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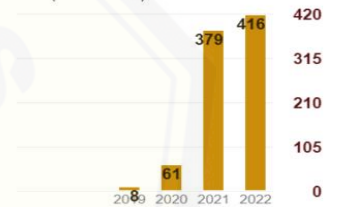
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The Destruction of Social Capital In Indonesia

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Keywords: Market Failure, Community Social Capital, Sugar Industry.

ABSTRACT

Business failure in the economic system causes various economic actors to potentially become rent-seekers in an imperfect political system. Sugar is an agricultural commodity that, thus far, is a public good that needs government regulation. This study aims to determine the social capital of Indonesia's sugar interest groups and to determine the dominant variable in Indonesia's sugar industry. Materials and Methods: This research uses a type of explanatory research that has a high relationship level because it not only has independent and comparative values but also serves to explain and predict the relationship with a qualitative approach between variables. Relationship analysis using Decision Explorer version 3.3 software. Results: analysis of the relationship of and variable in the sugar industry, the more variables involved in the loop, the most important relationship between variables in the loop, the most important loop is loop 4 consisting of economic rent, the refined sugar market, entrepreneurs in food and beverage, lobbying, government. Conclusion: It is concluded from the findings of this study that the social capital of Indonesia's sugar interest groups consists of loops, Almost every variable has a weak strength to social capital and leads to damage.

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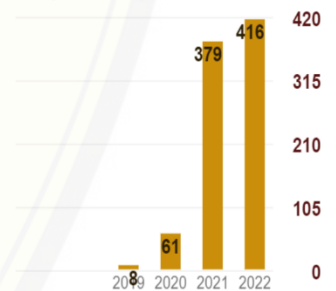
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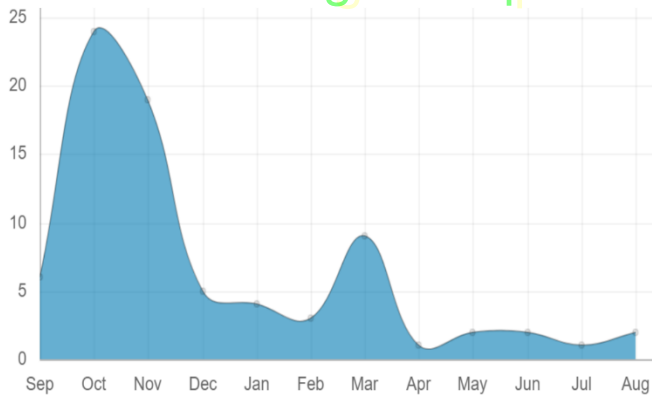
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The Destruction of Social Capital In Indonesia

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Abstract.

Background: Business failure in the economic system causes various economic actors to potentially become rent-seekers in an imperfect political system. Sugar is an agricultural commodity that, thus far, is a public good that needs government regulation. This study aims to determine the social capital of Indonesia's sugar interest groups and to determine the dominant variable in Indonesia's sugar industry. Materials and Methods: This research uses a type of explanatory research that has a high relationship level because it not only has independent and comparative values but also serves to explain and predict the relationship with a qualitative approach between variables. Relationship analysis using Decision Explorer version 3.3 software. Results: analysis of the relationship of and variable in the sugar industry, the more variables involved in the loop, the most important relationship between variables in the loop, the most important loop is loop 4 consisting of economic rent, the refined sugar market, entrepreneurs in food and beverage, lobbying, government. Conclusion: It is concluded from the findings of this study that the social capital of Indonesia's sugar interest groups consists of 9 loops, Almost every variable has a weak strength to social capital and leads to damage.

Keywords: Market Failure, Community Social Capital, Sugar Industry.

1. INTRODUCTION

Market failure is the concept of the economic theory of the allocation of goods and services in a free market system in which there is no efficiency. Information, imperfect competition, externalities, and public goods are related to market failures. Other than that the crucial recognition that the economy is impacted not only by capital and labour, but other factors as well [1]. In an attempt to intervene in certain markets, market failures are often used by governments. Only if they are based on scientific or sound planning can market imperfections be corrected through public expenditure and regulation. Government intervention, on the other hand, often makes resource allocation less effective than without intervention [2].

In local economic development, formal institutions encompass the system of government and governance in a particular nation-state and informal institutions include the traditions of cooperative working between public and private sectors [3]. Business failure does not mean that the market has failed at a certain price level to

produce the desired efficient solution, government failure does not mean that the solution that was designed has still not been produced by the government. A systematic problem that prevents the government from producing the most effective solution to a problem is intended to be clarified by government failure. In the case of market failure, government intervention may not occur, because an interest group often wants a government solution to occur, even if a solution is available through a more efficient market mechanism [4].

In reality, government intervention to overcome market failures has led to government failure. Public confidence in traders of strong social capital can weaken public sector policies. transaction costs and production costs have to be studied simultaneously because it is the total of the production and transaction costs that determines the efficiency of a governance structure if benefits are held constant [5]. In an imperfect political system, market failure in the economic system causes various economic actors to potentially become rent-seekers, which in turn creates government failure which further affects microeconomic conditions. Sugar is an agricultural commodity that, thus far, is a public good that needs government oversight of distribution, even in the regulations of the government decisions of the Republic of Indonesia. This analysis looks at the social capital relationship pattern between interest groups in the sugar industry in Indonesia and tries to map the dominant variables in Indonesia's sugar industry.

II. METHODS

This research uses explanatory research type [6]. research that is used to explain the causal relationship between variables through testing hypotheses that are formulated or often referred to as explanatory research. Research forms a baseline for industry discussion and adaptation planning towards an environmentally and economically sustainable future [7]. This study has a high level of relationship because it not only has independent and comparative values but also serves to explain, predict the relationship between variables with a qualitative approach. The empirical study will make it possible to discuss the relevance of these factors in a qualitative way. A quantitative assessment of these factors would require a larger sample of cases [8] Analysis of the relationship using the Decision Explorer version 3.3 software.

Sugar industry variable in Indonesia

1. Imported white crystal sugar
2. Domestic white crystal sugar market
3. Household
4. Farmer production (low quality sugarcane)
5. Sugar factory manufacturers (generally using machines)
6. Household consumers
7. Consumers of food and beverage entrepreneurs
8. Import of raw crystal sugar

9. Economic rent
10. Refined sugar market
11. Food and beverage entrepreneur
12. Imported Refined Crystal Sugar
13. Lobby
14. Government
15. Self-sufficiency
16. Prosperity of society

III. RESULT AND DISCUSSION

In Figure 1, it can be seen the relationship between each variable, the analysis of the relationship between each variable can be seen in the loop analysis below.

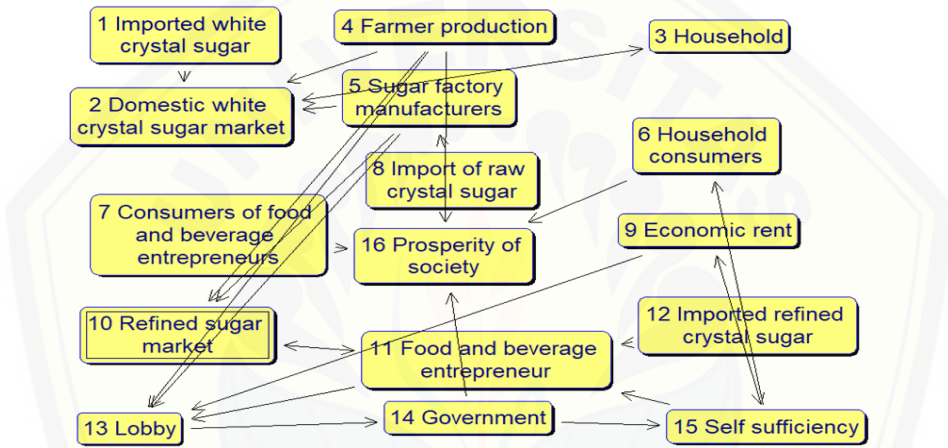


Fig 1. The relationship of the influencing variables

Following are the results of the analysis of the relationship between each variable in the sugar industry, the more variables that are involved in the loop, the most important is the relationship between the variables in the loop.

Loop1 set contains:

2 Domestic white crystal sugar market, 3 Households

Loop2 set contains:

9 Economic rent, 13 Lobby, 14 Government, 15 Self-sufficiency

Loop3 set contains:

9 Economic rent, 11 Food and beverage entrepreneurs, 13 Lobbying, 14 Government, 15 Self-sufficiency

Loop4 set contains:

9 Economic rent, 10 Refined crystal sugar market, 11 Food and beverage entrepreneurs, 13 Lobbying, 14 Government, 15 Self-sufficiency

Loop5 set contains:

9 Economic rent, 15 Self-sufficiency

Loop6 set contains:

9 Economic rent, 10 Refined crystal sugar market, 11 Food and beverage entrepreneurs, 15 Self-sufficiency

Loop7 set contains:

10 Refined crystal sugar market, 11 Food and beverage entrepreneurs, 13 Lobbying, 14 Government, 15 Self-sufficiency

Loop8 set contains:

10 Refined crystal sugar market, 11 Food and beverage entrepreneurs

Loop9 set contains:

11 Food and beverage entrepreneurs, 13 Lobbying, 14 Government, 15 Self-sufficiency

According to the analysis above, the most important loop is loop 4 consisting of:

9 Economic rent, 10 Refined crystal sugar market, 11 Food and beverage entrepreneurs 13 Lobbying, 14 Government, 15 Self-sufficiency

That Economic Rent

In the sugar industry, information about rent-seeking activities is not available because a few of those activities are illegal. The information available shows that bribery, campaign fund contributions, corruption, smuggling, the black market, employing the family of officials or even these officials if they are retired, their vacation and transportation services, membership in hobby groups and/or business associations, eating luxurious food and various rents are rent-seeking activities in the sugar industry in Indonesia.

These rent-seeking activities create networks that facilitate and coordinate actions mutually [8]. This is the opposite of thinking [9], that folk's good actions will have a good impact on others. This unseen accumulation of different social or psychological elements creates cooperation [10]. A wide network of voluntary partnerships will emerge if this continues [11].

The social capital costs of this rent-seeking behavior are greater than the benefits received from the wealth lost as a result of this rent-seeking by the producers themselves, importers, and the government. The social capital of this rent-seeking group is an aggregate of existing and perceived resources that can be used to create a durable network, thereby institutionalizing friendly relations between groups that are mutually beneficial [8].

Refined Sugar Market

Refined sugar is intended for the food and beverage industry market in Indonesia, because the market has been segmented by the government and supervised by the government so that the dealers have been supervised by government regulations. One of the problems occurring after the import and export of refined sugar is the arrival into the market of white crystal sugar or sugar for public consumption of refined sugar or sugar used in the sugar industry. This is due to the sharp price difference between refined sugar and white crystal sugar, which would be due to the restrictions

or restrictions imposed on the import policy, which contributes to a decrease in the community's welfare.

Food and Beverage Entrepreneurs

Sugar demand is projected to increase by 5-6 percent per year in the food and beverage and drug companies, and this increase is due to growth from over 7 percent per year in these two sectors. The government will continue to strive to ensure the availability of these materials . to maintain the sustainability of productivity in the industrial sector. Manufacturing activities have a chain effect on the national economy, including through an increase in the value-added of domestic raw materials, local labor absorption, and foreign exchange earnings from the manufactured products export activities. By rescheduling the harvest period for an earlier start, the projected higher yields could be harvested earlier [11]. The side effect of the growth of this sector is the importation of sugar because domestic sugar is insufficient.

Lobby

In principle, lobbying activities carried out by producers are carried out by transmitting one-way information to national sugar policymakers from producer groups, notably sugar cane farmers, workers, employees, and the management of sugar mills (executive and legislative).

In lobbying activities, social capital is formed when the interaction of individuals facilitates an action that tends to lead negatively. The imposition of a quota tariff on sugar causes the sugar price to be higher than the average price, resulting in changes in the surplus of the consumer, the surplus of the producer, and the government's revenue. The surplus of a consumer is smaller than it should be, and the surplus of a manufacturer is larger than it should be because high sugar prices have to be purchased by consumers. Because the demand and supply curves are not perfectly elastic, the amount of loss experienced by consumers is as large as the profit experienced by producers. a world of ever-shifting circumstances and irremediably unique situations in which no formally specifiable procedure can substitute for good judgement [12].

Government

In order to minimize dependence on imported sugar, one of the government's roles is to stimulate the growth of the sugar industry to meet the domestic market. One of these was to supply the food and beverage production needs of the food and beverage sector, which has been the main industry for the national economies in general of revenue from export activities.

The government provides a way for sugarcane farmers to obtain loans, especially non-contract farmers (who are not bound by a sugar cooperative/factory contract) so that they do not depend on loans with interest rates (more than 40 percent). This is aimed to reduce the transaction expenses involved by sugarcane farmers, especially non-contract farmers [9].

The social capital generated with high trust by the government and society creates strong solidarity to make people follow new regulations and strengthen a sense of togetherness. On the other hand, government imports more than domestic sugar needs, leading to lower sugar prices and a decline in farmer welfare, should take full advantage for government and public trust in use of imported sugar according to domestic needs.

To be able to re-increase national sugar self-sufficiency, the government needs to support production policies focusing on the aspects of production, trade, research and development, accompanied by mature institutions. The need to constantly improve the role of government institutions, both in regulatory policies, facilitation and mediation. Corporate governance provides an example of the hypothesis relationship. The initial use of the contract for the financing of obligations leads to the control of the directors, thus preserving the interests of the shareholders. In practice, the examination of the directors shows a dual purpose where the directors serve two confidence purposes of the contract: monitoring and delegation [13].

Subsidies can be used to increase the income of sugarcane farmers as an alternative short-term policy. In addition to improving the agribusiness system in the processing subsystem (sugar factory) so that it can produce sugar that can compete with imported products, the government needs to provide a fairly large budget.

Self-sufficiency. Sugar self-sufficiency in Indonesia reached its highest level of 118 percent in 1963, based on historical data on sugar production and trade in 1960-2009. After the political upheaval in 1965, sugar production and self-sufficiency decreased.

The role of institutions in the Indonesian sector is very important, especially to minimize possible negative excesses, institutions need to assess changes in access from open and closed access, and these costs are often ignored [14].

Another policy that needs attention to be self-sufficient in sugar is the revitalization of research and development activities through the provision of research and development funds that can be collected from other parties obtained from each increase in crystal sugar/ha productivity, as well as government levies in every sugar trading activity. The development of new technology to increase sugarcane productivity and yield can continue with the availability of funds for this R&D activity.

In the sugar industry, self-sufficiency can be achieved by increasing the efficiency of the sugar industry on the island of Java, without improving the efficiency of the self-sufficiency program, which is an arena for rent-seekers to perform semi activities.

IV. CONCLUSION

It is concluded from the findings of this study that the social capital of Indonesia's sugar interest groups consists of 9 loops, the dominant variable in Indonesia's sugar industry, namely economic rent, the refined crystal sugar market,

entrepreneurs in food and beverage, lobbying, government, and self-sufficiency. Almost every variable has a weak strength to social capital and leads to damage.

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