**Has Political Decentralisation Brought Progressive Institutional Changes to Indonesia?[[1]](#footnote-1)\***

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**Abstract**

Political decentralisation in Indonesia has not necessarily brought progressive institutional changes leading to a more democratic society at the local level. When social capital is embedded in the ceremonially warranted patterns of behaviour, that is, patrimonial behaviour, the increase in social capital is restricted to the business-bureaucrat-politico networks -- the local political oligarchies. As a result, the increase in social capital at the local level is likely to be wasted by rent collecting. This is the reason progressive institutional changes remain far from complete, at least in the medium term. This paper also shows what could be done and what has been accomplished to push forward progressive institutional changes.

***Keywords:*** *social capital, Veblenian institutional economics.*

**Introduction**

This paper analyses the social and political institutional adjustments thirteen years after the decentralisation that followed the fall of the New Order regime in Indonesia.[[2]](#footnote-2) It uses the Veblenian approach, which operationalises bounded rationality concept. The rationality concept itself was introduced by Simon (1972). As such, the Veblenian approach gives empirical boundaries to economic rationality. In the Veblenian approach, bounded rationality is introduced by applying the concept of ‘cultural domain’. This concept explains the value system in a society and proposes a path-dependent analysis related to institutional changes.

This paper argues that the political decentralisation that has taken effect since 2000 fails to promote progressive institutional changes, at least in the short to medium run, and this is demonstrated by the growth of local political elites, known as political oligarchies. The concept of political decentralisation itself follows that of Fesler (1968, p. 10–11). This paper further argues that the growth of these elites has been underpinned by personal rulership patrimonialism, which is a cultural domain in Indonesian society. As a result, an increase in social capital at the local level does not necessarily produce progressive institutional changes. This paper also shows that progressive institutional changes are on the way, demonstrated by gradual changes in the behaviour of younger Indonesians in regard to instrumental voting. A consequence is that there is a generation of younger, local government leaders who are determined to run a clean system of government.

In the Veblenian approach, institutional adjustments require an increase of social wealth, which can include a variety of capital items, such as the various types of social skills that include scientific knowledge, creative arts, language, organisation, communication, information and industrial arts (O’Hara, 1997). This paper is limited to the analysis of institutional changes based on an increase in social capital, which is one of several components of wealth.[[3]](#footnote-3) For this paper, the concept of social capital follows that proposed by Coleman (1988) because it introduced the role of human capital as the agent of action in institutional changes; and that of Putnam (1993), who proposed bonding and bridging processes in social capital. Because decentralisation promotes the growth of local networks, it is expected that social capital will increase as the networks grow. However, neither Coleman nor Putnam explained how social capital promotes progressive institutional changes. As explained later, this paper introduces the role of social capital on people’s voting behaviour, that is, instrumental and expressive voting behaviour, proposed by Jottier and Heyndels (2010). It is argued that bonding and bridging social capital that promotes instrumental voting behaviour is likely to encourage progressive institutional changes.

Section II of this paper explains the effect of the Asian financial crisis, which caused social, political and economic turmoil that led to the downfall of the New Order regime after more than 30 years in office. Section III discusses the cultural domain of social and political institutional settings in Indonesia. Section IV examines the effect of the cultural domain on the institutional changes since the New Order regime. Section V discusses the progress of institutional changes towards democracy shown by gradual changes in voting behaviour, the application of virtual social networks that contribute to social capital formation, and to broad-based economic growth.

**The Asian financial crisis and the downfall of the New Order regime in Indonesia**

After enjoying a long period of high economic growth and low current account deficits, Thailand fell into a financial crisis in 1997. High economic growth in Thailand was partly financed by high capital inflow under a fixed exchange rate. A high domestic interest rate policy was implemented to prevent capital outflow and to offer high returns on foreign investment. However, the economic prosperity did not last long, particularly because there was a mismatch of currency and project maturity caused by short-term foreign borrowing being used to finance long-term domestic projects. The result was business insolvencies that led to an economic crisis.

In the second half of 1997, an economic crisis began in Indonesia when the domestic currency, the rupiah (IDR), depreciated significantly against the US dollar (USD). The depreciation caused a massive government budget deficit because of increasing interest and instalment payments, in USD, on foreign debt. On 15 January 1998, the International Monetary Fund (IMF) and the Indonesian government signed a letter of intent as part of a recovery program. The main concerns of the letter were; first, to strengthen macroeconomic foundations; second, to restructure the financial sectors; and, third, to introduce structural reforms (International Monetary Fund, 1997, p. 3).

It is structural reforms that are the focus of the analysis in this paper. Although the first and second points focused on economic reform, the third point could also be applied to social and political reforms and, indeed, this became the case. The structural reforms were to promote greater transparency in policy making and competition to support economic restructuring programs considered necessary to promote growth, and to implement programs for poverty alleviation (International Monetary Fund, 1997, p. 10).

In addition, it was suggested that the government should accelerate these reforms by promoting reforms in trade and investment and by privatisation and deregulation (International Monetary Fund, 1997, p. 10). It can be asserted that the letter of intent was informed by the principles of neo-liberalism introduced by the Washington Consensus, which promoted market mechanisms and reductions in government intervention in the economy.

Because of the government budget deficit and pressure from the IMF, the Indonesian government’s responses to economic reforms included floating the exchange rate, closing some insolvent banks and postponing major infrastructure projects. As soon as the exchange rate was floated, the rupiah depreciated heavily against the USD, which caused further deterioration in the government budget. As the government deficit increased, spending cuts became the only option for the government. These reductions in spending were in the areas of infrastructure development, such as roads, irrigation canals and welfare programs (particularly in health and education). Because welfare programs were severely curtailed and the economy entered stagflation, the economic crisis caused social and political unrest, which led to the downfall of the New Order regime in May 1998.

Although the letter of intent did not refer to issues of regional autonomy or decentralisation, the adoption of neo-liberal principles, at a time when the people’s trust in the government was diminished, caused a shift to regional autonomy and decentralisation. The political rhetoric in support of decentralisation was consistent with neo-liberal principles, which are, first, that the role of the central government at the regional level should be reduced and, hence, this would promote efficient local governance. Second, the proliferation of regional entities that would follow decentralisation would promote regional competition and, therefore, efficient local government. Third, regional autonomy would bring decision making closer to the people and, therefore, better promote democracy and alleviate poverty.[[4]](#footnote-4)

In 2000, the government introduced political decentralisation or devolution. Although Indonesia had been through various stages of decentralisation since the Dutch colonial time, the 1999 decentralisation was the most comprehensive step because it introduced political institutional adjustments. As this paper demonstrates, the path of adjustment was determined by the cultural domain of social and political institutions in Indonesia. As a result, decentralisation does not necessarily produce the outcomes that the society hopes for.

**The cultural domain of institutions in Indonesia**

‘Cultural domain’ in the Veblenian sense was defined as ‘[a] limiting condition’ (Foster, in Bush, 1989, p. 457) for pertinent institutions or society to adjust. As such, any adjustment that moves beyond these conditions could create a ‘structural dislocation’ (Foster, 1981). This is a situation where individuals and groups fail to develop new behaviours that are required by the changing institutions and, therefore, demonstrate resistance to the changes or develop unexpected new behaviours that are not in accord with the changes. This cultural domain represents bounded rationality in the institutional analysis.

A cultural domain of contemporary Indonesian society, that is, the personal rulership patrimonialism, had been shaped long before the Dutch colonial period. This domain, which has underpinned contemporary Indonesia’s political system, is deeply rooted in the complex intertwining of traditional values and colonial influences (Kingsbury, 2005). Aspects of traditional and religious values, as well as colonial influences that have shaped the system include animist and Hindu-Buddhist values (Kingsbury, 2005). Animism also acknowledges power as a part of nature and, therefore, as something that cannot and should not be contested. In the history of the Javanese society, these values contributed to social stability.

Another influence that has shaped the political system is the traditional livelihood of the Javanese; the wet-rice agricultural system (Kingsbury, 2005). The dependence on the agricultural system is on nature, human control intervention is very limited, and this is said to have created a mentality of submission. This mentality perceived livelihoods as given, and any good fortune or misfortune considered as normal as nature itself and unable to be avoided. In the past, this attitude made the Javanese vulnerable to domination by social elites.[[5]](#footnote-5) In contemporary Indonesia, this submissive mentality among the Javanese is known as *nerimo* (Koentjaraningrat, 1974)*.*

In the long run, the system evolved an autocratic leadership style in which hereditary rulers, sometimes oppressive and unstable, were characteristic. Kingsbury described the nature of leaders in traditional Javanese culture as *kasekten*, which refers to supernatural power, legitimacy and charisma. Under such a tradition, Kingsbury concluded that, in the past, there was an ‘abstract sense of relationship between cause, effect and ethical responsibility’ that led to an understanding that the desires and interests of the subjects were secondary to those of their leaders (Kingsbury, 2005, p. 23). Later, this sense became the ‘cultural assumption of privilege’ (Cribb, 2011, p. 39), which had been utilised by the Dutch rulers to extract economic surplus or rents.

In addition, the separation of court and peasant lives in the history of Javanese tradition also shaped the political system. In the past, court interactions with peasants were strictly limited and took place only when the peasants had to pay taxes or tributes, or to attend the court to declare loyalty (Kingsbury, 2005). Although the courts maintained the political power, the peasants followed traditional values and beliefs in their personal and social lives. This was consistent with a submissive mentality, or *nerimo*, a reflection of the animistic belief that the power of their leaders could not be contested. Translating all these aspects into the political system in the history of Javanese society, Kingsbury concluded that the Javanese people believed that the state was entitled to impose its will at the expense of its subjects.

When religious influences spread in Java at the beginning of the 4th century BC, the state organisations evolved from administratively disorganised political systems to structures based on organised religion (Kingsbury, 2005). This was the era when kingdoms were growing; kingdoms such as the Hindu-Buddhist Majapahit kingdom in East Java, the Hindu-Buddhist Mataram kingdom in Central Java (which later relocated to East Java) and the Islamic Mataram kingdom in Central Java. The assimilation of religion with the state led to the introduction of more structured and traditional legal systems that initiated a sense of the states’ responsibilities for their subjects. These religion-supported monarchies became the political centre of Javanese society until the Dutch colonialists took power early in the 17th century. The colonial rulers then began reinstating the political system that was based on entitlements, or the cultural assumption of privilege, rather than one of obligations.

The Dutch restructured the power of the Javanese aristocracy or *priyayi* to support the interests of the colonial authorities. Co-opting *priyayi* to supervise a forced cultivation system detached them from their traditional Javanese culture and removed some of the constraints that had been imposed on them by traditional laws (Kingsbury, 2005), such as an obligation of responsibility for their subjects. The introduction of a forced cultivation system during the colonial time reinforced the power and rights of the *priyayi* to extract rents from the system.

Furthermore, because the colonial authorities and the *priyayi* kept most of the profits, the system separated labourers from their rightful reward.[[6]](#footnote-6) It is interesting to note that in contemporary Indonesia, exercising these rights has been turned into a justification of corruption (Koentjaraningrat, 1974). However, this does not mean that Indonesians accept corruption. Rather, that the cultural assumption of due privilege, which was left intact after the Dutch left, has led to corruption (Cribb, 2011, p. 39).[[7]](#footnote-7)

Based on the argument above, social stability and vulnerability, constituents of Javanese culture, combined with the domination by the *priyayi*, which was supported by the Dutch colonial bureaucracy, became the basis of a patrimonial political system that has remained. The outcome of the system in contemporary Indonesia is institutionalised rent-seeking behaviour that utilises the political system and bureaucracy to reward such behaviour and to maintain stability and the status quo (Renoe, 2002). It is with personal rulership patrimonialism as a cultural domain that decentralisation operates.[[8]](#footnote-8)

**The process of decentralisation under personal rulership patrimonialism**

Decentralisation can be understood as a process of transferring power from central to sub-national governments. As such, decentralisation has three stages (Smith, 2002, p. 389). The first is the *deconcentration* stage, i.e. the transfer of functional or administrative authority to field officers of central government departments and agencies.[[9]](#footnote-9) The second is the *delegation* stage, i.e. delegating executive authority to semi-autonomous agencies headed by appointees of the central government. The third is the *devolution* stage, i.e. the transfer of political power, fiscal resources and quasi-legislative power to regional governments. The three stages differ in terms of the degree of authority for decision making that is being transferred by the central government to the sub-national or regional governments.

As a process, decentralisation moves along a centralised-decentralised continuum (Fesler, 1968). It begins with deconcentration, or pseudo-decentralisation, and ends with devolution, or political decentralisation. As the process continues, the discretionary authority granted by the central government to sub-national governments increases. Diagram 1 describes the process.



*Sources: Derived from Fesler (1968), S**mith (2002) and Morrison (2004).*

**Diagram 1. Centralised–decentralised continuum**

Diagram 1 shows that the kind of power transferred to sub-national governments determines the degree of decentralisation implemented by a particular political system. Complete decentralisation is accompanied by a transfer of fiscal, administrative and democratic powers. The last stage implies that sub-national governments have full political authority to make decisions for their areas. This authority includes that of electing members of a local government body that comprises the head of the sub-national government and members of the local assembly.

Political decentralisation, or devolution, could also be perceived as a way to improve public accountability. Because different regions will have different preferences and patterns of demand for public services, putting decision making in the hands of local governments is likely to improve public service provisions (Smith, 2002). In addition, because decentralisation divides the nation into smaller, more manageable regions (Fesler, 1968), it could enable improved representation and information circulation through local networks (Morisson, 2004). In other words, political decentralisation could improve public accountability by improving local governments’ responsiveness to meeting the needs of constituents.[[10]](#footnote-10)

**Decentralisation under the New Order regime**

The delegation stage in the decentralisation process was implemented during the time of the New Order. The political and budget arrangements at this stage were consistent with the Constitution of 1945 before the amendment that embraced the concept of a centralised country. As such, the central government transferred limited funds and administrative powers to regions. Under this arrangement, regional offices served as agencies of the central government. The role of local government was to manage and implement development programs that had been proposed by the central government, to administer the funds attached to the programs and to coordinate the implementation of programs with regional offices.

The lines of command between all levels of governments as stated in Law 5 of 1974 on Local Government are that local governments were to be directly responsible to provincial governments and provincial governments responsible to the central government. Under this political arrangement, governors, as the heads of provincial governments, were appointed by the president and the heads of the local government (a mayor for municipalities and a *bupati* for districts) were appointed by the Minister of Home Affairs. The candidates for these positions were proposed by the local assembly. Based on this arrangement, political power remained with the central government; constituents had limited power to elect their own local government leaders.

In addition, elections for members of local assemblies used an indirect voting arrangement: voters cast their votes for political parties and the parties elected the candidates for the local assembly. During the New Order, there were three major political parties: the Golongan Karya (Golkar), Partai Demokrasi Indonesia (PDI) and Partai Persatuan Pembangunan (PPP). Golkarwas the government political party; its members held a majority of seats in the parliament and local assemblies, and bureaucratic positions in central and local government administrations. This situation suggests that the political power of the New Order regime under Soeharto’s presidency was strong.

During the time of the New Order, Soeharto had managed to form a strong personal rulership patrimonial system. The system is described as a system of political domination where organisational machinery or bureaucratic administration is used to maintain power. Under this system, the ruler’s power depends on his ability to obtain and to maintain the loyalty of the elite by providing rewards or benefits to the group in the form of rents (Crouch, 1979). In other words, the ruler’s power is strongly dependent on personal relations rather than merit. This system encourages rent-seeking because it uses state resources to reward loyal individuals or groups within the system.

The patrimonial system described above is found in the government-business nexus during the New Order era. McLeod (2000) refers to the system as Soeharto’s business symbiosis or a mutually beneficial relation that used power and state machinery to extract rents and to build loyalty from his cronies. The symbiosis used the state-owned and private enterprises as cash cows and employment opportunities for his cronies and political supporters, and granted some business privileges to selected private enterprises to keep them dependent. However, he ensured that the rents from the enterprises left sufficient funds for reinvestment to maintain the growth of the enterprises and, hence, the flow of rents. In a way, this illustrates the Laffer constraint principle that applies to taxes in the literature of public economics (McLeod, 2000). The principle states that there is a maximum amount of tax that can be extracted from the economy without diminishing investment and, eventually, tax revenues.

Soeharto used the bureaucracy to ensure that the cliental system remained. A patron-client relation that uses a bureaucratic system to give material rewards and incentives to maintain loyalty is known as personal rulership patrimonialism. The rewards were given to anyone, civilians as well as military personnels, who were willing to support his power. The rewards varied and might include an appointment as manager of a state enterprise, or to be awarded a high-ranking position in the bureaucracy, or to be helped to get a parliamentary seat or to be selected for a business contract that involved licences, contracts or loans (Crouch, 1979). During his time in power, military forces were used to suppress opponents and to assure electoral votes (Crouch, 1979; McLeod, 2000).

Under patrimonialism, there is no concept of a social contract that binds sovereign people to the government and there is an absence of the ruler’s sense of responsibility for their people. In a democratic society, this social contract is implied in the condition whereby the sovereign people delegate their rights to the government in exchange for good government (Cribb, 2011, p. 37). With a personal rulership patrimonialist government, the social contract assumes an economic dimension, that is, profit or rents for the rulers (Cribb, 2011).

The implication is that personal rulership patrimonialism had created ‘the system of exemptions’ or a system of law that is discriminate and applied in some conditions only (Cribb, 2011, p. 33). This system worked, it was based on rents provided to the ruler in exchange for privileges. This situation led to ineffective rules and regulations that provided opportunities for bureaucrats to arbitrate (McLeod, 2000). The arbitrators, in return for bribes, were likely to promulgate policies and make decision that favoured businesses belonging to Soeharto and his cronies.

Another way to maintain loyalty and, hence, power is also demonstrated in the labour market for government employees. When salaries for government employees are barely above the market rate and the supply of labour is greater than demand, there will always be applicants willing to pay to have the opportunity to get any position in a government office in return for future rents (McLeod, 2000). By allowing bureaucrats to collect rents, Soeharto managed to retain loyalty at all bureaucratic levels. The practices of personal rulership patrimonialism remained after the downfall of Soeharto.

**The social-political institutional adjustments after the New Order: between expectation and reality**

The decentralisation implemented since 2000 pushed Indonesia into the devolution stage or political decentralisation. Decentralisation has seen the transfer of governmental and administrative functions (except security, defence, international relations, religious affairs, the judicial system, and fiscal and monetary policies) devolved from the central to the second and other tiers of government. Law 22 of 1999 on Regional Government guided the transfer of governmental functions from the central to local governments.

Five years later, Law 22 of 1999 was amended by Law 32 of 2004.[[11]](#footnote-11) The new law introduced a direct voting mechanism for local government leaders: governors for provinces, *bupati* for districts and mayors for municipalities. This new system provides an opportunity for local people to impose political sanctions directly by voting out incumbents who have performed poorly as local government leaders, or not voting for political candidates who do not offer clear policy proposals during campaigning. The law also introduced direct voting mechanisms for electing members of local assemblies, which is also a significant change to move to a more democratic society. However, the candidates for local assemblies have to be endorsed by a political party, similar to the practice during the New Order regime.

As well as delegating authority to local governments, the central government also grants financial power to local governments by transferring some funds to finance local governments’ increased functions. These funds are known as balance funds and comprise block grants, specific grants and revenue sharing from taxes and other relevant sources of income. Balance funds are expected to cover the spending needs of local governments. To guide and support the implementation of inter-regional fiscal transfer arrangements, the central government introduced Law 25 of 1999 on Balance Funds. The law became effective in 2001. In 2004, the central government introduced Law 33 of 2004 to amend law 25 of 1999. Under the new law, the central government increased the percentage of revenue shared from income taxes, oil and gas that is transferred to the regional governments. Following neo-liberal principles, it is expected that political decentralisation will improve local democracy by granting more governmental functions and financial resources and by introducing direct voting mechanisms to elect local government leaders and members of local assemblies.

It has been more than ten years since political decentralisation began in Indonesia. The symbiosis for the purpose of collecting rents remains even after the New Order regime lost power in 1998. In fact, it spread to local government where it is known as the politico-bureaucrat-business symbiosis (Hadiz and Robison, 2005) and it became the pillar of patrimonialism in the contemporary Indonesian state, particularly after the implementation of decentralisation in 2000. The symbiosis involves a network that comprises politicians, bureaucrats and entrepreneurs who make up the local political oligarchies (Hadiz, 2001) and that are permitted to collect economic rents at the local level.

There are many instances of the practice of the symbiosis; the following example explains the way the symbiosis works at the local level. The Kutai Kertanegara district is rich in natural resources: oil, natural gas, coal and timber. In fact, this district is the richest in Indonesia and in 2005 it was the first in Indonesia to conduct an election for the head (or *bupati*) of local government*.* The elected *bupati*, Syaukani, was formerly a bureaucrat in the local government’s finance office and also a head of the Golkar party’s office in the province and who also became the speaker of the local assembly (Evaquarta, 2010).

*Bupati* Syaukani exploited the patrimonial system during his term of office. By providing infrastructure projects and business licensing, hemaintained the loyalty of his cronies and a flow of rents. It is not surprising that during his office term, corruption was rampant in development projects that involved some members of the local assembly, businesses, law enforcement and government officials. It is alleged that the issuing of mining licences between 2001 and 2006, which increased significantly before the election in 2005, was used to secure his victory in the election (Evaquarta, 2010).

Because local government bureaucrats are one element of the local political oligarchies, they tend to grant privileges to the local oligarchs or cronies in exchange for rents as demonstrated in the example above. Another example of such privilege was in East Indonesia and involved bureaucrats at the Office of Public Works and contractors bidding for local government projects. A favoured contractor, whose administrative documents were flawed, could still beat other bidders provided that such a contractor was willing to pay for insider services to amend documents before bidding began (Tidey, 2012).

Furthermore, a centralised political party system (Pratikno, 2009, p. 68), that tolerates patrimonialism, limits progressive political institutional changes. This situation is indicated by senior party leaders intervening at higher level in the selection of candidates for election to local government positions. In addition, there is a risk of grass-root candidates being marginalised at election times when there is conflict between local and national party leaders. Pratikno discusses several examples: in Bandar Lampung city, Lampung Province, and in Semarang Municipality, Jawa Tengah Province, candidates supported by the district party leaders were rejected by provincial party leaders. Also, in Sleman District, a special district of Yogyakarta, and in Ogan Komering Ulu Timur District in Sumatra Selatan Province, candidates, though supported by parties, were rejected by constituents.

In addition, the large part that money plays in local politics effectively changes the role of the parties; they become political brokers. This role is evident from pork-barrelling to get candidates’ endorsed by political parties before elections (Hidayat, 2009) in return for payment after they win the election. This situation creates a form of business contract that binds local government leaders and members of local assemblies to the political parties (and vice versa). The implication is that promoting political programs during campaigning becomes secondary to obtaining rents. The obligation of the winning candidates to repay the local parties for their endorsement is the reason the elected local government leaders or members of local assemblies engage in collusion and corruption. These political obligations work to strengthen the practices of local political oligarchies and, therefore, undermine progressive institutional changes.

The role of political parties in creating local political oligarchies is also evident during political campaigning, as was found in the 2005 mayoral election in Ternate municipality (Smith, 2009). By engaging in pork-barrelling, the political party that endorsed the incumbent candidate promised, in return for votes, some business contracts to local businesses and secured positions for local bureaucrats during campaigning. This became a business proposition that bound the candidate when he won the election for a second term in 2005.

From the previous instances, devolution does not necessarily promote progressive institutional adjustment. According to the Veblenian approach, progressive institutional adjustments cannot be achieved when social wealth, hence social capital, is partly embedded in ceremonially warranted patterns of behaviour (Bush, 1983 O’Hara, 1997, p. 118).[[12]](#footnote-12) When this situation occurs, the increase in the capital could be partly wasted on improving the ceremonially warranted functions (Bush, 1983). This has been found in Indonesian decentralisation described above. The cultural domain in Indonesia preserves the old attitudes, known as the personal rulership patrimonialism, and the increase in social capital is partly wasted on collecting rents.

Social capital is defined differently by various scholars; one definition was proposed by Coleman (1988), who introduced the role of human capital as the engine of action. He argued that the accumulation of human capital was determined by social capital within a family and by the efforts of a community to assist the creation of social capital.[[13]](#footnote-13) As such, social capital is a necessary condition for individuals to initiate action to promote institutional adjustment.

Social capital exists within an institution, a social group or a social network. As such, understanding the role of social capital to promote democracy begins by understanding two different types of social capital, that is, bonding and bridging social capital (Putnam, 1993). According to Putnam, when social capital is strong within a social group, there is a strong bonding in social capital. However, when social capital flows across social groups, there is a bridging in social capital. Bonding and bridging in social capital are important in promoting democracy because both encourage individuals to be more aware of social issues outside as well as inside their own social groups. Notwithstanding his analysis on social capital and democracy, Putnam did not clearly explain the way social capital promotes democracy (Putzel, 1997) or progressive institutional changes.

Social capital promotes progressive institutional changes by influencing two aspects of voters’ behaviour; expressive and instrumental voting behaviour. The two behaviours are different in terms of their political consequences (Brennan and Hamlin, 1998). Expressive behaviour tends to disengage voters from ‘the consequence of voting for electoral outcome’ (Brennan and Hamlin, 1998, p. 150) or the performance of the elected candidate. In this situation, attributes such as moral character, good look, ethnic origin or the candidate’s or party’s general ideology, such as religious beliefs, are important for the voters. These attributes represent voters’ individual preferences that do not necessarily contribute to the outcome.

On the contrary, instrumental voting behaviour refers to voting decisions based on what is known of the past performance of an incumbent or other candidates is the determining factor when casting a vote (Jottier and Heyndels, 2010). When voters vote in this manner, they vote for the candidate that proposes the best public policies for improving the well-being of the constituents in general rather than a specific group of people. This is when the role of bonding and bridging in social capital becomes important in voting behaviour. Community members, with strong bonding and bridging in social capital, enjoy a free flow of information about social issues inside as well as outside their networks (Jottier and Heyndels, 2010) and this encourages them to vote instrumentally. Democracy is likely to flourish in a society where the people tend to vote instrumentally, which is consistent with the principle of putting the people at centre stage.

Since direct voting mechanism was introduced in 2004, there is an indication that voters in local elections in Indonesia tend to vote expressively. Some studies have found that personal networks in Sulawesi Selatan Province (Buehler, 2009), ethnicity and religion in Kalimantan Barat Province (Subianto, 2009), and incumbent popularity as opposed to performances in Ternate Municipality (Smith, 2009, pp. 321–322), are important factors in winning an election. This voting behaviour tends to reinforce the practices of local political oligarchies as previously explained and indicates that although bonding in social capital might be strong, this might not be so for bridging in social capital. As a result, the increase in social capital since decentralisation in Indonesia has not necessarily promoted progressive institutional changes.

**Towards progressive institutional adjustment: the roles of social capital and human capital in promoting democracy**

According to the Veblenian approach, progressive institutional adjustment is possible provided that the structure of social values is dominated by instrumentally warranted values. This is the situation where the social capital will be embedded in the instrumentally warranted pattern of behaviour (Bush, 1989, p. 456). This behaviour is underpinned by ‘the systematic application of knowledge …’ for problem solving to achieve long-term survival (Bush, 1983, p. 37). The advances of knowledge, science and technology, as well as sound public policies to address social issues, are examples of such applications, and that contribute significantly to individual empowerment.

In this context, the roles of social capital and human capital are critical to promote progressive institutional adjustments towards sustainable democracy. Boediono (2008, p. 7) proposed the *importance* of new class of society and of social cohesion to push forward democracy. The new class might include entrepreneurs, scholars, professionals, bureaucrats, young people and NGO activists. Following the Veblenian framework explained above, social cohesion is the product of social capital whereas the new class represents human capital in society. As human capital, this new class acts as the agent of action that demands institutional adjustment. Sound public policies, such as of transparency and for education proposed by Boediono (2008), provide an environment where social capital and the new class could flourish.[[14]](#footnote-14)

As explained above, strong social capital requires the free flow of information and, hence, *transparency*. In a situation where many communication media have been hijacked by political interests, virtual social networks could become an alternative way to obtain reliable information. These networks have been utilised by political candidates during campaigning (Mann, 2012), by NGOs (Hamid, 2014), by international organisations as well as government agencies to spread information directly from sources. Furthermore, many of these organisations provide interactive communication with their audiences. The networks are effective among young, educated Indonesians who are IT literate, have access to internet connections and have the need for information related to current issues. A study by Kittilson and Dalton (2011) confirmed that virtual interactions contribute to aspects of social capital formation, such as the norms of citizenship and political involvement. These aspects are consistent by Jottier and Heyndels (2010).

The role of the young Indonesians in changing voting behaviour to instrumental voting for the past few years has been significant. In 2014, Indonesia is to have presidential and legislative elections. Qodari (in Wijaya, 2013) explains that for the coming election there are 64 million young Indonesians, aged between 17 and 30 years, who have the right to vote. This cohort is about 34 per cent of the total national population of voters. A survey by Indobarometer of 1200 random respondents nationally found that 86.9 per cent of the respondent said they would participate in the 2014 general elections (Qodari, in Wijaya, 2013).

Furthermore, 71.5 per cent of them have participated in legislative elections, 74.9 per cent in a presidential election, 81.9 per cent in gubernatorial elections and 81.6 per cent in mayoral elections (Qodari, in Wijaya, 2013). Based on the survey, it can be asserted that their votes seem to contribute to the emergence of ‘[the] new breed of local politicians’ (Hamid, 2014) who are committed to run clean governments and to get the job done (*Jakarta Globe*, 2013). This suggests that the role of younger Indonesians is important in gradually changing voting behaviour to instrumental voting and, hence, sustainable democracy.

Democracy requires three components of human capital development; economic, cultural and institutional components (Welzel and Inglehart, 2001).[[15]](#footnote-15) These components contribute to individual empowerment through capabilities development, demands for freedom rights[[16]](#footnote-16) and opportunities to obtain the rights, respectively. Furthermore, capabilities development sets up the demand for human rights, whereas democracy (as an institutional component) provides the opportunities to fulfil the rights. This study supports Boediono’s assertion that human capital development through education promotes democracy.

However, democracy requires economic growth that meets two criteria (Boediono, 2008, p. 5). First, the economic growth must be broad-based so that welfare and income are fairly distributed Based on some studies, the threshold of income per capita to sustain democracy is USD 6600. Other studies indicate that the length of time to sustainable democracy follows the trend line of income per capita. For countries with USD 1500 income per capita (based on purchasing power parity of 2001), the life span of democracy is eight years. As income per capita increases from USD 1500 to USD 3000, the life span will increase to 18 years (Boediono, 2008, p. 4). This suggests that economic growth with equity contributes to democracy.

Second, the pertinent growth process relies more on human capital rather than the availability of natural resources or foreign aids (Boediono, 2008, p. 6). Growth that relies on natural resources (or foreign aid) tends to create the Dutch disease because the inflow of foreign currency causes domestic currency to appreciate. This appreciation reduces the competitiveness of other tradable goods, such as manufactured goods, in the global market. As such, growth that relies on natural resources or foreign aid tends to be unsustainable. On the contrary, growth that relies on human capital is sustainable. This emphasises the importance of education in improving human capital.

In 2012, income per capita in Indonesia, based on PPP 2005, was around USD 4154 (UNDP, 2013), more than halfway to the threshold, and more than double the figure of USD 1278 in 1980 (UNDP, 2013). Between 1980 and 2012, the Human Development Index (HDI) of Indonesia increased from 0.422 to 0.629 (UNDP, 2013). Furthermore, the poverty rate has significantly declined from 28.6 per cent in 1980 to 11.7 per cent in 2012 (Badan Pusat Statistik, 2012). The increase in income per capita and in the HDI, and the decline in the poverty rate from 1980 to 2012, suggests that Indonesia has achieved a broad-based economic growth.

It is difficult to calculate the exact time it would take to change people’s voting behaviour to instrumental voting because of various influential factors during that period. Boediono (2008) refers to some studies that can shed light on this issue. The analysis is based on the assumption that instrumental voting behaviour is but one of many features of sustainable democracy. Assuming the income growth per capita is around 5.0 per cent annually (World Bank, 2014a; World Bank, 2014b), Indonesia would reach the threshold in about 12-year time or about 24 years after the implementation of democracy in 2000. The assumption is correct provided that the new class, particularly young Indonesians, is sufficiently strong to push forward the change in the given cultural domain they operate in and that the government can provide the environment in which the new classes and social capital can grow.

**Conclusions**

This paper demonstrates that political decentralisation has not brought progressive institutional changes, which contradicts the purpose of the decentralisation. There are two main issues that might be responsible for this; the cultural domain of the socio-political system and the expressive voting behaviour of Indonesian voters at the local level. As this paper explains, the cultural domain of personal rulership patrimonialism has determined the path of the institutional changes after the downfall of the New Order regime. As a result, rather than putting the people as the decision-makers, decentralisation creates local political oligarchies that operate within the business-politico-bureaucratic network. Within this limited network, social capital at the local level is grown.

Because social capital is an enclave in small groups of people in a society, there is a tendency for members of this enclave to be less aware of social issues outside their own networks. As voters, they tend to demonstrate expressive voting behaviour; this has been found in several studies. This voting behaviour makes the political sanctioning mechanism ineffective. By the same token, it tends to intensify the practices of local political oligarchies. The practices of local business-politico-bureaucrat system remain strong, and thus the increased social capital at the local level is partly wasted on collecting rents.

However, Indonesia is moving towards sustainable democracy. Evidence of this is in the changes in voting behaviour towards instrumental voting, particularly among young, educated Indonesians; the contribution of virtual social networks in social capital formation; and the broad-based economic growth experienced by Indonesia for many years. It is difficult to estimate how long it will take for Indonesia to achieve sustainable democracy: an estimation of 24 years from the implementation of democracy seems plausible, provided there is steady, broad-based economic growth that relies on human capital.

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2. In this paper, institutions are defined as the rules of the game that constrain human interaction (North, 1991 p. 97). Political decentralisation is perceived as an institutional setting or rules of the game that, when applied in a particular cultural domain known as personal rulership patrimonialism as found in Indonesia, triggers particular behaviour known as local politics. [↑](#footnote-ref-2)
3. The main component of social capital, based on the work of three scholars––Bourdieu, Coleman and Putnam––is networking, which includes personal connections and personal interactions that rely on shared values as the basis of the connections (Field, 2008, p. 16). Following this concept, social capital exists within an institution or organisation, and is an element of the social wealth that is assumed in the Veblenian approach. [↑](#footnote-ref-3)
4. The basic principle of neo-liberalism is a market-driven mechanism where competition and, hence, market efficiency are the driving forces for resources allocation. As such, when the central government delegated its authority to many regional governments, the number of producers of public goods (that is, local governments) increased. This resembles market competition in economics where it is assumed that there are many producers and that consumers (citizens) can choose where they want to live. [↑](#footnote-ref-4)
5. The effect of technology on behaviour depends on how far it affects people’s cultural domain. It is difficult to predict effects because different technologies might lead to different results. In the case of the Green revolution, there is an indication that the effects are not substantial. The Green revolution in Indonesia was implemented through two different programs; Mass Guidance or Bimbingan Massal (BIMAS), which seemed to take away individual empowerment (Hansen, 1972) and Farmer Field School (FFS) that replaced BIMAS by restoring the empowerment. Similar to BIMAS, FFS also fails in the sense that once the farmers adopted BIMAS, they became resistant to the FFS (Resosudarmo and Yamazaki, 2011). When individual empowerment is missing, the role of rulers becomes greater. This somehow does not change people’s attitudes to their future because their capacity to make their own decisions regarding their livelihood is constrained. [↑](#footnote-ref-5)
6. Koentjaraningrat (1974) refers to the attitude that springs from the separation of labour and reward as *budaya instan* (that literally means instant culture to describe the mentality that justifies the taking of rewards without having any obligation to work to earn it. [↑](#footnote-ref-6)
7. At the beginning of the 20th century, the Netherlands introduced the Ethical Policy that influenced colony–coloniser relations. However, the policy lacked an intellectual legacy and was cut short by the economic depression of the 1930s. At the end of the colonial period, Indonesia was left in a transition between traditional patrimonial system and modern universal law (Cribb, 2011, p. 39). [↑](#footnote-ref-7)
8. Although the term (personal rulership patrimonialism) was derived from the history of the Javanese, the value of rulership patrimonialism as explained in this paper is valid in other cultures, not simply those of Java. The examples provided in this paper prove this point. [↑](#footnote-ref-8)
9. Decentralisation during the colonial period resembled the deconcentration stage when the role of sub-national governments was limited to administrative functions, such as managing agricultural areas and ensuring a supply of labour to meet the requirements of the colonial rulers. [↑](#footnote-ref-9)
10. In this paper, the definition of political decentralisation is similar to devolution, and also includes administrative decentralisation (see Diagram 1). The definition is to describe the rules of the game of political decentralisation because decentralisation is perceived as an institutional setting. The keywords, such as public accountability, responsiveness, and representation that have been used in this paper are to give some idea of what the rules of the game are. This is why Fesler’s (1968) definition of political decentralisation is the most suitable for this analysis. [↑](#footnote-ref-10)
11. The amendment was made after the Indonesian government, in 2002, completed amending the Constitution of 1945 to recognise decentralisation and to introduce a direct voting mechanism to elect heads of local government. [↑](#footnote-ref-11)
12. The ceremonially warranted pattern of behaviour is rooted in cultural values where ‘hierarchies and invidious distinctions’, such as organisational positions, inheritance and social status, justify the exercise of power and coercion (Bush, 1983, p. 37). This situation might correspond to a personal rulership patrimonialism system or a cliental relation that relies on public and private bureaucracies, material incentives and rewards to maintain loyalty (Roth, 1968, p. 196). [↑](#footnote-ref-12)
13. However, Coleman (1988) introduced social capital as within a small group, a community, instead of a nation. As such, he did not explain the role of social capital in promoting democracy. [↑](#footnote-ref-13)
14. Boediono (2008) proposed education, government policies promoting small to medium businesses, the rule of law, transparency and addressing frictions between indigenous Indonesian (*pribumi*) and Chinese Indonesian groups as public policies to promote democracy. [↑](#footnote-ref-14)
15. Following the Veblenian approach, cultural and institutional components are in line with the institutional or cultural domain explained previously. [↑](#footnote-ref-15)
16. Freedom rights include “giving people more say in important government decisions, protecting freedom of speech and seeing that people have more say about how things are done at their jobs and in their communities” (Welzel and Inglehart, 2001, p. 13). [↑](#footnote-ref-16)