Hattanomics and Political Bubbles

BY JENNIE S. BEV

Jennie S. Bev is an award-winning author and columnist. She is the CEO of a digital venture based in Silicon Valley. Her blog is jenniesbev.typepad.com.

After Widjojonomics and Habibienomics, we are now in the Hattanomics era, a term referring to the policies of Coordinating Minister of Economics Hatta Rajasa and popularized by Kevin O'Rouke in "The Politics of Indonesia's Protectionism" (*The Wall Street Journal,* May 23). The three fundamental elements of Hattanomics: protectionism, trade barriers, and restrictions on foreign investment. Policies based upon these underlying principles include the economic development master plan (MP3EI), massive private sector financing, limiting foreign ownership, export restrictions, import quotas, renegotiation of mining contracts, restrictions in raw mining products exports, restrictions on some finished-goods imports, and requiring foreign investors to sell majority stakes within ten years.

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Its ultimate goal is helping Indonesia to become a developed country and a top ten world economy by 2025. This would require an average economic growth rate of at least 7%, involving collaborative efforts among private and public sectors as well as local government entities.

Despite its noble intention, Hattanomics comes with huge risks. In "Political Bubbles: Financial Crises and the Failure of American Democracy" by Princeton professors Nolan McCarthy, Keith T. Poole and Howard Rosenthal, the authors attempt to show that while "financial bubbles" are a mix of mistaken beliefs, market imperfections and greed, "political bubbles" are the concoction of ideologies, unresponsive and ineffective government institutions and special interests.

It is common knowledge that political interests blind regulators to weaknesses contributing to an economic bubble. The 2008 financial crisis that started in the U.S. could also occur in Indonesia. This so-called "political bubble" has the potential to initiate a major economic downturn.

Political bubbles usually occur before economic bubbles. In 2008, various policies for investors were either relaxed, ignored or eroded to help fuel an economic boom. This model was said to contribute to a trickle-up effect, rather than a trickle-down one, resulting in further enrichment of the 1 percenters—and alienating the 99 percenters against them.

If Indonesia implements Hattanomics without balancing it with aggressive poverty alleviation and civil service reform programs, it has a high risk to fail. Another caveat about economic issues: the less government interference the better in most cases. The question remains, what is the right balance in government involvement? How far and how fast the market can correct itself is also a tricky question.

A question to ponder upon: can we ensure that Hattanomics is implemented with minimized risks from huge red tape, inefficient bureaucrats, corrupt officials, and abused legal loopholes, while maximizing the benefits to the poor and the middle class? After all, the whole economy stands on the shoulders of such consumers, who are the bulk of the population.