³. The government realizes that a free market will make the gap wider. Ideologically, the New Order era rejected capitalism. Countries tend to pick the economic system that suits the character. If it were not for that reason, the system used was based on the extent to which the system was able to solve the economic problems (Ederer, 1969). With the economic system adopted by Indonesia in the New Order era still remains a problem of poverty. Thus the government needs to implement other policies. The government during the new order then compiled and legalized the Act no 1 of 1967⁴. After the enactment of the law, many foreign investors entered and controlled natural resources. With the money from taxes received then the government tried to reduce the level of poverty. This is then successfully done. Poverty levels are gradually falling (Figure 1.1).

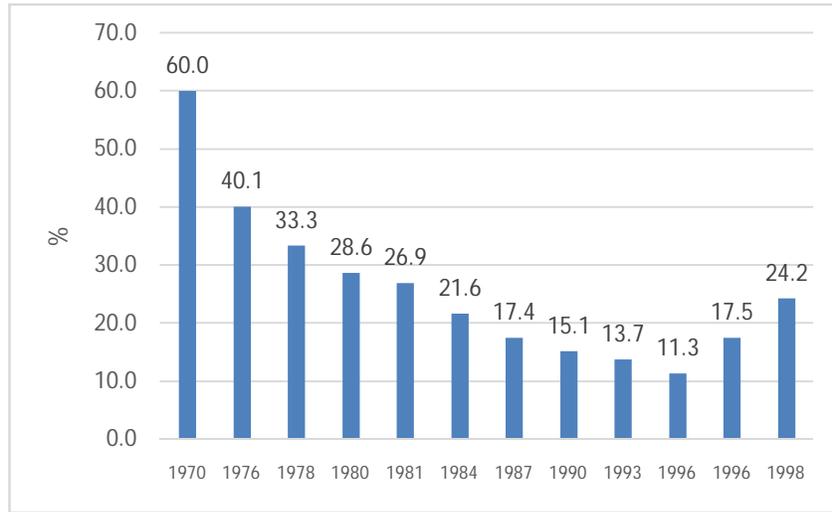
¹Department of Economics, Universitas Islam Indonesia, PO. Box 55584, Sleman Residence, Yogyakarta Province, Indonesia

² The GBHN is a subject of development based on the constitution. It also regulates the development system.

³ The development trilogy is a doctrine in developing the economy. The development trilogy consists of: economic growth, equity of income, and stabilization of economic and political conditions.

⁴ Is the first constitution in the form of law. The law regulates the foreign investment (PMA) in Indonesia.

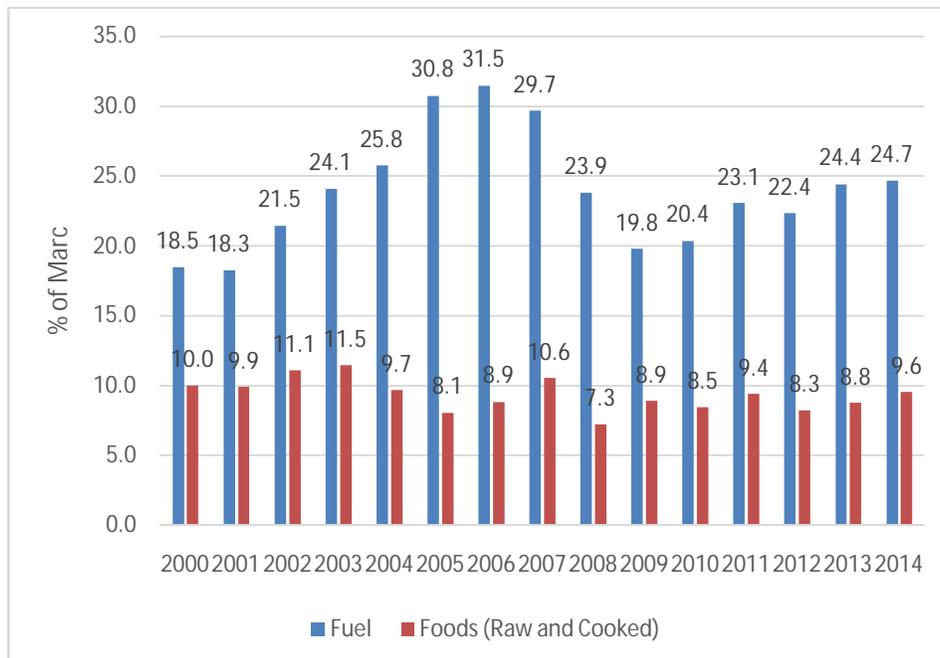
Figure 1.1 Percentage of Indonesian Poor (1970-1998)



Source: Statistics Indonesia, 2016

Incoming foreign capital causes domestic competition isn't good. Domestic entrepreneurs with small capital are losing a lot in competition. It is clear that in this case the New Order era changed its development view of approaching capitalism or economic liberalism. However, the attitude of government is contrary to its policy decisions. Close businessmen (even family cronies) with the government then ask for help and protection. It is often known as crony capitalism. Crony capitalism then gave rise to a monopoly of business so much on a number of strategic projects and ultimately contributed to the disruption of the economy. Wrong policies will cause chaos in the economic system (Benedek & György, 2014). Various actions carried out by the government of the new order in fact have an impact on the next economy. As an agricultural country, Indonesia still imports raw and cooked foods. Even the percentage of imports continues to increase. As a country with abundant natural resources, Indonesia has in fact never diminished with imports of its fuel.

Figure 1.2 Indonesia's Food and Fuel Import (2000-2014)



Source: World Bank., (2016); World Trade Integrated Solution (2017). Processed.

In difficult economic conditions, a reasonable if it appears an attempt to find an alternative solution will be a variety of economic policy failures. Such efforts are especially needed in the Reformation which is indeed expected to lead to a change in a better direction. The socialist market economy system then emerged as one of the alternatives. The socialist market economy in general strives to meet the deviciency of the socialist system especially on the issue of efficiency, but still leaves room for free competition on several aspects. A number of countries are considered successful in implementing this system, such as Germany and China. This study is intended to provide an overview of the social market economic system and its contextualisation in the Indonesian economy.

2 Literature Studies

The socialist market economy is the basic developmental direction of Germany. In Ludwig (1964) it is explained that Professor Ludwig Erhard was a leading figure in the socialist market economy system⁵. With the economic system which he designed, Professor Ludwig was mentioned as the architect of prosperity, especially German prosperity. Although by some economists it is considered excessive, but the facts show that economic prosperity has been able to be achieved by the German community. Erhard initiates the idea that a free economy in terms of competition, choice, and development must still be directed to mutual success. That means, every success achieved by an economy, should benefit each citizen. The main purpose of the social market economy is the general welfare. By improving the common welfare, automatically the individual welfare will be achieved. Despite various criticisms, Erhard's Social Market Economy is successfully improve the prosperity of Germany. The opportunities given in the social market system are very broad. Cahill and Paton (2011) in a scientific article entitled *Thinking Socially About Markets* discusses deeper into the market and social market systems. In the discussion Cahill and Paton explained that in fact the market economy system can be entered into social elements in the implementation. The paradigm that the two systems are always in contradiction is reviewed. Historically, the *laissez-faire* and socialist have never shown a real contribution in economic development. A liberal market system can also be embraced by social ideas at a higher level. Thus, it is expected that this non-extreme system can increase economic growth significantly.

3 Methodology

3.1 Types and Data Sources

Data used in this research are secondary data obtained from Statistics Indonesia, Department of Cooperatives and Small-Medium Enterprises, State Ministry for Development Planning of Indonesia, World Integrated Trade Solution, World Bank and CYBEX Exim Solution. The data in this study consisted of time series data and latitude series data (cross section). The observation period uses a span of time. The data used are Indonesian poverty, Indonesian import export, Indonesian business world map, and Indonesian investment.

3.2 Analysis Method

The discussion basically focuses on descriptive analysis. With a qualitative approach is expected to provide a specific picture of the urgency of socialist market economic system in relation to the Indonesian economy. Descriptive analysis provides a wide possibility of possible discussion. This qualitative research type is purposely used to produce a more in-depth and more independent discussion. Descriptive analysis with in-depth discussion is expected to provide results in the form of a solution to a particular problem topic. In accordance with the objectives described above, the qualitative analysis of this article is expected to provide an answer to the urgency of the social market economy system and its contextualization in the Indonesian economy.

3.3 Operational Definition

The operational definitions that need to be understood are:

1. The social market economy is an idea proposed by Ludwig Erhard in which the economy is run based on liberalist materialism, as well as socialist socialism. At least the principles of individuality, solidarity, and subsidiarity are fulfilled in this system (Ludwig, 1964).

⁵ Quoted from Ludwig, M. H. (1964). Erhard's Social Market Economy. *The Southwestern Social Science Quarterly*, 44 (4), page 329 paragraphs 1, and 330 paragraph 2

2. The socialist system shows the existence of communal ownership of factors of production where the state organizes centrally about its distribution. Whereas the liberal system refers to the principle of *laissez-faire* where every individual is free.

4 Discussion

4.1 Practice Social Market Economy System

Social Market Economy or Soziale Marktwirtschaft is an economic system used in West Germany after World War II. This system is a synthesis between a market system that puts forward competition and socialist systems that promote the humanist spirit of development (Thamrin, 2006 in Hamid, 2008: 4.17). Germany lost the war at that time using the system as an alternative to the system previously used. Germany also used it as a critique of the system used by war-winning opponents. The opposing system strongly dictates the direction of its economic development. This social market economy needs to be understood with the right concept and context. The concept of a social market economy is rooted in classical liberal thinking with little adaptation, especially developed by the Freiburg group with Walter Eucken and Andreas Muller-Armack (Hamid, 2008: 4.17-4.18). The concept of thinking within the social market economy includes the principles of individuality, solidarity, and subsidiarity. The principle of individuality is a principle that guarantees the freedom of every individual to engage in economic activity. The principle of Solidarity is a principle that aims to remove injustice. Basically, human beings remain tied to a community relations so that it does not negate their role as social creatures. The principle of subsidiarity means that there are institutional tasks that need to align the principles of individuality and solidarity. With this principle, the state guarantees individual freedom while maintaining social sustainability. Every individual has the right to carry out activities that are self-sufficient and the state can not take over.

"In the context of the German economy, the freedoms of individual and economic freedom can be seen as a framework in which social justice and solidarity are applied. The social market economy is aimed at balancing market principles and social principles, creating and constructing an acceptable economic order by various ideologies so that the forces within society can focus on the common task of ensuring basic living conditions and rebuilding the economy" (Hamid, 2008: 4.19). In the early period of its implementation, important sectors such as agriculture, traffic, and residential buildings were not included in market mechanisms and open competition (Hamid, 2008: 4.20). At that time also the creation of legislation that allows the social market economy system can stand. The law on the German Federal Bank (Bundesbank) and the prohibition of competition barriers were two of the important laws made at the time (Hamid, 2008: 4.19). Other developments then occurred along with the formulation of "Globalsteuerung" (overall steering-total control) which meant that for economic and financial policies the government could take macro policy measures while the market and employers could only make decisions in the micro field.

4.2 Social Market Economy in the Indonesian Economy

In the context of Indonesia as a sovereign country, the economic system built cannot be separated from Pancasila and the 1945 Constitution. Economic democracy is the result of the constitution to be achieved to carry out the tasks of economic development. Economic democracy is expected to be accomplished with a number of accompanying principles. The fourth and fifth precepts are at the core of popular spirit and justice. These are the core idea that become the basis and character for Indonesia's economic democracy. In the 1945 Constitution before and after the amendment, the spirit of building a economic democracy is becoming increasingly clear. The points of national objectives mentioned in the Preamble to the 1945 Constitution, among others, are to promote the general welfare and intellectual life of the nation. Furthermore, Article 33 of the 1945 Constitution as a representation of the national economy globally provides guidance on how a democratic economic system works in the national economy.

1. The economy is structured as a joint effort based on the principle of kinship.
2. Production branches that are important to the state and affect the livelihood of the people are controlled by the state.
3. Earth and water and the natural wealth contained therein are controlled by the state and used for the greatest prosperity of the people.
4. The national economy is organized on the basis of economic democracy with the principle of togetherness, fair efficiency, sustainability, environmental insight, independence, and by maintaining a balance of progress and national economic unity.
5. Further conditions on the implementation of this provision shall be governed by law.

"The five verses in Article 33 of the 1945 Constitution illustrate how collectivity in such an economy takes precedence. Indonesian people are jointly involved in the production process, for the mutual benefit or part of the production to be enjoyed by the wider community. The words 'together', 'crowd', and 'people's prosperity' illustrate how the broader society becomes a key element in expected economic activity. When the values of humanity are highlighted are the balance and harmony between personal interests and the interests of society, then the economic system provides an opportunity for individuals to take the initiative to seek and determine their own level of needs (consumption and production) as long as it does not harm other members of society ", (Hartono dan Wijaya, 1981:14 in Hamid, 2004: 40). Article 33 also explicitly describes how the economic structure viewed from business ownership is fairly regulated under the constitution. Countries represented by State-Owned Enterprises as well as Regional Owned Enterprises are the main players managing vital sectors in the economy. Indirectly, this also indicates the need for strengthening of state institutions in managing natural resources, so it is not dependent on foreign capital owners. Having minus the vital sectors for the masses, that is where the private sector must move. This is where a transparent control mechanism is required so that there is no false composition in this economic structure, so that the negative impacts as seen in the experience of the crisis period are not repeated. The principle of kinship as the main spirit of the economy necessitates the cooperative as a business that should be the main pillar of the national economy.

Economic democracy as the basis of the national economy contains the basic principles. The principle has been described in great detail. These principles are togetherness, fair efficiency, sustainability, environmental insight, independence, and balance of progress and national economic unity. These principles generally indicate the importance of an economy based on the spirit of kinship and cooperation. Economies are managed effectively and efficiently so as to accommodate the interests of all parties fairly. Moreover, the economic democracy that is built must be able to maintain the continuity of life of society and natural resources that exist, and increase the independence of the nation. The ongoing democratic process must ensure a balance between economic progress on the one hand and the unity of the national economy on the other. If compared with the concept of social market economy, a number of core aspects have been accommodated in Indonesia's economic democracy. The principle of state responsibility in ensuring prosperity is clearly visible. It must be fulfilled clearly to meet the needs of the community. State control over natural resources and strategic assets illustrates the importance of the country's active role in distributing natural resources. Likewise, the principle of freedom and justice in the effort is also accommodated through the opening of opportunities for the community to be active in economic activities.

However, in the context of Indonesia, economic democracy is not always easy to be formed because the government is still weak in facing market challenges. It is easy for the government to decide on food imports during crop failures, lack of courage to renegotiate oil and gas contracts and other natural resources, insecurity in the regulation of fuel subsidies and other problems that arise in the national economy indicates the government is still weak in carrying out its duties in the economic field. Whereas in fact various alternative policies can be taken because it is set in the constitution. Thus, economic democracy as the ideal picture of the national economy will not be separated from the strengthening of democratic governance which is the regulator and steering of the national economy. Without a strong government, in the sense of being able to equitably distribute the economic rights and obligations of each economy, a truly democratic economy will be difficult to manifest. Yet only with a strong democratic government, true economic democracy will come true.

"The realization of a good economic democracy will be reflected, among others, on strengthening the people's economy as the main pillar of the national economy. People's economy is often referred to by various other related terms, namely people's economy or populist economy. It contains a specific meaning. If the people's economy describes the economic actors, then the people's economy more point to the object or situation. The broader meaning exists in a populist economy that reflects a part and an economic system. Community economy can be regarded as a subsystem of Pancasila Economic System ", (Hamid, 2006:33). Literally, the word people refer to all people in a region or country (Hamid, 2006: 33). Thus, when viewed from this terminology, then what is meant by people's economy is the economy owned by all the people of Indonesia. However, in a developing context, the term people's economy emerges as a result of dissatisfaction with the national economy that is biased to large business units. "Therefore, the economic meaning of the people refers more to the economy of the majority of the Indonesian people, which is generally still classified as a weak economy, characterized by subsistence (traditional), with capital and family labor, as well as simple technology."

People's economy is different from the conglomerate economy in its un-capitalistic nature, where the capitalistic conglomerate economy puts the unlimited pursuit of profit by competing, if necessary, even free fight competition. On the other hand, in the people's economy, the more prominent spirit is cooperation, because only by cooperation based on the principle of kinship can be achieved", (Mubyarto, 1998: 40-46 in Hamid, 2006:33-34).

The term people's economy is a social economic term as well as a moral economic term, which since colonial times is understood as the life of colonized poor people (Mubyarto, 2002). The first President of Indonesia, Soekarno called the people as Marhaen. Basically, this idea separates clearly between consumption and production. Production activities are at the core of thinking. Factory workers are examples that are not included in the economic activities of the populace because they work on large corporations. They are part of a large business unit such as factories and multinationals. Micro, small and medium enterprises are highly recognized business units in the people's economy. They are a tangible manifestation of the economy run by the little people. However, it does not mean that the people's economy is only a small-scaled business entity. People's economy can also include the form of a modern business entity.

Previous explanations indicate that the economy of the people is an economic activity for the small community, is a family activity, not a formal business incorporated, nor officially recognized as an economic sector that plays an important role in the national economy (Mubyarto 2002). In the economic literature of development he is commonly referred to as the informal sector, "underground economy", or "extralegal sector". In Indonesia's economic democracy production is not only done by some citizens but by all citizens, and the results are distributed to all members of the community fairly and equitably. However, if the paradigm used is changed and see that the economic role of the people is not limited to formal sector roles documented by government data, the role of people's economy in the national economy, not only in growth will appear more real. This can be seen from the large portion of economic people in the structure of the Indonesian economy. With the number reaching nearly 100% of the total business units in Indonesia, the populist economy is proven to have a big role in national development, so its role in growth can not be considered small.

Table 1. Business Map of Indonesia, 2000-2013

	2000	2005	2012	2013
Small business				
Business unit (thousand)	39121.35	44621.82	62941.80	65422.20
% of total	99.85	99.84	98.79	98.77
Labor (thousand people)	63501.89	71187.15	45359.70	55702.31
Export volume (million tons)	21.14	27.69	-	-
% Of output to GDP	39.93	39.40	31.32	30.25
Medium business				
Business unit (thousand)	55.44	67.76	48.99	52.10
% of total	0.141	0.15	0.09	0.09
Labor (thousand people)	7630.39	6491.34	3262.02	3949.35
Export volume (million tons)	54.31	81.43	-	-
% Of output to GDP	15.23	17.12	14.51	14.48
Bigbusiness				
Business unit (thousand)	2.01	4.17	4.97	5.06
% of total	0.005	0.01	0.01	0.01
Labor (thousand people)	386.11	2590.27	3150.64	3537.16
Export volume (million tons)	314.52	460.46	-	-
% Of output to GDP	44.84	43.52	42.52	42.44

Source: 1) Ministry of Cooperatives and Small- Medium Enterprises (2016). 2) Quotes from Adiningsih, et.al. (2008); Processed.

Table 1 shows that the economy of the people, among others, represented small and medium-sized enterprises constituting the largest share of the national economy with the absorption rate far above that of large enterprises. Its contribution to Gross Domestic Product is also relatively large, is 56% of national GDP, although its value is not as big as the number of its business units. When viewed from the composition of the formation of export

volume is relatively much smaller than the big business, it becomes clear, that the small and medium business actors who actively contribute to the fulfillment of domestic needs that more control over the livelihoods of the wider community. By looking at the contribution given to the people's economy through business in this small and medium enterprise sector, it is not excessive to see if it is this sector that actually contributes most to the national economy. Populist economy has a position as an absorber of labor in the informal sector and in other small business sectors. The position clearly shows the role of populist economy as an absorbent workforce that can not be done through the framework of government policy.

In a broader framework, populist economics can be considered a savior when government policies fail and cause new problems, such as layoffs, and also when economic turbulence or other factors occur. When that happens, then that's when the people's economy appears to save the economy by absorbing labor out of the formal workforce. Under these conditions, it is clear that the economic contribution of the people is actually very large for the economy in general. On the other hand, the form and function of populist economy is formally not seen or recognized by the government due to differences in the way of view in economic problems. Based on the scale of the business and the size of the investment cost per unit, it appears that the average small business requires only 1.5 million Rupiah for initial investment opening. While for medium-sized businesses it takes about 1.3 billion Rupiah and for large businesses as much as 91.4 billion Rupiah. Thus the cost required for a large business unit can be used to open 61,000 small business units. This suggests that people's economy basically has the ability to survive better than other business sectors, while demonstrating that development and pemihakan to the people's economy is not a difficult thing to do as long as there is adequate political will.

Table 2 Average investment in economic activity, 2013

Scale of enterprises	Infestation (Rp Billion)	Business unit	Investment per unit (Rp million)
Small	104.726	65.422.200	1.7
Medium	150.738	52.100	2.893,2
Big	283.250	5.060	5,5
Total	538.714	65.479.360	8,2

Source: 1) Statistics News No. 21 / VII / March 24, 2004 cited by the national planning agency 2004. 2) Ministry of Cooperatives and Small and Medium Enterprises (2016). Processed

The ability of the populist economy to reduce the economic impact of government policy failures can also be seen from its role in reducing the poor. Through the units of economic enterprise economy of uneducated labor in the homeland is absorbed more so the numbers are not too swollen and the social impacts can be reduced optimally. Within this framework, it becomes clear how the people's economic business actors are able to effectively work in the national economy and make a positive contribution. It also shows the character of self-reliance so strongly in people's economy can actually be developed so that greater contribution can be given. A strong democratic government is also a prerequisite for the country's ability to properly distribute natural resources. Government performance that has not been optimal so far has caused the failure of the state in maintaining and managing development resources. The increasingly massive corruption at both the central and regional levels is an indication of the failure of the state to utilize existing resources for development. The continued impact of the country's failure to safeguard resources also impacts the ability of the resources itself to sustain the lives of its people.

Table 3. Natural Resources, Intangible Capital and Total Welfare of Indonesia and several Asian Countries

Country	Natural capital per capita	Intangible capital per capita	Total wealth US\$ capita	Change in wealth capita
Indonesia	3472	8015	13869	-56%
Japan	1513	341470	493241	5643%
Malaysia	13065	24520	46687	227%
Singapore	0	173595	252607	6949%
Thailand	3936	24294	35854	259%

Source: World Bank (2005), Where is the Wealth of Nations.

The World Bank Report (2005), entitled *Where is the Wealth of Nations*, for example, illustrates how poorer the state and people are even from the side of the resources that the management is not maximized. As a result even in aggregate people's welfare continues to decline by 56% throughout the process of using natural resources goes wrong or runs less precisely. Moreover, the failure to build a quality government also has an impact on the weakness of policies to improve the welfare of the people in general.

5. Conclusion

Indonesia has repeatedly replaced its economic system. Basically, there is nothing wrong with the character of each system. Problems occur at the level of implementation that is not in accordance with the ideals of the nation. In fact, extreme socialist and extreme capitalists can not solve the problems of the Indonesian economy. The socialist market economy becomes one of the alternative solutions to a system that fits the character of the nation. As a country sustained largely through small to medium-sized businesses, the characteristics of a socialist market economy are highly appropriate. Indonesia recognizes the socialist market economy as Pancasila economy or populist economy. As the name implies, the ideals of populist economy is the welfare of all Indonesian people.

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