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The Regional Political Party Concentration Impact On Economic Growth

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ABSTRACT

In the dynamics of Indonesian democracy, the multiparty mechanism is one way to regulate aspirations. This mechanism is supported by Law no. 25 of 1999 concerning decentralization of scale and the dynamics of its changes. Direct Regional Head Elections (Pilkada) also support the mechanism of democracy in the regions. The political party that wins the election will influence the pattern of regional budget allocations which can ultimately have an impact on the effectiveness of government spending. This study estimates how much effect of the concentration of parties in the regions has on economic growth in the regions. The analysis uses data from 70 districts/cities in 2014 and 2019. The concentration of political parties in parliament in the regions is measured by the proportion of council members from each political party using the Herndahl Hirschman Index (HHI). Data from 2014 and 2019 confirm that the more concentrated members of the council are in one particular political party, the lower the economic growth of the region.

Keywords: political party, economic growth, Herndahl-Hirschman Index, fiscal deficit

INTRODUCTION

The democratization process positions Indonesia as the third largest democracy in the world nia. Democracy has provided space for larger basins including in the field of eco- name. Therefore, economists began to 1 10 C atur S., Budiono S. H. & Ilham A./The Influence of Concentration of Political Parties... what is the relationship between democracy and economic growth. Amartya Sen (1996), winner of the 1998 Nobel Prize in Economics, question the causal relationship between the regime authoritarian resistance to economic progress name. Sen (1996) revealed that the ri statistical data of one hundred countries proved that wa positive impact of a government regime- authoritarian approach to economic growth noodles are very small. In other words, a country that adhere to a democratic system tends to have a higher rate of economic growth tall. Sen's argument is in line with Barro (1996), that the emergence of freedom in countries authoritarian state does revive the economic, but so a level of democracy- achieved, economic growth in countries the authoritarian state is in decline. In this democratic era, people lai asked for additional health spending social impression, while authoritarian states usually it does not have a democratic mechanism for to manage these aspirations. A number of other empirical studies, notably by economists, conclude that democracy not the main determinant of economic performance (Bar- ro, 1999; Boediono, 2008). In view- and these experts, especially for countries low income, more rule of law determine economic performance rather than demo- just crates. If this conclusion is true, then in low-income countries and to spur economic growth, although they are not ready to implement democracy, as long as they can fix the rules law (rule of law). Therefore, still need to find empirical evidence of how the relationship between the form of government regime (democratic vs. authoritarian) on the performance of economy (eg, economic growth). In the dynamics of democracy in Indonesia, multiparty mechanism is one of the way to manage aspirations. This mechanism is also supported by Law No.22 regarding Regional Government.

The Regional Election also directly support the democracy, especially at the regional level after the enactment of Law no. 32 of 2004. Post-autonomous regional economy provide discretion to policy makers in the area to manage his own finance with the supervision of the legislators in the regions. The legislative body era which consists of various Political parties element shave an important role in in government policy making in the regions. However, to what extent is the dynamic impact of multiparty reflected in strength of the local government affecting the regional economy is still not clear. Is it more likely that the party are involved in government by include decentralized budget allocation (provide wider opportunities) and means that democracy will support the growth of economic benefits or actually hinder? The greater the number of parties in a region, but controlled by certain parties (so less democratic, because of the domination of one party) can encourage economic growth or just hold on? Studies that include variables politics such as government power, polarization between governments, and the political fragmentation in the study of political economy, has been executed. However, the existing studies are limited to and scale policies related to budget deficit, debt, and efficiency. While, a study that looks at the effect of government power, both executive and legislative to economic growth, especially in the context of political democracy in the era of autonomy regions in Indonesia with a multiparty has never been done. Therefore, analysis of the effect of the concentration of political parties to regional economic growth need to be executed.

This study aims to analyze the effect of the power of centralized local government or spread across several parties) to economic growth in the area. Coalition governments will usually affect the members of one coalition with others to reach agreement say together. The policies taken will influence each other. Consolidation maturity will be affected by the strength of the coalition. Likewise, the government only with a one-party majority will give different effects on growth of the economy of the area. Representative of party in local government in Indonesia is so diverse. Some areas have strong government supported by political parties so that every policy in encouraging the economic growth will be more optimal. If parties involved in the government coalition is relatively higher in the area, less likely coordination and consolidation goes with the optimal results. This condition can form ain-harmonize pattern of executive and legislative relations in formulating a budget that is affecting the local economy. To answer various problems mentioned above, this study will begin with only a reference review section that outlines various previous studies related to the strength of regional politics and economic growth. Then the method part that explains the model used in the analysis. Then the results and analysis section will describe the data used and also the discussion, and the concluding part as a closing which contains conclusions and recommendations.

LITERATURE REVIEW

Political influence in economic policy become an interesting study by economists and in the last two decades. As mentioned by Sen (1996), political variablesis a variable that also has an significant effect to the dynamics of the economy of a country. Barro (1996) outlines the importance of applicable law, openness market conditions, low government consumption, and high human resources as key to economic growth in 100 countries between 1960 and 1990. Political factors can influence through various aspects that support economy growth, such as investment in human resource, infrastructure and improvement of political institutions and law (Petrakos et al., 2007). Thus the condition of macroeconomic stability is a necessary condition but not sufficientcondition for economic growth (Fischer, 1993). What is the mechanism of transmission or pathway political effect on economic growth is still a matter of debate. Roubini and Sach (1989) looked at the effect of the power of order against budget deficit using prisoner's dilemma approach 1. A majority government with one party is the most powerful government because the government hold control of parliament vis a vis the opposition and face internal conflict that not too significant in terms of the budget policy. Meanwhile, the coalition government face more internal conflict in the budget wise. The logic is that reducing the budget deficit is conceivable gap as a public good in the coalition government. Each party wants to consume the public good (from deficit reduction) without paying by cutting profitable expenses that profitable to its group. The more parties that involved in a coalition, it is unlikely that the service in a budget deficit will be successful. On the other hand, Allesina and Drazen (1991) using a game theory model (war of attrition to explain how the government budget cuts and increases taxes for stabilization are difficult to achieve. Increase in tax which means giving more burden in a community group will be protested in a way that the community groups will influence the decision of the stipulation to postpone decisions or to avoid it even with the sacrifice . As long as the magnitude of the sacrifice is still lower than the amount of the tax burden that must be borne, then the community group this society will continue to influence the ordered to postpone the increase tax decision(meaning avoiding the poor society from the tax burden). If in society there are two ruling group (party), then both this group competes to affect the government not to impose taxes (example 0.5V) to the group. Because there is no tax (revenue orders) then the budget allocation to the groups becomes decreased (eg by b). If the two parties agree to accept b, then both benefit of 0; 5V -b, due to the heavy tax burden each party should pay is 0.5V . The conditions would be different, if the two parties competing to influence the government, as which is a game. If party 1 is ready accept b1 and party 2 is willing to accept b2, and b1 > b2, and the government follows the low rations and impose taxes on the loser (group 1) is 0.5V , the government will allocate the budget to both parties by b2. Party 1 earn a "profit" of b2- 05V (receive budget allocation b2 and pay tax of 0.5V) and party 2 gains an 0; 5V + b2 (not taxed by 0; 5V and received a budget allocation of b2). The party will compete to determine the lowest possible b value in order to avoid from paying taxes. If both parties determine b is 0 (zero), then both will pay tax of 0; 5V and not receiving any allocations the budget. Big party (who has money many) will be able to survive, while the party small will be thrown. The great coalition will hold, while the small coalition will lose. Power will gather in one group. Thus the big deficit in line with the coalition or government that centered on a group. Regarding the empirical evidence of the effect of government power and the spread of power in government against the budget deficit, Roubini and Sachs (1989) found a tendency that greater deficit occurred in countries with a large number of political parties in parliament. However, the results of this study taken seriously by studies conducted afterwards. Edin and Ohlsson (1990) argues that the power dispersion index political term used by Roubini and Sach better captures the effects of minorities government rather than governments with co-majority alliance. Therefore, the governmentwith one party can only be judged to have a small budget deficit in a comparison with minority governments, coalition government in general. When reexamine the effect of the index of political power and broaden groups data base up to the previous decades notably, Edin and Ohlsson (1990) have also covered the relationship between government power and budget deficits. They construct tate power index which is calculated from the sum of the average number of parties in government in the previous year, the sum of government interest during the previous year, and a dummy variable indicating the previous election. The amount that higher implies a government that weaker. This study also included the dummy variable that indicates high levels of unemployment and low growth of Gross Domestic Product (GDP), and interacting with it with the index of government power. Finding concluded that the weak government have a higher deficit however, in conditions of economic growth that 'sluggish' (sluggish). Their findings does have a political variable whose presence is automatic way to cause more high deficit, without considering the economic conditions. Meanwhile, Ashworth and Heyndels (2001) was able to give weight to hypotheses about weak government. They concentrated the review on tax structure among countries for Economic Cooperation and Development (OECD) and find correlation which is significant between the strict tax structure with a weak coalition government. The basic idea is an ideal tax structure. When the actual tax structure is far from the ideal condition that may occur due to exogeneous shcok, to restore it to its original condition it is much more difficult and time consuming when the government is weak and more fragmented. If Borrelli and Royed (1995) examine regarding the power of government vis a vis the opposition, Volkerink and De Haan (2001) reviewed some aspects of political fragmentation in parliament and among the members of the alliance, because of the ideological coherence of the cabinet in government is very likely to have role in policy outcomes. Using data from 22 OECD countries in the run time of all year 1972-1996, they found that hgher government fragmentation, as measured by ministers spending in government cause more budget deficit. However, the political fragmentation of the rule (measured with the aid of the ideological scale left-right one-dimensional politics) affects the deficitof central government budget. The more fragmented entire parliament (including opposition parties), the bigger the deficit of the central government budget. Volkerink and De Haan (2001), who are early researchers feed on the role of fragmentation politics in coalition governments and analyse the effect of fragmentation on deficit budget. However, in the angle view of Huber et al. (2003), measurement of political (and ideological) fragmentation is a problem which is tricky. The ideological polarization of the coalition party as measured on a one-in-one scale "left-right" dimension can cause classification problem, for example in countries with large number of parties, competing for get a voice on some multidimensional issues , or when different fractions of a major party in a coalition of trust hold different theories. Therefore, they argued that fragmentation in government should be moreaccurate in explaining the strength of the coalition members in the formation or dissolution of government. In general, a party is more powerfulif this party: (1) is more crucial to gain majority power in the parliament, and (2) if more choices are owned from the outside to form the majority rule with other parties in parliament. The power of coalition parties and distribution of power in a coalition won't be important when the time comes to distribute the load if needed to make budget adjustments. Local politicians trying to influence the allocation of money guarantee that people's trust in the party is getting bigger, especially from constituents. Therefore, local politicians opportunistic nature (Alesina et al., 1997), affect the APBD so that they can be re-elected. Empirical information on how growth of the economy of an area controlled by one political parties compared to other regions which is controlled by several political parties (coalition) provides an indication of how the correlation of the power of political parties and the performance of the economy. Bargaining between regents/mayors with local parliaments can lead to the negative effect of the budget on economics growth. This is different from findings of Mariyono and Saputro (2009) who used claim that the more parties and the number of their seat in parliament will drive economic growth. Huber et al. (2003) analyzed the effect of state power to the level of deficit and debt to 21 OECD countries from year 1970-1999. The conclusions of the study are that the high distribution in voting power of the coalition government lead to less debt accumulation (debt stability is more successful).

METHOD

From the various studies above, it can be seen that the distribution of voting power, concentration of political parties or coalition will affect the pattern of allocation of the budget, which in the end can affect the economic performance of a country/region. There are many ways to measure how- of these concentrations, one of which is Edin and Ohlsson (1990) who construct the country power index calculated from the sum of the average number of parties in government in the previous year, the number of government savings during the previous year. General, and a dummy variable indicating the previous election year. Volkerink and De Haan (2001) measured the fragmentation of politics from the government with the help of a scale of ideas left-right one-dimensional political ideology. Identical with the sum of the party averages in government, the index of concentration of political parties using Herndahl Hirschman Index (HHI) may be possible. By using HHI, then share (role) of political parties is measured quadratic, the greater share of a political party in an area the greater the value of the HHI index. Beside various analyzes of the political role of budget above, it is undeniable that neoclassical economic growth factors such as capital, labor, and level of education still dominates economic growth in Asia, including Indonesia (Lee and Hong, 2010). Therefore, this variable is still use as a growth control variable regional economy. The basic model of economic growth in this study refers to Todaro (2004) who states that there are three factors or major component of economic growth noodles from each nation, including: (1) accommodation of capital covering all forms or type of investment invested in land, physical equipment and capital or human resources; (2) population growth that in years forward will multiply capital accumulation; and (3) technological advances. These three factors also determine the important in the theory of economic growth noodles known as Solow growth models (Solow Growth Model). In addition to these variables, government spending becomes an important variable to be analysed and debated. Government expenditure can determine the amount of capital expenditure that determine the production capacity of the people.(Rustiono, 2008; Mangkoesoebroto, 1988). Especially in the era of decentralization, many once an area whose economic activity is really depends on the budget. Barro and Sala- i-Martin (1995) stated that the activities of government has an effect on the economic benefits through the provision of services infrastructure, protection of property rights, and the imposition of taxes on eco- name. Output produced by the government become inputs for the private sector in producing goods and services service. In accordance with the theory of Musgrave (1959) and Rostow (1962), government spending in line with the stage of economic development. On early stages of economic development, the percentage of government investment to total investment is huge because at this stage the government provides infrastructure. At the stage of medium, government investment is still needed to avoid market failure caused by high private investment getting bigger. At the advance economic level government activities is directed to expenses for social activities. The pattern of local government expenditure allocation strongly affected by the political constellation in the region. The greater the degree of political decentralization will have a greater impact on regional spending productivity. Therefore, regional spending that does not considercommunity needs are considered irrelevant contribution to regional economic productivity. In this case, the degree of political decentralization in the region is measured by using concentration of political parties in parliament in the area. In general, conventional growth models that can be considered for this case is:

$$g_i = \beta_o \; i \; \beta_1 \widehat{\ } i + \beta_2 FD_i + \beta_3 PD_i + \beta_4 n_i + \beta_5 X_i + \epsilon \qquad (1)$$

Definition of Variables: g is the Economic Growth or real GDP growth per capita in sample districts/cities, using units of percent (%); $\beta_1 \widehat{\ } i$ is the he effect of the concentration of the political party in the DPRD (house of representative) in each district/city measured by HHI close to 1 means single majority (high concentration) and IHL close to 0 (zero) means the strength of political parties evenly distributed, lots of parties; PD = Fiscal Decentralization Expenditure Indicator, which is the ratio of the total local government spending to total central government spending; FD is the Fiscal Decentralization RevenueIndicator, which is the ratio Regional Original Revenues to Total regional revenue; n is the Human Capital measured by the number residents who attended school until high school graduation, measured in percent (%); X is the Initial Growth Level (ILPDRB) is the level of real GDP per capita that owned by an area in the period prior to Usually, using units of millions of rupiah. Following Barro (1996), this variable measures the level of economic convergence between regions ; POP is the Population Growth in each districts/cities are measured in units of percent(%).

Dummy1 = 0 is data for 2004, 1 are 2009 data; Dummy2 = 0 is a sample of districts/cities which is on the island of Java, 1 is the sample regencies/cities located outside the island Java. The analysis is aimed at answering how concentration of political parties in the regions influence economic growth, given its role in determining the budget allocation. In extreme there are 2 things, first, the coalition government is weaker than in a government with a single majority party. Second, minority government is the main source of the weak performance. Following this logic, there are several possibility, first, single majority, where the budget focus is on the constituen, the majority of the community, so the budget especially equity can be prioritized for to perpetuate of power by sacrafice growth. Second, the coalition is equally strong, where for custodial budget to each constituency spread out (evenly), may be out of focus, but better growth opportunities. Third, the coalition of majority and minority where maybe a bit focused but members coalition is the cause of the unfocused budget allocation so that even distribution is possible to be more dominant, and the leader tries to avoid the lossesof constituents, and strive to add voters. And fourth, the equitable strength of the party that causes no party to think about the future of the nation, political parties short-vision (five-year projections), constituency interest on focused budget (growth may be good because of budget allocated equally). The HHI index, is only able to measure the concentration of one-party (HHI) is close to 1 or not concentrated evenly and HHI is close to 0 (zero).

RESULTS AND ANALYSIS

The data used in this study consists of secondary data, which consists of 70 districts /cities. Due to limited ability access the data, then the complete data for the observed variables only available for 2014 and 2019 (especially first of all regarding the composition of political parties in parliament). By using HHI, then categories of parliamentary concentration grouped as follows: HHI > 0.25: high concentration; 0.15 < HHI < 0.25: moderate concentration; HHI < 0.15: not concentrated. With these guidelines, for period 2014-2019, regions are grouped. For free, the concentration of board members negatively related to growth regional economy. In general, the relationship between positive relationship between the concentration of political parties and the economic growth for 2004 can be observed.It was found that 2 areas that are very extreme, that is to have concentration very high (above 0.5) and negative growth economic factors, namely Bandung Selatan with HHI 0.54, and South Central Jambi District with an HHI of 0.52. To the second group is 12 regions with concentration level of about 0.4 with a negative growth rate of economic benefits, namely Nusa Tenggara Timur, Bagnsiapi Api Regency, Ambon City, Soroako , and Kebumen.

The third group is the regions with HHI levels between 0.15 to 0.3. This regional group has a growth rate of positive evidence from 0 to 9%. This picture reflects how the situation in the regions at the beginning of the sitting of the parliament regional men from the 2014 election results. Perhaps, this new element is not or not a lot of coloring regional budget allocations. Nevertheless, considering most of the board member is a board member who in the previous period has also been in parliament, maybe they have been able to influence budget allocation decisions. Only they just have to restrain themselves from remembering the presence of several new board members so the communication between them to affect the budget allocation not yet good. When attention is focused on the group area with a positive growth rate, then a clear pattern can be seen on how the relationship between growth economy with a concentration of parliamentarians in the area. From this regional group it can be seen that, the two areas whose economic growth is the highest oil has a level of concentration lowest parliamentary tranche. While some areas that the level of concentration of the parliament is very high, still has the rate of economic growth in the middle group, and 2 areas with the lowest economic growth has a level of concentration of about 0.19. Negative relationship between political party concentration and economic growth for the year 2019 can also be observed. General description of the relationship between economic growth and the level of parliamentary concentration is still visible in the year 2019. With a high level of concentration, doesn't change, considering the general election results parliament in 2014 still placed in 2019, the pattern of growth of the regional characteristics have started to change. Though it is recognized that many factors influence the level of economic growth, the parliamentary concentration factor shows negative relationship to growth economy of a region when it comes to extreme areas, seen two areas with only high concentration levels have a negative growth. Nevertheless, there are areas where growth is negative although the concentration level is low and areas with high positive growth relatively the same concentration level. When attention is focused on two groups of the scatterplot shows a negative relationship between concentration level and economic growth. Changes in the pattern of the relationship can be seen from the existence of several areas whose position is extreme, i.e. areas with a concentration of very high has an economic growth rate negative noodles, areas that have highest economic growth have a rather low level of concentration (close to 0.2), an area that has a high at a low concentration but has a rate of negative economic growth. Outside The 2 extreme groups, there are 2 groups which shows a more negative relationship between economic growth and the rate of concentration. Estimation result confirm that there is a negative effect of concentration on economic growth. In the 2014 equation the influence of negative level of concentration on economy growth is stronger than 2019. This phenomenon may be related to with the 2019 election period approaching so that parliament is not so vigorous inaffecting budget allocations. If that is the fact, the democratic process in the regional should be observed and the dominance of a certain political party can be managed for economy growth. Threshold system at the local level that enable the party that gets the very few vote cannot participate in the said areas provide the possibility of the balance of power between parties. However, perhaps the implementation is not as simple as that, considering that parties are usually centered, as well as the application of its threshold. Or, a development planning system that integrated between the center and the regions can reduce the negative effects of high concentration. Variables of fiscal degree and human resources looks as expected. The high fiscal degree encourages the economic growth in the area. The discretion given to the regions to provide means for the regions to regulate the allocation of funds guarantee according to regional priorities.

Likewise, regarding regional freedom in implementing explore local sources of income. This kind of decentralization needs to be encouraged keep in mind the empirical evidence that shows a positive impact on economic growth. Human resource quality and level workforce education in the region provides positive contribution to the growth of the eco- name.This is in accordance with the growth theory an economy, that the quality of labor will provide an effective workforce in production process.In the end, the number of workers alone will not affect economic growth.Estimated results too confirm this.No population significant role in regional economic growth. Behavior of economic growth in the region for 2014 and 2019 were the same, as indicated by the dummy variable year (D-year) which is not significant right.Behavior of economic growth in Java and outside Java also no different.This shows thatyear and area factors will not affect differentiate regional economic growth patterns. Nonetheless, in general the ability to explain the behavior of economic growth in the regional area is still limited. Growth model is only able to explain the variation in economic growth of around 70%. There is still about 30% variation in regional economic growth that needs to be explained in further studies.

CONCLUSION

This study shows that there is a negative effect of the concentration of political parties in the regions on economic growth. The more concentrated and the stronger the MPs a certain political party controls the parliament, affects the budget allocation so that in the end it has a negative effect on economic growth in the region. This phenomenon confirms the hypothesis that concentration of parliament on one party certain politics affect how localbudget allocations (Revenue Budget and Regional Expenditures (APBD)). The allocation only paying attention to the constituents of political parties that control parliaments in the regions causes low regional economic growth. For areas whose economy is very depending on the APBD (Regional Budget), the concentration of political parties in parliament will hamper regional economic growth. Therefore, the budget allocation mechanism that tends to obeying the willingness of parliament should be avoided. Integrated development planning with regional development center and management good, may be able to reduce the effect of the negative of the concentration. This study also confirms various results of the study, that fiscal decentralization provides flexibility for regions to regulate regional expenditures and revenues, has a positive impact on growth regional economy. This phenomenon is in line with a spirit of autonomy, providing the biggest one for the regions to choose their regional development priorities. As a result, regional economic growth becomes spurred on. The quality of human resources, not the number of is the population, is also the key to growth a regional economy. Quality of human resources people make an effective workforce in production process. In the end, labor effective way to encourage economic growth in area. The results of this study recommend increasing the degree of fiscal in the regions, both from the receiving side as well as from the advice, because it will increase growth economy in the area. Furthermore, regions are encouraged to believe that the quality of human resources are the key to economic growth of the area. Thus, efforts to allocate funds to improve the quality of human resources need to be supported.

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