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Economic Analysis In The Formation Of Legislation In Indonesia

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Abstract: *The formulation of legislation in Indonesia holds a pivotal role in establishing a legal framework that ensures inclusive and sustainable economic growth. With a population exceeding 282 million, Indonesia is confronted with multifaceted challenges in formulating policies that equitably balance economic, social, and environmental interests. This article critically examines the legislative process in Indonesia from an economic perspective, emphasizing its implications for the investment climate, economic growth, and sustainable development. The study references various case studies, including the enactment of the Job Creation Law (2020), which seeks to enhance investment competitiveness through bureaucratic streamlining but has elicited criticism regarding labor protection and environmental sustainability. This article underscores that the quality of regulatory frameworks and the assurance of legal certainty constitute fundamental determinants of economic stability and competitiveness. The analysis demonstrates that, while Indonesia has recorded an average annual economic growth rate of approximately 5%, persistent regulatory uncertainty and abrupt policy changes represent significant impediments to foreign direct investment (FDI) and the advancement of specific economic sectors. Moreover, the divergence of interests among governmental authorities, the private sector, and civil society in the legislative process creates additional obstacles to the adoption of equitable and inclusive policies. The article advocates for the integration of comprehensive economic analysis into the legislative drafting process to enhance transparency, consistency, and efficacy in regulatory outcomes. Such an approach is anticipated to mitigate adverse effects on social and environmental sectors while concurrently fostering the realization of national sustainable development objectives. Accordingly, this analysis provides valuable insights into the critical role of legislation in advancing economic stability and promoting equitable prosperity within Indonesia's legal and economic landscape.*
Keywords: *Legislation, Economic Growth, Legal Certainty, Sustainable Development*

INTRODUCTIONS

Indonesia, as a country with a population of more than 282 million people, faces various challenges in formulating policies in governance, including economic policies aimed at promoting inclusive and sustainable growth. The formation of legislation in Indonesia plays a central role in managing every state activity in accordance with the principles of a legal state or *rechstaat*. However, the reality shows that the legislative process often faces several obstacles, including imbalanced interests, overlapping regulations, and a lack of transparency in policymaking. The current Indonesian government focuses on efforts to increase competitiveness in governance aimed at achieving national goals through the implementation of various legislations designed to realize public welfare through political and good governance

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efforts to attract investment, ease business operations, and create jobs. One important step recently taken by the government, for example, was the ratification of the Job Creation Law (*UU Cipta Kerja*) in 2020, which was established to increase investment competitiveness by cutting bureaucracy and improving labor and licensing regulations. Nonetheless, the impact of the Job Creation Law remains a topic of debate, with criticisms regarding labor protection and environmental sustainability.

Quantitatively, since 2019, Indonesia has recorded an average annual economic growth of around 5%, but this figure remains far from the ideal growth target. One of the main factors influencing economic growth is the investment climate, which is largely determined by the quality of legislation. Indonesia's Gross Domestic Product (GDP) in 2023 reached around USD 1.4 trillion, with economic growth ranging between 5-6% per year. This economic performance is highly influenced by legislative policies, including those regulating investment, taxation, and the labor market. According to the World Bank report (2023), Indonesia ranked 73rd out of 190 countries in the Ease of Doing Business Index, with specific scores related to licensing, labor regulations, and access to quality infrastructure resources. The foreign direct investment (FDI) sector in Indonesia has also shown instability. In 2022, total FDI reached $27.6 billion, but this figure declined by 5.3% compared to the previous year. Rapid regulatory changes and legal uncertainty are considered contributing factors to this decline. Nevertheless, the government is working to improve the investment climate through legislative revisions aimed at providing clarity and legal certainty for investors, such as revisions to tax laws and the establishment of special economic zones.

The formation of legislation in Indonesia is very important to be analyzed from an economic perspective because legislation has a direct impact on the investment climate, economic growth, equitable welfare, and social development. According to Scholten (2008), legal certainty is one of the main factors that can influence economic growth. Without clear legal certainty, the economic sector will find it difficult to develop due to uncertainty related to regulations that can change at any time. Therefore, the establishment of fair, clear, and predictable legislation is important to create a conducive condition for state governance. In the context of Indonesia, various areas in governance, particularly the economic sector, are often disrupted by sudden policy changes or legal uncertainties. Economic analysis in legislative formation can help reduce this uncertainty and promote national stability and more stable growth.

Douglass C. North, in his work *Institutions, Institutional Change, and Economic Performance* (1990), emphasized the importance of institutions and regulations in producing good outcomes. The formation of legislation is not only related to economic objectives but also to the existing political structure. In Indonesia, where the political and economic systems often interact, economic analysis helps to understand how the interests of various parties (such as the government, private sector, and society) influence legislative making. This is essential to identify whether the legislation supports or hinders the achievement of national objectives, such as poverty reduction, job creation, and equitable development.

Dani Rodrik, in his book *One Economics, Many Recipes: Globalization, Institutions, and Economic Growth* (2007), explains that good policies, including legislation, can be tools to create jobs and reduce inequality. In Indonesia, legislation that regulates the labor market, industrial sectors, and tax regulations, for example, can determine how many jobs are created and how they are distributed. By analyzing legislation from an economic perspective, we can evaluate how effective these policies are in creating quality job opportunities and reducing unemployment. For instance, how the formation of new autonomous regions does not become a budgetary burden but is designed to enhance the available political resources.

The legislative-making process in Indonesia is carried out according to authority and procedures involving many parties, including the government, parliament, the private sector, and public participation. However, ambiguity in the public consultation process often leads to tensions between economic and social interests, although it is still categorized as a form of social participation. For example, laws that encourage investment often conflict with the need to protect workers' rights and the environment, which sometimes leads to demonstrations. Analysis of several case studies shows that changes in laws related to taxation, investment, and employment can directly impact the growth of specific economic sectors. For example, the tourism and manufacturing sectors in Indonesia have responded positively to laws that simplify investment permits, although there are pros and cons related to social and environmental impacts. In a broader context, the formation of legislation in Indonesia is sometimes colored by complex political economy dynamics, where the interests of the private sector, community groups, and the government clash. This creates tensions that can influence the direction of long-term economic policy. Therefore, it is important to examine the relationship between economics and the legislative formation process to understand the policies that can drive growth in a sustainable regulatory sector, protect workers' rights, and minimize environmental impact. Through this analysis, it is expected to provide insights into how to form legislation that is more effective and integrated with Indonesia's sustainable development goals.

RESEARCH METHODS

This article uses secondary data, thus it has limitations in obtaining primary data such as interviews with policymakers. However, this limitation is addressed through in-depth analysis of the available data sources. This methodology aims to produce a comprehensive and relevant analysis so that this article can contribute scientifically to understanding the relationship between economic analysis and the formation of legislation in Indonesia.

RESULTS AND DISCUSSION

Theoretical Framework

The theoretical framework is used to provide a comprehensive understanding of how economics and politics interact in the formation of legislation. Analysis based on welfare theory, political economy, bureaucracy, institutions, and market economics helps explain the impact of legislation on Indonesia's economy and how policies can be designed to support inclusive and sustainable economic growth.

1. **Welfare Economics Theory**

   Welfare economics focuses on how legislation and public policy can affect the overall welfare of society. In economic terms, welfare refers to the optimal allocation of resources to achieve the highest level of satisfaction or utility for all members of society. Relevance to Legislation Formation: (a) The formation of good legislation must consider its impact on the distribution of social welfare. Fiscal policies, market regulations, and laws related to resource distribution (such as taxes and subsidies) have a direct impact on the welfare of individuals and community groups. (b) This theory can be used to analyze whether the legislation to be formed and the policies implemented within the law will lead to a more efficient and equitable allocation of resources, with the aim of minimizing economic and social inequality in Indonesia (Arthur Cecil Pigou, 1920).

2. **Political Economy Theory**

Political economy theory studies how political and economic processes interact in the formation of legislation and public policy. This theory emphasizes the role of power, political institutions, and group interests in the legislative process (Karl Marx, 1867). Relevance to Legislation Formation: (a) In Indonesia, legislation is often influenced by various political and economic actors, such as political parties, the government, the private sector, and society. In political economy theory, legislation is seen as the result of a compromise between conflicting interests. (b) The policy and legislative-making process must be analyzed in the context of power distribution, interactions between government institutions and the private sector, and the influence of interest groups in the law-making process (James Buchanan and Gordon Tullock, 1962).

3. **Bureaucracy Theory**

   Bureaucracy theory examines how government organizations (bureaucracies) function to formulate and implement public policies, including laws and regulations. This theory is often associated with structured and procedural administrative systems (Max Weber, 1922). The effective formation of laws and regulations requires the role of the bureaucracy in designing, proposing, and implementing regulations and policies. An efficient bureaucracy can accelerate the legislative process and policy implementation. However, bureaucracy can also become an obstacle in the formation of laws and regulations if inefficiencies exist in the process, such as overlapping regulations, lack of coordination among institutions, or barriers in information dissemination. In the context of Indonesia, analysis using bureaucracy theory can help evaluate how bureaucratic reform can improve the quality of lawmaking, making it more adaptive and responsive to societal needs.

4. **Institutional Theory**

   Institutional theory explains how formal and informal rules (such as laws, social norms, and cultural practices) influence the behavior of individuals and organizations within an economic system. This theory is highly relevant to the formation of laws and regulations because existing rules and institutions can significantly affect decision-making processes. In the context of Indonesia, strong institutions (such as a transparent legal and governmental system) can create a conducive environment for development. On the other hand, weak institutions (such as corruption, regulatory ambiguity, or complex bureaucracy) can hinder the creation of pro-economic policies and reduce investor confidence (Douglass C. North, 1990).

5. **Market Economy Theory**

   Market economy theory emphasizes the importance of free markets in allocating resources efficiently. In a market economy, decisions about production, distribution, and consumption of goods and services are largely determined by market mechanisms (supply and demand) (Adam Smith, 1776). The formation of laws and regulations that support the market economy can create an environment conducive to investment, innovation, and market efficiency. For example, laws related to intellectual property rights, competition, and consumer protection can enhance market efficiency. However, markets also require regulation to address market failures such as monopolies, negative externalities, and economic inequality, which can be managed through appropriate legislation.

The Relationship Between Economics and Public Policy

Economics plays a significant role in the formulation of legislation and public policy. This is reflected in the fact that a country's economic conditions often form the basis for the legislative priorities set by the government. Douglass North (1990) emphasized that institutions, including legislation, arise from the need to reduce uncertainty in economic relations. Laws and regulations are designed to create a framework that facilitates economic

transactions and ensures market stability. James Buchanan and Gordon Tullock (1962), through the public choice theory, stated that the legislative process is often influenced by the economic interests of voters, lobby groups, and policymakers. Public policy is usually designed to accommodate the economic needs of society or specific groups. Amartya Sen (1999) argued that good public policy must consider its impact on human development. Thus, lawmaking is often influenced by economic indicators such as unemployment rates, poverty levels, and income inequality.

Economic Analysis in Legislative Formation

Economic analysis in the formation of laws and regulations aims to understand the anticipated economic impact of proposed policies and regulations. In Indonesia, this approach has become increasingly important as laws function not only as legal instruments but also as tools to achieve economic objectives such as growth, equity, and public welfare—aligning with the state's goal to protect all its citizens and promote general prosperity. Economic analysis enables policymakers and legislators to comprehend the cost-benefit consequences of legislation. An efficient regulation is one that delivers maximum economic benefit with minimal cost, while also considering human rights. Douglass C. North (1990) explained that institutions, including legal frameworks, are tools to reduce economic uncertainty. With efficient regulations, business actors gain greater legal and economic certainty. For example, Law Number 11 of 2020 on Job Creation simplified business licensing through the Online Single Submission (OSS) system. By reducing bureaucratic red tape, the government succeeded in shortening the average licensing process from 30 days to just 7 days, thereby increasing investment efficiency (BKPM, 2021).

Legislation plays a vital role in the redistribution of resources and the creation of societal welfare. Economic analysis helps identify how policies can address economic disparities. In *Development as Freedom*, Amartya Sen (1999) asserts that public policy, including legislation, should promote both economic and social freedom to achieve sustainable and long-term well-being.

Arthur Cecil Pigou (1920), in *The Economics of Welfare*, emphasized the importance of regulation in correcting negative externalities—such as environmental pollution—which are often overlooked by market mechanisms. Market failures such as monopolies, negative externalities, and information asymmetry can be addressed through regulations grounded in sound economic analysis. For instance, Law No. 5 of 1999 on the Prohibition of Monopolistic Practices and Unfair Business Competition aims to prevent monopolies that harm consumers. According to data from the Indonesian Competition Commission (KPPU), from 2019 to 2021, 80% of monopoly-related cases were successfully resolved, fostering a healthier business competition environment.

Regulations developed through economic analysis can create a conducive business climate, attract both domestic and foreign investment, and enhance a country's competitiveness. This is evident in the case of the Job Creation Law (UU Cipta Kerja): following its enactment, foreign investment realization in Indonesia rose by 19.6% in Q2 of 2021 compared to the previous year (BKPM, 2021). Dani Rodrik (2007) emphasized that the quality of institutions—including legal and regulatory frameworks—is a key determinant of a country's economic success. Investment-friendly regulations can drive inclusive economic growth. In *The Price of Inequality*, Joseph Stiglitz (2012) underscores the need for fair and effective regulations to prevent economic inequality and ensure that the benefits of growth are shared across all segments of society. Economic analysis also helps identify weaknesses in

policy implementation and provides a basis for revising or repealing ineffective regulations. For example, the evaluation of Law No. 32 of 2009 on Environmental Protection and Management revealed weak enforcement of legal sanctions for environmental violations. This analysis prompted a call for revision to strengthen environmental law enforcement.

By using economic analysis, the legislative process can become more transparent and data-driven, enhancing policymaker accountability to the public. Economic analysis in lawmaking plays a strategic role in ensuring that regulations not only comply with legal principles but also deliver positive economic outcomes and reflect the reality and necessity of the law itself. With a data- and theory-based approach, the development of legislation can promote efficiency, prevent market failures, enhance economic competitiveness, and support inclusive welfare. The implementation of such analysis in Indonesia shows that regulations backed by economic review hold significant potential to improve public policy governance. However, this analytical approach is often neglected in the political process, where political considerations tend to dominate.

Economic analysis in the formation of legislation is a crucial element to ensure that regulations not only comply with legal principles but also support economic growth and societal welfare. Case studies such as the Job Creation Law (UU Cipta Kerja) and tax laws illustrate how regulations can have significant positive or negative impacts on key economic indicators. Through in-depth economic analysis, legislative processes in Indonesia can become more effective in addressing both global and domestic challenges. Broadly, the role of economic analysis in legislation can be summarized as follows:

a. Enhancing Regulatory Efficiency

According to Douglass C. North (1990), institutions—including laws and regulations—are key to reducing economic uncertainty and improving market efficiency. Well-designed regulations create a conducive environment for investment and economic growth. The World Bank (2022) reports that countries with efficient business regulations experience an average of 2% higher GDP growth compared to those with more complex regulations. Indonesia has undertaken various efforts to simplify business regulations to boost economic growth. A significant step is the enactment of Law No. 11 of 2020 on Job Creation, aimed at streamlining business licensing and improving the investment climate.

The World Bank also projects Indonesia's GDP growth at 5.1% in 2022 and 5.3% in 2023, driven by rising domestic demand and improved consumer confidence (World Bank Indonesia country profile). Furthermore, the Indonesian government continues to enhance regulatory efficiency through the digitalization of public services and licensing. This digital transformation is expected to improve governmental work efficiency, optimize tax and revenue collection, and strengthen economic resilience and national development (Bank Indonesia reports). However, challenges remain. According to the World Economic Forum, Indonesia's government efficiency ranking declined from 26th in 2021 to 35th in 2022, indicating that further efforts are needed to improve regulatory and bureaucratic efficiency. In summary, although specific data on the 2% GDP growth difference is unavailable, Indonesia's ongoing policy reforms and regulatory simplifications are expected to drive higher economic growth in the future.

b. Preventing Negative Impacts of Market Failures

Market failure occurs when market mechanisms fail to allocate resources efficiently, leading to negative externalities, asymmetric information, and monopolies. Economic analysis in legislative formation plays a vital role in addressing market failures, particularly negative externalities such as pollution and resource exploitation. Arthur Cecil Pigou (1920) emphasized the need for regulation to correct negative externalities that

markets do not account for, including environmental pollution and overexploitation of natural resources. For example, Indonesia's Law No. 32 of 2009 on Environmental Protection and Management is designed to mitigate environmental damage caused by economic activities, which economically amounted to losses of approximately Rp 58.8 trillion (BPS, 2021).

Economically informed regulations—such as carbon taxes, waste management policies, and natural resource exploitation controls—are essential to prevent the adverse effects of market failure in Indonesia. This approach not only internalizes negative externalities but also promotes sustainable economic and environmental development. Through deeper economic analysis, policymakers can design regulations that are effective, equitable, and sustainable. Strong implementation and consistent monitoring are necessary to ensure that these regulations deliver long-term positive impacts for Indonesian society and its economy.

Several case studies in Indonesia demonstrate the role of economic analysis in legislation

1) Air Pollution and Carbon Tax. The problem of air pollution in Indonesia, especially in major cities like Jakarta, is one example of negative externalities. According to AirVisual data (2022), Jakarta is listed among the top 10 cities with the worst air quality in the world. The regulation issued by the Indonesian government is the implementation of a carbon tax through the Harmonization of Tax Regulations Law (UU HPP) in 2021. The carbon tax aims to internalize the impact of pollution into the production costs of companies that generate high emissions, encouraging a transition to cleaner energy. Economically, the carbon tax is expected to reduce greenhouse gas emissions by up to 29% by 2030 in accordance with Indonesia's commitment under the Nationally Determined Contributions (NDC).
2) Natural Resource Exploitation. The issue of natural resource exploitation, such as coal mining, oil, and gas, often does not take into account the long-term environmental impacts. For example, the report from the Ministry of Environment and Forestry (KLHK) notes that 64% of environmental damage in Indonesia is caused by illegal and legal mining activities that do not comply with regulations. The Indonesian government then enacted the Mineral and Coal Mining Law (UU No. 3 of 2020), which strictly regulates mining management, including post-mining reclamation obligations. In addition, the government introduced an environmental tax for companies that fail to meet environmental management standards. Thus, by internalizing environmental costs, companies are expected to be more responsible for managing natural resources, enabling exploitation to be conducted sustainably without sacrificing local ecosystems.
3) Addressing Externalities with Economic Incentives. Indonesia's dependence on fossil fuels creates negative externalities in the form of air pollution and carbon emissions. Through renewable energy subsidy policies such as solar panels and bioenergy, the government reduces reliance on fossil-based energy. This program is regulated under Presidential Regulation No. 112 of 2022 concerning the Acceleration of New and Renewable Energy Development. These subsidies are a step to encourage investment in the renewable energy sector, which ultimately reduces negative externalities. Data from the Ministry

of Energy and Mineral Resources (ESDM) shows a 23% increase in renewable energy capacity in 2021.

Economic Impact of the Formation of Legislation

Legislation plays a very important role in the economic structure of a country. Policies and regulations set by the government not only regulate economic behavior but also shape the environment in which economic sectors operate. The formation of appropriate legislation can have a very broad impact, both in the short and long term, on the country's economy. Conversely, ineffective legislation or regulations that do not align with economic dynamics can cause harmful negative effects. In the context of Indonesia, as the largest economy in Southeast Asia, legislation functions not only as an instrument to create economic and social stability but also to improve public welfare and create a conducive investment climate. Along with globalization, digitalization, and domestic economic challenges, forming adaptive and responsive legislation becomes the key to driving sustainable and continuous economic growth.

a. Positive Impact on the Economy from the Formation of Legislation
  1. Increased Investment. The formation of legislation that supports the business climate has a direct impact on increasing both domestic and foreign investment. The Job Creation Law (Law No. 11 of 2020) aims to simplify business licensing regulations. This regulation creates a more competitive business climate, attracting both domestic and foreign investors. Douglass C. North (1990) in *Institutions, Institutional Change, and Economic Performance* explains that institutions, including laws and regulations, play an important role in creating a conducive environment for investment. Regulations that support market efficiency provide legal certainty, thereby increasing investor confidence. Dani Rodrik (2007) in *One Economics, Many Recipes* emphasizes that the quality of regulation determines the level of investment. Countries with simple, transparent, and non-burdensome regulations tend to attract more investment. After the implementation of the Job Creation Law, investment in the manufacturing sector increased significantly. According to data from BKPM, the manufacturing sector absorbed investments amounting to IDR 365.5 trillion in 2021, which accounts for 37% of the total investment realization. According to the Indonesia Investment Coordinating Board (BKPM), investment realization in Indonesia increased by 19.6% in the second quarter of 2021 compared to the same period the previous year, after the Job Creation Law began to be enforced (BKPM, 2021). Foreign Direct Investment (FDI) increased to IDR 116.2 trillion in the third quarter of 2022, compared to IDR 104.2 trillion in the third quarter of 2021. Based on the World Bank's Ease of Doing Business 2020 report, Indonesia rose to rank 73 out of 190 countries from position 91 in 2017. Business regulatory reforms, including licensing simplification, were the main drivers of this improvement. Joseph Stiglitz (2012) explains that legal certainty through fair legislation can reduce economic risk for investors, thus increasing capital inflows to the country.
  2. Increased Welfare. The formation of appropriate legislation can have a positive impact on improving the welfare of society. Social assistance programs regulated under the State Budget Law (UU APBN) have contributed to reducing the poverty rate from 10.19% in 2021 to 9.57% in 2022 (BPS, 2022). This policy demonstrates how fiscal regulations can influence community welfare through proper budget allocation. Amartya Sen (1999) in *Development as Freedom* explains that economic policies based on social empowerment and increased access to education and health will lead society to better welfare. Sen argues that public policies involving fair wealth distribution will reduce inequality and promote overall societal welfare. Social assistance programs such as the Family Hope Program (PKH) and Non-Cash Food Assistance (BPNT)

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demonstrate the tangible contributions of legislative policies in improving welfare. In 2022, the total funds disbursed for social assistance reached IDR 40 trillion, reaching more than 20 million poor families. Meanwhile, reforms in the health sector, including the formation of legislation such as the National Social Security System Law (SJSN), have increased public access to health services. The number of BPJS Health participants in 2022 reached 226 million people, increasing healthcare access for low- and middle-income communities.

According to data from the Central Bureau of Statistics (BPS), Indonesia's Human Development Index (HDI) continues to increase alongside improvements in education, health, and living standards. Indonesia's HDI in 2022 was recorded at 72.92, up from 72.29 in 2021. This figure reflects the positive impact of policies that prioritize education, health, and other basic facilities. Joseph Stiglitz (2012) in *The Price of Inequality* emphasizes that reducing economic inequality through policies prioritizing social welfare can accelerate economic growth and create a more inclusive society. According to him, proper allocation of funds for social protection and education programs will reduce inequality and improve the quality of life for society. Dani Rodrik (2007) in *One Economics, Many Recipes* states that policies focused on poverty reduction and community empowerment through socio-economic reforms (such as education and health reforms) have positive impacts on productivity and welfare. Improved education and health open greater opportunities for society to participate in the formal economy.

3. Negative Economic Impacts from the Formation of Legislation
The formation of legislation in Indonesia, although aimed at improving societal welfare and creating economic stability, often results in negative impacts such as increased economic inequality. This inequality arises when policies and regulations benefit only a small group or certain economic sectors, while other groups are left behind or even become poorer. Some of these negative impacts include:

a). Uneven Distribution of Economic Development Benefits.

The formation of legislation that does not consider fair income distribution and access to economic resources can worsen social and economic disparities. Notable examples include regulations that favor large businesses more than Micro, Small, and Medium Enterprises (MSMEs), or policies that do not address inequalities between more developed and underdeveloped economic regions. Studies show that deregulation policies in the energy sector, such as the Mining Law (UU Minerba, Law No. 3 of 2020), have increased resource exploitation but widened economic gaps between regions. Data from BPS (2022) indicates that the mining sector contributed 7.34% to Indonesia's GDP, but the benefits are concentrated in resource-rich regions such as Kalimantan and Papua. MSMEs contributed around 61.97% to Indonesia's GDP in 2021 and accounted for 97% of total employment. However, despite their significant role in the economy, MSMEs often do not receive maximum benefits from legislative policies. For example, regulations favoring large companies, such as foreign enterprises and multinational corporations, often worsen the competitive position of MSMEs. The Job Creation Law (UU Cipta Kerja), enacted in 2020, despite aiming to simplify regulations and attract foreign investment, has been widely criticized for favoring large corporations and foreign investors while providing insufficient protection for MSMEs.

The reduction in obligations for large companies regarding worker wages and labor regulations under this law tends to exacerbate income inequality between workers

and capital owners. According to an analysis by the International Labour Organization (ILO), such policies tend to worsen the welfare of informal sector workers, the majority of whom come from poor and vulnerable populations. Indonesia's Gini ratio reflects a relatively high level of inequality. Based on data from the Central Bureau of Statistics (BPS), Indonesia's Gini ratio in 2022 was recorded at 0.381. Although there has been a slight decrease compared to previous years, income inequality in Indonesia remains a major issue that requires serious attention in the formation of legislation and policy.

b). Marginalization of Vulnerable Groups

The formation of legislation often focuses on the formal economic sector or large-scale investments, potentially neglecting the most vulnerable groups. Those working in the informal sector or those without access to quality education and healthcare frequently do not benefit significantly from existing economic policies. According to BPS data, in 2021, approximately 56% of Indonesia's total workforce was employed in the informal sector. This sector is often left unprotected by existing regulations, such as social security and labor laws. The formation of legislation that fails to accommodate the needs of informal sector workers can worsen economic inequality, as these individuals tend to have lower incomes and are more susceptible to economic fluctuations.

c). Impact of Non-Inclusive Legislation

Non-inclusive legislation, which benefits only specific groups (e.g., large business owners or certain segments of society), can worsen inequality in wealth distribution. For example, tax policies that are more lenient toward large corporations or incentives enjoyed only by economic elites can deepen income disparities. A 2021 report by Oxfam Indonesia noted that wealth in the country is highly concentrated among a small group of the wealthy. The richest 1% of Indonesians control more than 50% of the nation's total wealth. One contributing factor to this is a non-progressive taxation policy, where large business owners and wealthy individuals often gain more from tax incentives than low-income communities.

Evaluation of Legislative Policy Formation

Evaluating the formation of legislation is a crucial step in determining whether the laws being drafted align with societal needs and will produce the desired outcomes—whether in improving public welfare, promoting economic growth, or reducing inequality—while also ensuring that their implementation will have a positive economic impact. In Indonesia, various legislative policies aimed at supporting the economy have been implemented. However, continuous evaluation of their effectiveness is essential to ensure these policies achieve their goals without generating harmful side effects.

a. Economic Policies in Indonesia

The Job Creation Law (Law No. 11 of 2020) aims to boost investment, create job opportunities, and streamline business regulations in Indonesia. One of its core policies includes simplifying licensing procedures and offering incentives for large-scale investments. Evaluations and quantitative data suggest that, according to the Investment Coordinating Board (BKPM), Indonesia recorded foreign direct investment (FDI) of IDR 901.02 trillion in 2021, marking a 10.3% increase compared to 2020. This increase indicates that the Job Creation Law has been relatively successful in attracting substantial foreign investment.

Although this law aims to create jobs, data from Statistics Indonesia (BPS) shows that the open unemployment rate in Indonesia as of August 2022 was still 5.86%, only a slight decrease compared to the previous year. This suggests that while investment has

increased, challenges remain in creating quality employment opportunities. In terms of policy effectiveness, many critics argue that the law tends to benefit large investors and business owners more, while workers in the informal sector and micro, small, and medium enterprises (MSMEs) still face significant challenges—such as weakened labor rights and more lenient environmental regulations. These factors may contribute to widening economic inequality. Dani Rodrik (2007), in his book *One Economics, Many Recipes*, emphasizes that successful economic policymaking must be context-specific and tailored to the particular needs of a country. In Indonesia's case, despite efforts to create more efficient regulations such as the Job Creation Law, Rodrik reminds us that the success of economic policy is not solely determined by investment inflows, but also by the ability to address social inequality and support more inclusive economic sectors. Likewise, Joseph Stiglitz (2012), in *The Price of Inequality*, highlights that economic policies that neglect income inequality and social welfare tend to exacerbate disparities within society. Policies like the Job Creation Law, which offer substantial incentives to large investors, should be accompanied by stronger protections for workers and impoverished communities to minimize their negative impact on social inequality.

b. National Health Insurance Program (JKN) through the SJSN Law (Law No. 40 of 2004)

The JKN program aims to provide broader access to healthcare services for all Indonesian citizens, with a focus on low-income communities. Quantitatively, in 2022, the number of BPJS Health participants reached 226 million people, covering around 85% of Indonesia's total population. This indicates that JKN has successfully created more inclusive access to healthcare services for the public. Challenges in the Healthcare System show that despite progress, a report from the Ministry of Health (2022) revealed that there is still a gap in the quality of healthcare services between urban and rural areas. Additionally, challenges in financing healthcare for inpatient or specialist services remain one of the main obstacles in implementing JKN. Amartya Sen (1999), in *Development as Freedom*, emphasizes that policies which overlook the distribution of social welfare and equal access to resources can hinder development. Sen argues that good economic policies must create equal opportunities for all citizens, particularly for those who are marginalized.

c. Tax Law (Law No. 36 of 2008 on Income Tax)

The Tax Law aims to create a fair and efficient taxation system, as well as increase state revenue to support infrastructure development and social programs. The Directorate General of Taxes reported that tax revenue in 2022 reached approximately IDR 1,575.9 trillion, an increase from IDR 1,494 trillion in 2021. However, the proportion of tax revenue from large corporations remains significantly higher compared to contributions from the informal sector and MSMEs, which only account for about 30% of total tax revenue. Criticism of tax inequality, economists such as Joseph Stiglitz argue that a more progressive tax system based on the principle of social justice should be implemented to reduce the gap between the rich and the poor. This can be achieved by broadening the tax base and increasing transparency in the use of public funds.

Evaluation of Economic Policy in the Formation of Legislation The evaluation of economic policies in the formation of legislation in Indonesia shows that although there have been improvements in several sectors, such as investment and healthcare access, there are still major challenges in ensuring equitable benefits and reducing economic disparity. The Job Creation Law, JKN, and tax policies have made positive contributions, but their effectiveness must continue to be monitored and improved to ensure that these policies can drive inclusive and sustainable growth. Policymakers must

ensure that the policies implemented do not only benefit a select few, but are also capable of creating more equitable welfare for all members of society.

Challenges in the Formation of Economic-Oriented Legislation:

The formation of economic-oriented legislation in Indonesia faces various challenges that can affect the effectiveness and impact of the policies implemented. These challenges may take the form of imbalances between short-term and long-term goals, political uncertainty, and limited resources to implement complex regulations. In addition, there are also issues related to the need to ensure inclusiveness, social justice, and equitable distribution of policy outcomes across all levels of society. Economists and social scholars have extensively discussed these challenges and provided insights into possible solutions.

a. Imbalance Between Economic and Social Goals

One of the greatest challenges in formulating economic-oriented legislation is the imbalance between economic and social objectives. Many regulations are designed to boost economic growth, but they often overlook their impact on social inequality or the uneven distribution of wealth. An example is the Job Creation Law (Law No. 11 of 2020). The Job Creation Law was designed to create employment opportunities, attract foreign investment, and simplify business licensing. This policy aims to drive Indonesia's economic growth, improve competitiveness, and attract more investors by streamlining various regulations deemed as business obstacles. One of the main criticisms of the Job Creation Law is the changes that reduce labor protection, particularly related to severance pay, work contracts, and working hours. These provisions tend to benefit large employers and investors but can be detrimental to vulnerable workers. This creates social inequality because the economic gains from the policy are more widely enjoyed by those with significant capital, while informal sector workers and low-wage laborers are more likely to be neglected. The policy also relaxes several environmental regulations to ease business licensing, which can potentially trigger environmental degradation. This is particularly harmful to poor communities who depend on natural resources for their livelihoods, sacrificing social welfare for short-term economic growth.

Amartya Sen (1999), in his book *Development as Freedom*, argues that sound economic policy must pay attention to social welfare, not merely focus on economic growth figures. He asserts that successful economic policies must reduce inequality, provide individuals with the freedom to reach their potential, and ensure equal access to opportunities and resources. Sen emphasizes that economics and development should not only measure output or gross domestic product (GDP) but must also consider quality of life and the equitable distribution of development outcomes. Joseph Stiglitz (2012), in *The Price of Inequality*, also criticizes inequality exacerbated by inadequate economic policies that favor the wealthy and large corporations. Stiglitz argues that economic policies that promote deregulation and minimize taxes for large companies can worsen social inequality and create injustice in wealth distribution.

b. Political Uncertainty and Policy Changes

Political uncertainty is a major challenge in the formation of economic-oriented legislation in Indonesia. Every change in government or political dynamics can influence the direction of economic policy and disrupt the stability of existing regulations. Policy continuity is key, yet it is often hindered by political fluctuations. Douglass C. North (1990), in *Institutions, Institutional Change, and Economic Performance*, explains that institutional stability is crucial for achieving long-term economic goals. North emphasizes that continuous policy changes caused by political shifts can hamper investment and create

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uncertainty in the economy. Therefore, strong and consistent institutions are needed to ensure that economic policies can deliver optimal long-term results.

For example, in 2020, the Indonesian government proposed a new Tax Bill (Rancangan Undang-Undang Pajak) that included corporate tax cuts and the introduction of digital taxes. Although this policy was expected to enhance foreign investment attractiveness, several members of the House of Representatives (DPR) opposed it, arguing that the policy overly benefited large corporations and did not provide sufficient advantages for the lower-income population. As a result, many aspects of the bill were postponed, and some already-implemented tax policies were also revoked. This uncertainty had an impact on investment. Some investors hesitated to make new investments because they could not predict how tax policies would evolve in the future. The cancellation of planned policies potentially reduced tax revenues, which could have been used to fund various infrastructure projects and social programs.

c. Complexity of Regulation and Overregulation

Many laws aimed at improving economic efficiency actually create regulations that are complex and difficult for the public and economic actors, especially in the MSME sector, to understand. Often, policies that are too complex or have many layers of bureaucracy actually hinder investment and economic growth because they result in high administrative burdens and large operational costs. In Indonesia, to establish and operate a company, business actors often have to go through a series of complicated and time-consuming procedures. Before the Omnibus Law (Job Creation Law), the business licensing process was very fragmented and had to go through various agencies and ministries, such as the Ministry of Trade, the Investment Coordinating Board (BKPM), and the One-Stop Integrated Service Office (PTSP) at the regional level. In addition, entrepreneurs must fulfill various technical and administrative requirements that differ from one region to another. According to the World Bank (2020), in Indonesia, the time required to process business licenses can reach 49 days, longer compared to countries with more efficient regulations such as Singapore, which only requires 2 days. This complicated licensing process makes it difficult for entrepreneurs to start and develop their businesses.

James Buchanan and Gordon Tullock (1962), in their Public Choice theory, emphasize that too much regulation or inefficient regulation can reduce market efficiency and harm social welfare. Buchanan and Tullock warn that overly complex regulations can cause economic distortions because they create opportunities for individuals or groups to exploit the legal system for their own interests, hindering the growth of smaller and more vulnerable economic sectors. Meanwhile, Arthur Cecil Pigou (1920), in *The Economics of Welfare*, argues that regulation is necessary to correct market failures, but if poorly designed, it can lead to greater social costs. Pigou reminds that the formation of effective economic policies requires careful analysis of the regulation's impact on economic efficiency and social welfare.

d. Lack of Coordination Between Sectors

Economic-oriented laws are often issued by various institutions without good coordination between the related sectors. This causes overlapping and less integrated policies, creating confusion for economic actors themselves. Douglass C. North (1990), in his work, states that successful economic policies require coordination among various institutional sectors to create a consistent and stable environment. Without effective inter-

agency coordination, economic policies will face difficulties in implementation and produce suboptimal results.

e. Limited Resources for Implementation

Many laws, despite having good intentions, fail to be effectively implemented due to limited resources, whether in funding, skilled labor, or adequate infrastructure. The formation of laws requires sufficient budgets and efficient implementation systems to work well in the field. Dani Rodrik (2007), in his book *One Economics, Many Recipes*, argues that successful policy formation requires strong institutional capacity, including the availability of adequate resources to carry out those policies. Without sufficient capacity, even good policies can fail in their application.

CONCLUSION

Economic analysis in the formation of laws and regulations in Indonesia plays a very important role in ensuring that the resulting policies can have a positive impact on economic growth, equitable welfare, and the reduction of social inequality. The formation of laws and regulations based on solid economic principles can help create a conducive environment for investment, encourage innovation, and improve market efficiency. However, challenges in designing effective regulations remain significant, especially related to regulatory complexity, political uncertainty, and the potential imbalance between economic and social objectives.

For example, complex regulations and layered bureaucracy often hinder economic growth potential, especially for MSMEs. Meanwhile, appropriate regulations can have a positive impact in reducing market failures, such as addressing negative externalities (for example, pollution) and improving social welfare. However, if not implemented carefully, excessive or unbalanced regulation can worsen economic inequality and create barriers to business. Based on the views of economic experts such as Amartya Sen, Joseph Stiglitz, and Douglass C. North, it is important to build policies oriented towards social welfare and create stable institutions to support long-term economic growth. On the other hand, Arthur Cecil Pigou and James Buchanan remind us of the importance of regulations that can correct market failures without creating distortions that harm economic actors.

The importance of coordination between various sectors and consistency in the implementation of laws and regulations cannot be ignored. The Job Creation Law and reforms in business licensing that are more electronically integrated (OSS) demonstrate the government’s efforts to simplify complex regulations and reduce bureaucracy that burdens business actors, especially MSMEs. Nevertheless, to ensure long-term success, laws and regulations must consider social and economic sustainability, as well as maintain a balance between efficiency and justice.

Overall, despite the many challenges that must be faced in forming economic-oriented laws and regulations, consistent efforts to simplify regulations, strengthen institutional capacity, and ensure inclusivity will be crucial in achieving fairer and more sustainable economic and social goals in Indonesia. From all of this, to achieve accommodative and responsive regulatory goals, besides formal authority, community participation is required to realize the effectiveness of law and a legal system consisting of legal substance, legal structure, and legal culture (obedience to law), as stated in Laurence M. Friedman’s legal theory. As a key, laws and regulations are created for humans, not humans for laws/regulations — “ubi ius ibi societas.”

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