

Allocating Funds for Indonesian Defense: Not Just Business as Normal

John Hetley

Faculty of Economic
Indonesian Christian University (UKI)
Jakarta 13630
Indonesia

ABSTRACT

We develop the models of defense budget demand by bureaucratic model. To see the business usual characteristics, we assume defense spending is the degree of inertia of the budget period, because a group of actors who enter into, always want to maintain the status quo and their positions. The results shows that Indonesia's defense budget policies positively affected by last year's defense budget with a low level of sensitivity. Although still business as usual, but the military actors only gave little influence to the policy.

Keywords: Economic Defense, Defense Budget, Budget Policy, Bureaucracies.

Introduction

Defense is the first duty of the state, as well as organizing the judiciary, and carry out the public works. The type of goods as "national defense" is very much needed by the community, but no one is willing to produce it, or may be generated by the private sector but in limited amounts. The government will be able to perform their duties only if the country in a safe state, so the government has an obligation to realize the national security. National security is defined as a condition that describes the freedom of the state, society and citizens from all forms of threats or acts, both of which are influenced by external and internal factors. National security can also be interpreted as the need to preserve and maintain the existence of the state through economic power, political as well as military and diplomatic development. (Secretariat General of the National Security Council, 2010). Protection to the whole nation and the whole country of Indonesia is defined as a security protection to all citizens and regions of Indonesia and all the resources in it. In this duty, government need cost as defence budget. The cost of defense is needed as an activity that is important to protect the very large resources, which are always faced with the interests and the uncertainty of the border states or the strategic environment. Attention to the economic aspects become very important, so make it as a separate study. This interest continues in the development of economics in applying economic methods, to solve the problems of defense and its budgeting.

The budget for national defense is one of the important government's policies. The main question in the policy of the budget is, what drives the amount of defence

budget. Is the decision purely from internal actors or power holders, or are also influenced by external factors such as the traditional threats from the strategic environment of a country. Everything was very decisive in the determination of the model and calculation of defense budget demand. Based on the picture above, this study aims to analyze whether traditional threats are the main variable in influencing Indonesia's defense budget. From the overall results of the testing would be a finding that can be developed in more depth to the policy of national defense planning better.

Literature Review

To develop the military power is always faced with the problem of resource constraints, including national sources. The existence of military force to adapt the change of strategic environment, always faced with the choice of national policy. The strengthening of military power as an essential component of defense is through the steps of mobilization, expansion of military power and increase response capabilities/responses. An important asset in the development of all it is the defense budget. Therefore, in determining the defense budget, a country have strategy in every different situation. In this paper, we build the models of defense budget demand (Kusnanto Anggoro, 2003). The defense budget is a public budget allocated for all purposes related to the defense of a country and nation. The amount is related to the ability of a country and the priorities in development. According to the Department Pertahanan Indonesia (Departemen Pertahanan Indonesia, 2008), the budget is defined as: "A financial work plan systematically arranged, covering the maximum amount of expenditures that may be required to finance the state's interest in a certain period and the estimated income (receipts) that may be acceptable in the future." Sandler and Hartley (1995) argue that there is an "interest group model" in determining the policy of the defense budget. The government is not composed of a single actor, but a lot of actors, even mutual interests in coalition with diverse political and bureaucratic environment.

The policy budget more because of lobbying, competition and even conflict that plays as important role. He said, although the government is firmly controlled the rational actor, but obstacles to these assumptions is still very much. For example, there are complex and complicated problems, like the asymmetric information, and the capabilities of the actor itself. In bureaucratic models, defense spending is dominated by the influence of the internal actors of policy holders who see the building of long-term budget naturally. This model was introduced by Lucier (1979) which assumes that defense spending is a characteristic of the degree of inertia of the budget period. This is because a group of actors who enter into or affect bureaucracies always want to maintain the status quo and their positions. Bureaucracy tends to maintain the situation through budget decisions with a small adjustment to the spending levels of the past. Because of the defense program is very large and expensive, efforts to fulfill the program can reach several years or even decades. We hope defense budget not just impact to security but also to the economic, particularly for the stable investment growth. The amount of defense budget must be not led to the crowding out effect on investment (Posma 2016).

Research Method

We build a model by assumption that defense spending is dominated by the influence of the internal actors of policy holders who see the building of long-term budget naturally. This model was introduced by Lucier which assumes that defense spending is a characteristic of the degree of inertia of the budget period. Bureaucracy tends to maintain the situation through budget decisions with a small adjustment to the spending levels from the past. Bureaucratic model for the defense budget is as a simple equation:

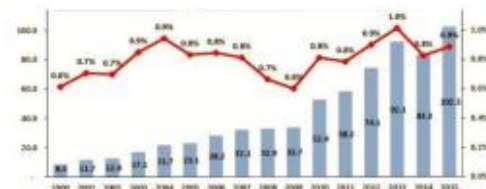
$$M_t = \beta_0 + \beta_1 M_{t-1} + e \quad (1)$$

Where M_t is the amount of the defense budget in year t . This model is suitable when the military controlled by state, where military actors have little influence in the running of the government, social and in budgeting.

The main data sources for this study are taken from the National Budget (APBN) of the Ministry of Finance (Departemen Keuangan Republik Indonesia). We also interview several actors who are involved directly in national security and defense in Indonesia. Resource persons that we interviewed include members of the Council of Defense and National Security, in the era of the New Order era and Reform Order.

Discussion

Government must ensure themselves to have a force capable of protecting its citizens and their natural resources. However, the development of the defense forces is always faced with the problem of limited resources. The analysis is intended to find out how Indonesia has set the defense budget. Here is described a trend graph of Indonesia's defense expenditures amounts:



Notes: Blue box is military expenditure, red line is ratio of military expenditure per gross domestic product Source: Ministry of Political Affairs, Law and Security Affairs Republic of Indonesia

Figure 1. Military Expenditures of Indonesia, Years of 2000-2015.

The estimation results of regressions are shown in the following equation:

$$mil = 9064,57 + 0,4489.mil_{t-1} + 6621,944dummy \quad (2)$$

SE	3169,404	0,1854	2892,957
	(sig 0,01)	(sig 0, 05)	(sig 0, 05)

$R^2=0,60$ $Prob F=0,000418$ $DW=1,85$
 MultiplierEffect: $dmil/dmil_{t-1} = 0,4489$
 Elasticity of last year's budget to the defense budget:
 $E(10) = 0,4587$; $E(5) = 0,4297$

Note: The regression has passed the classic assumption. The presence of a dummy variable is used to distinguish the behavior of the model, When there i.e. separation of defense budget and police budget (2000-2004).

Source: Results of data processing.

To see the sensitivity of the variables that influence the policy of the defense budget, it shown in the elasticity from the result above. From above, we can see the result is inealstic. From the results of the model, the estimation shows that Indonesia's defense budget policies positively affected by last year's defense budget with a low level of sensitivity. These illustrate that, although still business as usual, but the military actors only gave little influence to the defence budget policy. They are not to think offensive to maximize their own strength, but think of the situation defensive strategic environment with emphasis on inter-state cooperation. It can provide a positive atmosphere in an international environment with peace, through a strong commitment not to use force and fight each other. This peaceful atmosphere is also beneficial to calculate the optimal national defense spending.

Interview Results

The respondents stated that, although the defense budget is not so influential on the economy, but the budget is very important to carry out the functions of defense, the benefits will be felt by the community back. Society must be able to conduct their economic activities freely without feel anxious or threatened, so as to increase national economic growth. All respondents saw that the perception of the traditional threat is still not significantly compromise the security of Indonesia. Defense budget is still very small in support of national defense functions. Respondents also agreed that the defense budget should be increased, because the primary means of defense systems have technologies that obsolete and old. The concentration of the Soeharto's government (Orde Baru) is prioritizing economic development, so that, the defense budget is not increased significantly. But the perpetrators of the military at that time, had a dual function role, which is in addition to performing the duties of defense and security professionals also play an active role in national politics.

Although Indonesia is not prioritized defense, but the national leadership at the time, highly respected in the international environment, particularly in ASEAN. It is actually influenced by the support of the United States and western countries. In the reform era, with rapid information, news about the appropriation of natural resources by foreigners are often reported. This suggests that the ability of the Indonesian defense waned despite the professional military functions has been restored to maintain Indonesia's defense of disturbances and traditional threats. But the respondents still believe that the threat of a conventional war will not happen in the near future, and there is no development of nuclear weapons and mass destruction weapons in the region of Indonesia. Development of armed forces in the neighboring countries, just to respond their defense from threat and to maintain their economic growth.

Conclusion

In the bureaucratic model, we want to see if the actors involved tend to retain the previous budget. Regression results of the bureaucratic model indicate that, the actors make smaller increase in the defense budget from last year's budget. The results of research, supported by the opinion of the respondents in the interviews that have been conducted. The respondents agreed that the national defense budget still has to be improved because it is so small that it cannot be used optimally in the face of disturbances safety of the parties or other countries. The defense budget is also not enough to form a strong army and replace all the main weaponry system on aging and outdated. Defense budget policies should not be caused by things other than the need for security. In addition, the increase in the defense budget is too large and disproportionate will trigger an arms race among countries in the strategic environment. The presence of defense spending must correspond to the magnitude of the threat. There needs enough budget to fund adequate equipment and high-tech, to maintain and strengthen the people's defense system facing all of sorts of threats. Therefore, based on these results, it should be able to influence policy makers in determining budget policy to national defense programs more efficient, and forming an effective defense force.

References

- Charles E Lucier, (1979). "Changes in The Values of Arms Race Parameters", Journal of Conflict Resolution. Vol.23(1): 17- 39, 1979.
- Departemen Keuangan Republik Indonesia (Ministry of Finance of the Indonesian Republic).
- Departemen Pertahanan Indonesia, Buku Putih Pertahanan Indonesia, Jakarta, 2008.
- Kusnanto Anggoro, (2003). "Keamanan Nasional, Pertahanan Negara, dan Ketertiban Umum". Seminar Pembangunan Hukum Nasional VIII, Departemen Kehakiman dan HAM RI, 14 Juli 2003.
- Luhut Panjaitan, (2016). "Menciptakan Stabilitas Melalui Peningkatan Pertahanan dan Pemerataan Ekonomi". Seminar Universitas Indonesia, 20 April 2016.
- Posma Sariguna Johnson Kennedy, (2016). The Relations of Defense Budget with Investment: Evidence from Indonesia. International Journal of Economics and Financial Issues, 6(S6), 115-119, 2016.
- Secretariat General of the National Security Council, Keamanan Nasional, Sebuah Konsep dan Sistem Keamanan bagi Bangsa Indonesia, Jakarta, 2010.
- Todd Sandler & Keith Hertley, (1995). The Economics of Defence. Cambridge surveys of Economic Literature, UK: Cambridge University Press, 1995.