

Political Economy and The Role of The Public Sector "The Role of Government In Overcoming Market Mechanism Failures"

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Abstract

Along with the times, of course, the economic success of a country is influenced by several factors that support it. One of them is in the field of political economy. However, along with these developments, the economic system encountered several obstacles, such as the failure of the market mechanism. Political economy and its own tools are involved in overcoming this failure. The government's role in the failure of this market mechanism is needed to stabilize a country's economy and provide justice for economic actors. The purpose of this journal is to find out what the relationship between political economy and the public sector is, by discussing in detail the role of government in overcoming the failure of market mechanisms. The source of the data we obtained comes from a collection of various information obtained through the media of literature and readings that refer to the title of the discussion of political economy and the role of the public sector.

Keywords

Political Economy; Public Sector; Market; Government; Mechanism Failure

INTRODUCTION

Today, all aspects of life are accompanied by the existence of a very broad horizon of knowledge. Humans live side by side and of course need or depend on each other. In fulfilling their needs, they carry out economic activities for the survival of each individual.

Without us realizing it, the economy always helps complement the needs of people's daily lives in carrying out activities. Political economy broadly means a branch of science that studies two substances in it, namely economics and politics. The scope of this discussion of political economy is quite broad, because there are a lot of ideas that will be discussed in its application.

Political economy has two sides of a good relationship, namely explanatory or it can be interpreted as a study that aims to test a theory in order to strengthen or reject a pre-existing theory; and normative which are commonly referred to as applicable norms or rules. (Deliarnov, 2006)

Of course, economic activity is closely related to the existence of a market in the country concerned. The existence of a market

in the state order makes it easier for the people to carry out their economic activities. The market and its income or profits are considered as determinants of economic progress in a country.

A quality market structure reflects the success of the mechanisms implemented in implementing policies from many parties, both from the community itself and due to interference from the government. Market diversity varies greatly. This causes a lot of policy differences in regulating the market mechanism, so that there is relatively imperfect competition which is one of the causes of market failure.

The role of the public sector for the sustainability of its political economy, the public sector itself is considered capable of improving things that have no rules in achieving economic success. Therefore, the existence of a government in this market mechanism is very beneficial and has a positive impact on many parties, as well as overcoming the failure of the prevailing market mechanism.

Basically, the existence of a market mechanism itself is formed in order to enforce

economic justice by considering all forms of interests of all parties involved in the market. The market mechanism that exists in this free market has a tendency to stabilize prices until it meets the level of price equilibrium in the market.

The large number of policy changes from the parties involved in this market caused the mechanism in the market to almost fail. It is not impossible anymore, all of these events were caused by other economic aspects, thus causing failures in the market mechanism. The role or intervention of the government here is very necessary. (Fitriana, 2012)

The government is often, within certain limits, sometimes required or necessary to intervene to balance market prices to avoid the formation of prices that could harm consumers or producers. The role of government is also considered to be a solution to solving problems in the economy.

Market Concept

According to the language of the market can be interpreted as "mercatus" which means trading or as a place to trade. Meanwhile, according to the term market is a place or process of interaction between sellers and buyers of an item or service.

According to many experts, it is concluded that the market has two meanings from the classic and modern side. According to the classical meaning, the market is a meeting place for sellers and buyers to carry out a series of exchange activities, both goods and services. Meanwhile, according to the modern meaning, the market is a medium that accommodates a process of supply and demand for goods and services. (Indrayani, 2018)

Broadly speaking, the market is the main factor in the sustainability of economic activity. Basically the market has three functions, namely: distribution function, price formation function and promotion function.

1. Market plays a role in distribution

The market in this function is tasked with facilitating interaction or distribution media between producers and consumers. With this function, parties involved in this distribution activity can interact easily in the activities of offering goods and services offered by producers to consumers.

2. Market as Price Shaper

The market is a place where buyers and sellers meet. In the market, sellers can offer their goods to buyers. And, buyers who will need goods or services can bid prices directly

to the seller. After bargaining occurs between the two parties and the price has been agreed upon, a price is formed.

3. Market as a Promotion Tool

The market is said to be a means of promotion, meaning that the market is a place to introduce, market, and inform a product or service about the information, benefits, and advantages of products offered by producers. Promotions carried out by producers aim to attract buyers' interest in the goods or services being promoted. There are several ways to do promotions, namely by placing banners, distributing brochures, doing advertisements on social media, and so on. (Setiawan, 2011)

Market Mechanism

The study of economics as we know it is sourced from ideas or ideas, which are then poured and developed into a theoretical model of these economic ideas. The market mechanism is a mechanism that regulates the ongoing economic activity through the market, the market here is the interaction between sellers and buyers. It is in this market that economic actors meet to conduct interaction and transaction activities in order to achieve their respective goals. To get the goods they want they have to compete tightly because not all desires can be fulfilled by the limitations and availability of goods or services.

In addition, there is also a price mechanism which is an interaction process based on the existence of a basic economic model of attractiveness between producers and consumers, both in terms of the output market or in terms of the input market. The price itself is a nominal which states the amount of exchange value of an item. (Amalia, 2012, p. 6)

The price system in the market functions like a hand to regulate economic activity. This is different from the regulatory system through laws, government regulations. According to Adam Smith, the activities of each economic unit in its efforts to obtain what is best for him will actually lead to a mechanism that can run regularly.

According to Smith, the government intervenes only in its duties as a party that:

1. Defend the country against attacks from outside.
2. Implement a fair legal system in the country.
3. Carry out development and carry out a general job (Sigit Sardjono, 2017)

Although in its implementation the mechanism has many advantages, besides that the mechanism also has its own weaknesses in its implementation. Some of these weaknesses include the existence of unlimited freedom which tends to threaten or oppress certain groups. This results in competition or competitive interaction in all circles. The upper classes compete with other upper classes by strengthening their competitiveness, or the strong groups may oppress the weak in order to control what they want.

The existence of a market system that triggers the emergence of a monopoly is also a weakness of the market mechanism. The condition of prices circulating in the market tends to change depending on the supply and demand side of the mechanism itself. In addition, the provision of goods or services in the market mechanism still looks inefficient due to obstacles from the lack of facilities provided by the market mechanism itself. Thus, the government here takes on the role of providing services that cannot be fulfilled by market mechanisms. (Fitriana, 2012)

Political Economic Relations with the Public Sector

Basically, the scope of this public sector is one of the important indicators in the sustainability of the country's economy with a major industrial level. This important role involves intervention from the government to balance the public sector. The public sector itself is far from a free market accompanied by minimal government intervention.

Minimization in avoiding the occurrence of a conflict in the economic field needs to be emphasized. Ignorance of rational insight or often called by economists with rational ignorance, is the condition of a group of people who lack the information that is currently circulating. Some communities admit that their voice will not be able to play a role in solving the problems they face on their own.

In addition, fraud often triggers a conflict between economic goods or products and political goods. In response to this, the public sector action would be to support legislation that is easy to identify in exchange for future costs, which are relatively difficult to predict and identify. In general, the government structure consists of community groups, political circles, and bureaucrats or government groups.

Each of these groups each has its own role as well as holding and has its own ambitions.

In community groups, they tend to have quite significant differences, so that it makes it easier for each individual to easily find public services that are in harmony and in accordance with the integrity of each individual's request. So, it can be concluded that this is one of the factors in the formation of a vote and gives rise to democratic representations that have an impact on the political economy of a developing country.

Thus, in its implementation, political economy acts as a forum for studying political and economic interactions. All forms of government's role in the market sector will be discussed in more detail in the next chapter. The involvement of government groups in the management of the public sector affects a country in its economic aspects and affects its market mechanism sector. (Prasetya, 2013)

The Government Role

The involvement of one person with another person who has more power feels familiar in the development of aspects of a country's economic activity. These developments are often found in developing countries. This is done in order to streamline all objects that are considered unable to be fulfilled in a certain scope.

In government, this has become a phenomenon that is quite natural because there are several things that cause economic distortions or imperfect market conditions. As we know that the government is used as an institution that is considered capable of overcoming or accommodating problems that cannot be fulfilled by a forum that deals directly with these problems. It is possible, behind the existence of a market mechanism, this can also happen.

The government's position here acts as a driver to streamline some of the processes for allocating and distributing available resources if the allocation is not possible to be directed or handled by the market mechanism itself. (Sumarni, 2013)

In reality, market mechanisms are imperfect and cannot run properly due to various forms of inhibiting factors. As a result, a price fixing that develops in the market mechanism is difficult to determine and it is feared that it will affect the economic actors in the market mechanism. This negative influence will greatly affect the balance of the economy, both in the micro and macro economy. (Karim, 2010)

This role is often referred to by economists as market intervention, which means that the

government's participation or involvement in the development of market mechanisms should not be taken care of. Recovery from failures in market mechanisms is carried out in order to reduce the percentage of prolonged market distortions. (Sukirno, 2014)

In a free market mechanism without any supervision or control from the government, it causes price speculation and encourages the level of exploitation of its resources, so that only certain groups will dominate because of differences in strata of life and endanger the weak in terms of the economy, both small traders and consumers. (Mujiatun, 2013)

All forms of equity and activities to stabilize the economy are formed by the government in controlling the market mechanism. Allocations that are not optimal are usually based on fraud or a monopoly that causes externalities (inefficiency of existing resources in the market). One of the policies is setting a minimum price to protect the position of producers and a maximum price to protect consumers.

Furthermore, the government's policy on tax determination is also enforced, by imposing taxes according to developing commodities. As in the example of increasing the cost of taxes on foreign goods or imported goods, so that people will pay more attention to the production of goods from within which the price range is relatively cheaper because the tax set is not too high. In addition to suppressing the competitiveness of domestic production with foreign countries, this will also help to reduce the rate of inflation.

Inflation that is not controlled by strong institutions will lead to economic inequality in a country. A review of prices in the market needs to be carried out in order to avoid high and unreasonable price increases, as well as to reduce the burden borne by parties in the market. (Sumarni, 2013)

In fact, Adam Smith stated that a free economic mechanism provides a fairly central role for a country to enforce justice (fair) for all actors. The government does not always participate in an authoritarian way, it's just that the government's position here is to balance stability in order to create effectiveness. All forms of violations in the market mechanism will be controlled by the government in order to defend the rights and interests that are violated. A market mechanism that can run in a structured manner will greatly determine the success of the country's economy. Therefore, this role or government intervention exists because of the demands for it. This form of

control over the oversight of the failure of the market mechanism is nothing but the wisdom of a just, authoritative, and ethical political government. On the other hand, if the government's intervention in the failure of the market mechanism only supports certain parties and does not act decisively on the problems that occur, it will be bad for all parties and reduce the quality of the national economy. (Keraf, 1998)

METHODS

This study used descriptive qualitative method. This method contains non-numeric data (not numbers). The purpose of preparing a journal using this qualitative descriptive method is in line with the problems that will be discussed regarding political economy with the public sector, especially the role of the government in overcoming the failure of the market mechanism, so that we can know the concept of the market and its mechanisms, the failure factors of the market mechanism, and the role of the government. in overcoming these problems.

The approach used in compiling the journal is using a literature study, where the data obtained comes from the media literature and significant readings with journal titles that are relevant to the topic of discussion. All information that can be obtained from literature, books, essays or scientific works, as well as from other written encyclopedia sources.

CONCLUSIONS

Political economy has two sides of a good relationship, namely explanatory or it can be interpreted as a study that aims to test a theory in order to strengthen or reject a pre-existing theory; and normative which are commonly referred to as applicable norms or rules.

A quality market structure reflects the success of the mechanism that is treated in the implementation of policies from many parties, both from the community itself and due to interference from the government. This causes a lot of policy differences in regulating the market mechanism, so that there is relatively imperfect competition which is one of the causes of market failure.

Therefore, the existence of a government in this market mechanism is very beneficial and has a positive impact on many parties, as well as overcoming the failure of the prevailing market mechanism. Basically, the existence of a market mechanism itself is formed in order to enforce economic justice by considering all

forms of interests of all parties involved in the market.

The market mechanism that exists in this free market has a tendency to stabilize prices until it meets the level of price balance in the market. The many changes in policy from the parties involved in this market have caused the mechanism in the market to almost fail. The government is often, within certain limits, sometimes required or necessary to intervene to balance market prices to avoid the formation of prices that could harm consumers or producers.

As we know, the government is used as an institution that is considered capable of overcoming or accommodating problems that cannot be fulfilled by a forum that deals directly with these problems. This role is often referred to by economists as market intervention, which means that the government's participation or involvement in the development of market mechanisms should not be taken care of.

In a free market mechanism without any supervision or control from the government, it causes price speculation and encourages the level of exploitation of its resources, so that only certain groups will dominate because of differences in strata of life and endanger the weak in terms of the economy, both small traders and consumers. On the other hand, if the government's intervention in the failure of the market mechanism only supports certain parties and does not act decisively on the problems that occur, it will be bad for all parties and reduce the quality of the national economy.

As in the example of increasing the cost of taxes on foreign goods or imported goods, so that people will pay more attention to the production of goods from within which the price range is relatively cheaper because the tax set is not too high. It should illustrate brief and clear results of study, contributions to new theories, and new ideas for future researches. Here, the theoretical and practical implications should be written in paragraphs.

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