THE ROLE OF FISCAL POLICY IN BUILDING DEMOCRACY AND OVERCOMING ECONOMIC RECESSION IN INDONESIA

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ABSTRACT

The state, as an entity, has the authority to obtain income from taxes from its citizens. However, to develop, there is a need for financial management in the tax arrangements received. This tax regulation is a fiscal policy that can be useful in overcoming the economic recession in Indonesia. This study aims to see how fiscal policy can affect the development of democracy and overcome the economic recession that has occurred in Indonesia. The method used in this research is a qualitative approach. The data used in this research comes from the results of previous research or studies that still have relevance to this research. This study found that fiscal policy can help build democracy in Indonesia by opening employment opportunities, increasing national income and investment, and increasing economic stability. As for overcoming an economic recession, fiscal policy can help achieve existing development targets and boost economic growth.

Keywords : Economic Recession; Democracy Development; Fiscal Policy

INTRODUCTION

Policies in the economy are needed, bearing in mind that not all policies will go according to plan. The existence of policies in the world of economics is the foundation or basis for all economic activities, both in small and large scopes. For this reason, policies are always in mention of the economy. One of them is the fiscal policy implemented during an economic recession to deal with the world's financial situation, especially in Indonesia, after the corona outbreak caused by the Covid-19 virus (Nundy et al., 2021).

In line with this, to achieve national goals, especially in terms of restoring economic conditions, fiscal policy can be used as a way out to overcome the current economic recession. The fiscal policy has two main components: the revenue component, which consists of taxes and non-taxes, and the government spending component. Of the two tax and non-tax components, we need to pay attention to the management of state finances, which must be managed effectively and efficiently. In practice, state financial management must follow the provisions in Law no. 23 of 2003 and three main principles: Performance Based Budgeting, Medium Term Expenditure Framework (MTEF), and Unified Budget. It is hoped that implementing these three
principles will create professionalism in managing the state budget, transparency, and accountability (Hazakis, 2022).

In terms of overcoming the current economic recession, fiscal policy's role greatly influences Indonesia's economy so that it can bring about massive changes in Indonesia's development system. This touch was also felt in the pattern of previously centralized policies that received reforms through decentralized policies. According to Rondinelli, decentralization is the transfer of authority, responsibility, and public functions from the central government to the private sector or government organizations under it (Rela et al., 2022).

This change in fiscal policy is mostly dictated by the government's involvement in economic activity, which is consistent with the government's duty in achieving the well-being of its citizens, which includes the use of fiscal policy instruments. The fiscal policies that have been implemented thus far, however, have tended to be ad hoc, lacking sufficient planning and not adhering to the Constitution of 1945, which is the major guiding principle. In light of the foregoing, the goal of fiscal policy in the development of democracy and the role of fiscal policy in Indonesia's recovery from the economic recession will be discussed.

LITERATURE REVIEW

Fiscal Policy

Fiscal policy is a concept of economic management introduced by John Maynard Keynes, which was later commonly used by the world since the Great Depression occurred after World War I in 1929. According to Keynes, the government of a country has the right to regulate the expenditure and income of a country by setting taxes and making policies for the sake of the country's macro economy (McKee & Stuckler, 2020).

In terms of its definition, fiscal policy is a policy taken by the government to keep the country's income and expenditure stable so that its economy can grow well. More specifically, according to the OJK, fiscal policy is a policy on taxation, revenue, accounts payable, and government spending with specific economic goals (Blanchard et al., 2021).

The implementation of fiscal policy in Indonesia has existed since the Dutch colonial era through the Indische Comptabiliteitswet in 1944. The government later
adapted the law to formulate fiscal policy in Indonesia from the Proclamation until 1997 - 2003.

From 2003 until now, fiscal policy in Indonesia is no longer adapted from ICW 1944 but is based on an analysis of the country's economy based on the 1945 Constitution. The party with authority to make fiscal policy in Indonesia is the Indonesian Ministry of Finance, together with the President.

Fiscal policy has several objectives, including the following:

a. Maintaining and Developing the State's Economy
The first point of the objective of fiscal policy is to maintain stability while simultaneously developing the country's economic conditions. The implementation of fiscal policy is expected to influence all sectors of the country's economy and improve problems within it, starting from the corporate sector and banking to micro-enterprises (Padhan & Prabheesh, 2021).

b. Improving HR Quality
One of the fiscal policy's objectives is to improve public human resources quality, especially from a technological and economic point of view. If the quality of human resources improves, it is hoped that these human resources will be able to compete in the national and international world of work so that their welfare can increase (Indrawati & Kuncoro, 2021).

c. Maintain Good Price Stability
Many factors affect the price of goods in the market, ranging from positive factors, such as increased demand, to negative ones, such as hoarding and monopoly. One of the fiscal policy goals in Indonesia is to keep the prices of goods affordable for the public and avoid fluctuations due to irresponsible parties (Sheng et al., 2019).

d. Encouraging Investment
The final objective of fiscal policy is to create a better investment climate for capital market players, especially investors, so the state can get more revenue from business taxes (Mazzucato et al., 2020).

Fiscal policy can be divided into several categories. Details about the types of fiscal policy are as follows:

a. From Theoretical Perspective
From a theoretical point of view, Indonesia has three types of fiscal policy: functional, planned, and incidental fiscal policies (Adhikara et al., 2022).

1). Functional Fiscal Policy
The definition of functional fiscal policy is a policy taken to improve the quality of the macroeconomy, with a new impact that will be seen in the long term. Examples of functional fiscal policies include granting college scholarships, start-up funding assistance, and so on.

2). Deliberate/Planned Fiscal Policy
Deliberate fiscal policy is a policy of manipulation of the state budget. The function of this fiscal policy is to deal with certain problems, for example, pandemics and economic crises. An example of deliberate fiscal policy is the state budget allocation for the health sector during the pandemic and the relaxation of business taxes.

3). Accidental/Incidental Fiscal Policy
Unintentional fiscal policies, namely policies in the form of establishing decisions/rules to protect the economic stability of the non-government sector, for example setting the highest retail price.

b. In terms of the Application
There are two types of fiscal policy in terms of implementation: expansionary and contractionary (Chan, 2020).

1). Expansionary Fiscal Policy
The definition of expansionary fiscal policy is a policy taken by the government when the economy is weakening by increasing the spending budget and reducing or eliminating taxes for certain sectors. The function of expansionary fiscal policy is to increase the purchasing power of goods so that companies can continue to produce without laying off workers.

2). Contractive Fiscal Policy
The next type of fiscal policy in terms of implementation is contractionary fiscal policy, policies to reduce government spending and increase taxes. The function of this fiscal policy is to prevent inflation and reduce the Gini ratio.

c. In terms of the balance of payments
In terms of balance, there are four fiscal policy types: balanced, surplus, deficit, and dynamic fiscal policies (Nakatani, 2021).
1). Balanced Fiscal Policy
   This fiscal policy was taken to maintain the balance of state income and expenditure. The function of this fiscal policy is so that the state does not have too much debt. Even though it sounds positive, balanced fiscal regulation has big risks because not all countries can meet their citizens' needs.

2). Surplus Fiscal Policy
   The definition of surplus fiscal policy is a type of fiscal policy that is taken when income is more than expenditure. The function of surplus fiscal policy is to prevent inflation.

3). Deficit Fiscal Policy
   In contrast to the type of surplus fiscal policy, deficit fiscal policy is a fiscal regulation to overcome the shortage of income compared to expenditure. One example of a deficit fiscal policy is foreign debt.

4). Dynamic Fiscal Policy
   The last type of fiscal policy in terms of implementation is dynamic fiscal regulation, namely economic policy taken whenever the country needs it.

**Economic Recession**

Recession is a term used to describe a situation in which a country's economic turnover turns slow or worsens. This slowing financial turnover can last quite a long time, even years, due to the growth of a country's gross domestic product (GDP) declining for two quarters and continuing continuously (Billari, 2022).

GDP can be interpreted as a country's economic activity during one period. So, if a country experiences a continuous decline in economic activity for two periods, then the country can be said to be in a recession (Chowdhury et al., 2022).

Meanwhile, the National Bureau of Economic Research (NBER), which is located in the United States, defines a recession as a condition in which a country experiences a significant decline in economic activity within several months in terms of real GDP, income, unemployment rate, industrial production, wholesale-retail sales (Ilyas, 2022).

Various factors trigger a recession in a country. The factors causing the recession are as follows.

a. Inflation
Inflation is a condition where prices continuously rise for goods and services. This price increase has an impact on weakening people's purchasing power, and a decrease will later follow in producing goods and services. If left unchecked for a long time, this will result in high unemployment due to mass layoffs (PHK), poverty, and a recession (Yusuf et al., 2021).

b. Excessive Deflation

Like inflation, deflation can also negatively influence and trigger a recession. Deflation is a condition in which the prices of goods and services fall from time to time, resulting in decreased wages. Deflation is also characterized by delays in purchasing goods or services until the lowest price. This is, of course, very risky for business owners. This is because, even though people's purchasing power is likely to increase, business owners must reduce production costs, resulting in a business loss.

If people or business units stop doing economic activities such as spending money, the existing economic conditions may be damaged (Hetmańczuk, 2021).

c. The Asset Bubble Burst

The next cause of recession is the bursting of the asset bubble. This can happen when investors take steps rashly. For example, there was a massive purchase of stocks and property with the assumption that the price would rise rapidly. Then, when the economy falters, they will sell it together, resulting in panic selling and a recession due to market breakdown (Berdell & Mondschean, 2020).

d. Sudden Economic Shock

Another trigger for a recession is a sudden economic shock. This is marked by decreased purchasing power due to financial difficulties and other serious problems, such as piles of debt. The accumulated debt will affect the swelling interest that needs to be paid and lead to the inability to pay it off or default (Didier et al., 2021).

e. Development of Technology

A recession is an economic downturn that is not only caused by the economic activity itself. Technological developments also contributed to the recession. This can happen because of a decline in jobs replaced by leading technologies such as Artificial Intelligence (AI) and robots. As a result, employment will decrease dramatically and increase unemployment (Skjæerseth, 2021).
f. Imbalance Between Production and Consumption

The imbalance between production and consumption is the next trigger. Goods and services produced in excess with reduced consumption or purchasing power can be disastrous for producers. This led to large-scale imports, ballooning corporate spending, and depleting domestic corporate profits (Pawlak & Kolodziejczak, 2020).

h. Import Value is Greater than Export

Another indication of a recession is the value of a country's imports is greater than its exports. This can affect the state budget deficit and cause a decline in national income.

i. High Unemployment Rate

A high unemployment rate in a country can indicate that the government is experiencing a recession. This is because the workforce has an important role in a country's economic cycle. If the unemployment rate increases continuously, the crime rate will increase (Mura et al., 2020).

A recession is a situation that arises due to various factors. For example, financial crises, making wrong economic decisions, supply chain disruptions, external trade disruptions, economic bubble bursts, to factors beyond human control, such as natural disasters or pandemics.

A recession can affect several parties: the government, companies, and workers.

a. The Impact of the Economic Recession on Governance

The economic recession had quite a heavy impact on the government. The unemployment rate will increase when this condition occurs, and the government must open as many jobs as possible. As a result, loans to foreign banks skyrocketed. The existence of a recession also makes tax and non-tax revenues low. This is due to the deteriorating financial condition of the people and falling property prices. Thus, the amount of VAT (Value Added Tax) that enters the state treasury becomes less. On the other hand, the government is continuously encouraged to implement developments in the government sector. One of them is ensuring the welfare of society. With all the demands and the decline in tax revenues, the country has a budget deficit, and the government's debt is higher (Khanna, 2020).
b. The Impact of the Economic Recession on Companies

A recession is an economic condition that can make a company go bankrupt. This is due to the decline in people's purchasing power, which impacts company revenues and threatens cash flow. Ultimately, the company will cut operational costs and close unprofitable business areas, up to making tough decisions to carry out employee efficiency (PHK) (Muhyiddin & Nugroho, 2021).

c. The Impact of the Economic Recession on Workers

A recession is an impact that is not only felt by the government and companies but workers are also affected. Closed business areas and employee efficiency measures to reduce operational costs caused many people to lose their jobs due to layoffs. The reduction in their wages also harmed workers who were not laid off. This has driven social instability, growing disparities everywhere, and high crime rates (Delardas et al., 2022).

**METHOD**

Method is a method of work that can be used to obtain something. While the research method can be interpreted as a work procedure in the research process, both in searching for data or disclosing existing phenomena (Zulkarnaen, W., et al., 2020). This research is research that uses a qualitative approach. The data obtained in this study came from various research results or previous studies still relevant to this research. After the researcher has collected the research data, the data will be processed so that the results and conclusions from this research can be found.

**RESULT AND DISCUSSION**

**Objectives of Fiscal Policy in Democracy Development**

One of the things that the government must do is to know the current rate of economic growth. Understanding the economic growth rate will guarantee the country's survival without significant disturbances. To look for innovations and breakthroughs so that they can contribute to the progress of the country's economy and look for a solution for problems to be used in the future when many difficulties and challenges invade the country's economy. The government is trying to find breakthroughs and innovations, one of which is by implementing fiscal policy. It is hoped that fiscal policy can provide both material and non-material welfare. To achieve this prosperity in this era of development, fiscal policy objectives are, of course, used as one of the instruments in
achieving these national economic goals. More specifically, the purposes of fiscal policy in building democracy are as follows:

a. Increase job opportunities

Welfare is a factor that is highly desired by the community, with the opening of employment opportunities and reduced unemployment, it is hoped that it can increase the rate of economic growth because both are indicators of people's welfare in a country. As stated in the 1945 Constitution, Article 27 Paragraph 2 reads: "All citizens have the right to work and a decent life". One way to overcome this is to apply fiscal policy.

To reduce the unemployment rate, it is not only the government's contribution, but the community must also take part, one concrete example is optimizing their capabilities, as is the case with a community movement in the form of SMEs. It is proven that 94% of Indonesia's economic contribution is obtained from SMEs and 6% from industry which foreigners mostly control. Hopefully, this fiscal policy's implementation will resolve the unemployment problem.

b. Increasing and distributing national income

The existence of income inequality and disparities between regions is a problem that must be addressed immediately. One way to minimize this is to apply a fiscal policy by prioritizing certain expenditures for the community's needs. This is important because if this inequality is not addressed, it can cause social unrest and disrupt economic and political stability.

c. Increase the rate of investment

One way to increase the rate of investment in both the private and government sectors can be done by increasing investment in sectors that have large expenditures for the needs of society.

d. Increasing economic stability

Fiscal policy is one of Indonesia's efforts to maintain short-term economic stability. This fiscal policy can be carried out by increasing state revenues and the effectiveness and efficiency of state spending. This was done to anticipate unstable financial conditions caused by the Corona outbreak and the Covid-19 Virus. The outbreak of this virus is a very serious shock to economic conditions in Indonesia, coupled with inflationary pressure that must be overcome by the government immediately. Fiscal
policy must also stabilize market prices. Because this will have fatal consequences for the country's economy, when market prices continue to fall, what will happen is that many entrepreneurs and SMEs go out of business because they will have difficulty making a profit, whereas if prices continue to soar, what will happen is inflation. Meanwhile, long-term inflation causes a decrease in the public's sense of trust in the government.

The Role of Fiscal Policy in Overcoming the Economic Recession in Indonesia

The government, of course, needs policies to make its people prosperous, and one of them is a fiscal policy. In improving the welfare of society, the government regulates the economy through expenditures, taxes, expenditures, and debts to make it more stable. From APBN funds, the government can regulate economic growth, such as overcoming inflation.

In overcoming the economic crisis, government intervention is needed in the financial and fiscal fields. So that the government's role is not only as "Guardian of the Post" in the sense that if it is needed, then it will intervene but through the authority that exists, it is obliged to maintain stability between supply and demand, prevent unfair business competition and trade monopolies protect small and infant businesses, as well as provide public goods such as infrastructure which can be a driving force for the wheels of the economy.

Fiscal policy contributes to the establishment of democracy in Indonesia by encouraging the fulfillment of planned development goals. This role is consistent with one of the State Budget's functions of maintaining stability and accelerating economic performance in order to achieve economic growth, creating jobs, reducing poverty, and implementing government programs or plans in an efficient, effective, and effective manner while avoiding corruption.

The government's role in making fiscal policies is also highly expected to create democratic development that runs well. Robert Naro believes democracy can encourage and have a significant effect on development and economic growth. However, democracy is correlated with development and economic growth. According to him: "the established links between democracy and growth are a result of the connections between democracy and other determinants of growth such as human capital and social capital, as the quality of government mediates the relationship".
Therefore, the democratic system must produce a clean government, prevent corrupt practices among state officials and bureaucratic apparatus, and improve quality so that good democratic development can be realized. This is closely related to policymakers' behavior to avoid corrupt conduct patterns. A government free from corruption will lead to better economic growth and create a conducive climate for business activities, investment, trade, and movement of capital, which will create jobs, eradicate poverty and implement effective and efficient programs to improve development in all fields too.

However, this can only happen if there is strict public control through the press, reflecting the freedom to express public opinion. So, the role of fiscal policy in influencing the development of democracy in Indonesia is based on the principles of good governance: transparency, participation, accountability, and law enforcement. This is called the conditional influence of democracy development—the terms and conditions of the relations between democracy development.

Regarding building democracy in Indonesia, the government must not be reckless when making policies. One example is the fiscal policy obtained by the government through increasing tax prices. Before making a policy, the government should consider whether the tax increase will be burdensome for the people. If the government is reckless in making policies, the people will be disobedient, which is caused by a motion of no confidence in the government. The government must not only think about profits, but in making government policies, it must also consider the consequences of each action. Isn't a democratic country made of the people, by the people, and for the welfare of the people? Do not because the wrong policy is implemented, it can eventually create chaos so that the role of good fiscal policy is not achieved in influencing the development of democracy in Indonesia.

In addition to the above, the role of fiscal policy toward the development of democracy in Indonesia is to optimize the use of natural resources and human resources. Resources are one of the important components that must exist in a country, without the presence of these two components, economic activity will be threatened with extinction. Resources are divided into two, namely natural resources and human resources. Natural resources are the basic materials for production activities but can also be directly consumed by humans, while human resources are the managing aspect of raw natural
resources into ready-to-use or ripe products ready for consumption. The presence of fiscal policy is to balance existing natural resources with existing human resources because if only one of them stands out, it will create new inequality and problems. For example, when natural resources are abundant, and there are no experts to manage them, the existing resources will pile up and be useless.

On the other hand, when there are many human resources or experts and no adequate natural resources, they will switch to other countries because they think their labor is not utilized in their own country. The government also cannot be favoritism by importing other workers from abroad while many people themselves are unemployed. If this continues to be implemented, it is not impossible that the development of democracy will not work. So, the fiscal policy here functions as a counterweight and optimization of natural and human resources. Humans here are meant to be workers from their own country, not from foreign countries.

Fiscal policy toward democracy development in Indonesia also plays a role in optimizing investment activities. Investment is one of the transactions in the economic world that has great prospects. Investment is also one of the activities that can benefit the government and the state. With the opening of land or places for investment, business opportunities are opened to bring big profits to the country and can reduce unemployment. For this reason, fiscal policy aims to encourage these investment activities to continue to increase and increase so that the results can be utilized by all Indonesian people without exception so that the expected development of democracy can be realized in Indonesia's motherland.

**CONCLUSION**

According to the findings of this study, the aims of fiscal policy in the development of democracy in Indonesia are to create employment possibilities, increase and distribute national income, accelerate the rate of investment, and enhance economic stability. In order for Indonesia to overcome its economic crisis, fiscal policy must encourage the attainment of predetermined development goals. This duty is consistent with one of the tasks of the APBN, which is to preserve stability and accelerate economic performance in order to achieve economic growth.
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