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The impact of the quality of democracy on the economic growth of provinces in Indonesia

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Abstract

Purpose: The impact of democracy on economic growth is an interesting study of economic institutions and there is still debate about the impact on economic growth. One side of the research finds that democracy has a significant and positive impact on economic growth, but the other side states that the improvement of the country's democracy causes economic growth to decline. This study aims to examine the impact of the quality of democracy on economic growth at the provincial level in Indonesia.

Research methodology: The data used in this study use panel data using the Eviews 9.0 analysis tool, so that the best method named the Random Effect Model is obtained.

Results: The results show that democracy in Indonesia has a significant impact on economic growth and there is a positive trend in the long run. Other variables used are labor and foreign investment, which statistically, if these variables occur, can increase economic growth in Indonesia and increase employment and data on foreign investment play a role in driving economic growth. Economic growth in Indonesia is already in good condition and the economic growth that occurs is convergence growth which shows that some provinces that are poor/underdeveloped can catch up with developed provinces.

Limitations: This study used fairly short time-series data, so that the addition of a longer time-series will of course give better results.

Contribution: Improvements in democracy in Indonesia should also strengthen democratic norms that apply in society, such as reducing corrupt behaviors, especially political corruption and money politics to get public office because if this behavior cannot be corrected, then democracy will have little impact on the economy.

Keywords*: Economic growth, Quality of democracy, Random effect model*

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1. Introduction

Development is essentially endeavored to achieve the welfare of the people following what is mandated in the Preamble to the 1945 Constitution, where the purpose of establishing the Unitary State of the Republic of Indonesia is to realize the welfare of the nation. The implementation of the Preamble to the 1945 Constitution is then carried out in Article 33 paragraph (3) of the 1945 Constitution, which states that the earth, water and natural resources contained therein are controlled by the State and used as much as possible for people's prosperity. Development is one way to create social welfare. The development concept was developed in the future, especially since the New Order era when the New

Order was trying to achieve an advanced economy level. The advanced level of the economy is carried out to catch up with the economic backwardness. The process of developing a nation, in general, will go through several stages, namely: the unification stage, which is at this stage a government is faced with the problem of national integration from several existing federal powers. The next stage is the industrialization stage, where a country tries to apply the concept of industrialization to catch up with the pace of development at this stage. In the third stage, a country will reach the stage of social welfare. Namely, the goal of state development is expected to have been achieved, namely creating a people's welfare.

Economic growth can be distinguished from economic development. Economic growth is based on the process of increasing the production of goods and services in the community's economic activities. Development has a broader meaning, increasing production is one of the main characteristics in the development process, one of the important things contained in development is the expansion of productive employment opportunities. Economic development should lead to active participation in productive activities by all members of society who are willing and able to participate in the economic process. Development is a transformation in the sense of structural change, namely: changes in the economic structure of society which include changes in the balance of conditions inherent in the basis of economic activity and forms of economic structure. Development in a broad sense must include growth (as one of the main characteristics of the development process). The rate of growth, the slow pace of production of goods and services, must be high enough in the sense of exceeding the rate of population growth. However, the concept of thinking between the concepts of growth and economic development both go hand in hand and side by side. Based on the description, economic growth can be used as one of the parameters for the success of a country's economic development. One way to achieve good economic growth is when the State can create jobs so that they can work and live decently. A 1% increase in economic growth at a 6% economic growth rate can absorb around 600,000 workers. Indonesia needs at least Rp. 122 trillion to encourage the economic growth rate from the original 5% to the growth rate of 6% (Todaro & Smith, 2015).

Economic growth is not only influenced by economic variables, but also by non-economic variables such as democracy. The relationship between democracy and economic growth has attracted much attention in recent years. Rachdi & Saidi (2015) found that democracy can have a positive influence on economic growth. The study was conducted in developed countries. The positive influence of democracy on economic growth occurs through education and investment. Political freedom will grow if education and investment are of good quality. The existence of political and economic reforms contributes positively to the economic performance of a country.

Democracy can be used as an indicator in several aspects of life in a country ranging from political aspects, economic aspects, cultural aspects to various other aspects of national life. The awareness of the importance of democracy has made large institutions, both official state institutions and private institutions, begin to pay attention to the level of democracy for countries in the world. One of the institutions that assess the level of democracy is the Economist Intelligence Unit (EIU), which publishes a democracy index for 167 countries with 60 indicators.

Table 1. Democracy Index of ASEAN Countries for 2011-2019

Country	Year									Average
	2011	2012	2013	2014	2015	2016	2017	2018	2019	
Indonesia	6.53	6.76	6.82	6.95	7.03	6.97	6.39	6.39	6.48	6.70
Philippines	6.12	6.3	6.41	6.77	6.84	6.94	6.71	6.71	6.64	6.60
Malaysia	6.19	6.41	6.49	6.49	6.43	6.54	6.54	6.88	7,16	6.57
Singapore	5.89	5.88	5.92	6.03	6.14	6.38	6.32	6.38	6,02	6.11
Thailand	6.55	6.55	6.25	5.39	5.09	4.92	4.63	4.63	6.32	5.59
Cambodia	4.87	4.96	4.6	4.78	4.27	4.27	3.36	3.59	3.53	4.25
Vietnamese	2.96	2.89	3.29	3.41	3.53	3.38	3.08	3.08	3.08	3.19

Myanmar	1.77	2.35	2.76	3.05	4.14	4.02	3.83	3.83	3.55	3.26
Laos	2.1	2.32	2.21	2.21	2.21	2.37	2.37	2.37	2.14	2.26

Source: Economist Intelligence Unit's Democracy Index (processed data).

Table 1 shows that in the 2011-2019 period, Indonesia obtained the highest index of democracy in the ASEAN region, after which the Philippines, Malaysia, Singapore, Thailand, Cambodia, Vietnam, Myanmar, and Laos received the highest index scores. On average, there is a tendency for the democracy index of ASEAN countries to get better.

The Central Statistics Agency, since 2011, has calculated and published the Indonesian Democracy Index (IDI) at both the national and provincial levels. Three indicators are measured, namely the Civil Freedom Index, the Political Rights Index, and the Democratic Institution Rights Index.
The development of IDI is depicted by the graph in Figure 1. There has been a fluctuation in the development of IDI from 2011 to 2017, but there tends to be an increase in the IDI value. In 2014, during the transition of President Joko Widodo, where previously, the position of the President was held by President Susilo Bambang Yudhoyono, there was an increase to the highest value, but unfortunately, after that, it tended to decline until 2019.

Figure 1. Development of the Indonesian Democracy Index for 2011-2019
Source: Badan Pusat Statistik, 2020

Figure 1 shows that the development of the Indonesian Democracy Index 2011-2019 has fluctuated, with the highest value occurring in 2014, namely 74,31, and the lowest value in the previous year, namely 2013, which was 68,20. For the development of IDI based on province level, it can be seen in Figure 2 that the average IDI in various Provinces is in the range of 60 - 75 in the range of moderate to high numbers. The highest IDI rates were in the provinces of Riau Islands (78,95) and Central Java (77,20) and North Sulawesi (77,18). The lowest IDI is Papua Province, which is 62,92. The increase in the democracy index in 2014 occurred due to the enthusiasm of the people in the general election for president and vice president as well as the election of people's representatives at the DPR and DPRD levels. High public enthusiasm shows that the community is directly involved in the affairs of state administration (civic involvement), the community has an interest and pays attention to things that are happening in the surrounding environment, and expresses their opinions when they agree or disagree

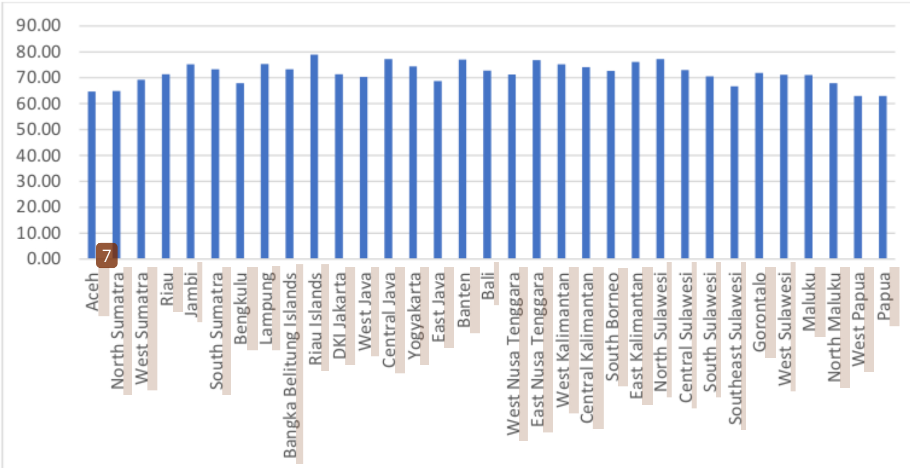

Figure 2. The Average of Indonesian Democracy Index at the Provincial Level, 2011-2019
Source: Badan Pusat Statistik, 2020 (Processed Data)

The influence of democracy of a country on economic growth is an interesting issue in economic institutions and there is still debate about the influence of democracy on economic growth. Some studies have found that democracy can increase economic growth, but other studies have found an inverse effect where the improvement of democracy causes a decrease in economic growth. Previous researches also found no effect of democracy on economic growth.

Jaunky (2013) and Acemoglu et al. (2019) stated that democracy could increase national income by encouraging economic reforms, increasing investment, increasing the availability of public goods, and reducing social inequality. Heo & Tan (2001) also found that a good democracy had an impact on increasing positive economic growth and a good democracy would give freedom to entrepreneurs to choose their business and increase investment which in turn had an impact on increasing economic growth. Masaki et al. (2015) stated that democracy had an impact on increasing economic growth in countries in the African continent that had implemented democracy in their governments. In line with that, Kim & Heshmati (2019) found that countries that had implemented a better democracy would actually have an impact on increasing their economic growth, one of which was due to the influx of foreign investment into these countries.

On the contrary, studies of F.Helliwell (1992), Roe (2003), and Rachdi & Saidi (2015) found that democracy harmed economic growth. According to Huntington & Fukuyama (2006), negative effects of democracy on economic growth in developing democratic countries cause high government spending and reduce the surplus available for investment, thus slowing economic growth. The same result was given by Tavares & Wacziarg, (2001) that democracy encouraged the government to increase spending to maintain democracy to reduce the level of physical capital accumulation.

Michael, Samuel, & Etta (2016) stated that the influence of democracy on economic growth in Indonesia during the New Order era showed a slowdown in growth and investment due to adopting more centripetal democratic institutions and developing a depressed democracy. However, the development of democracy in Indonesia has been getting better, which has prompted political parties and the presidents to compete for votes by promising to clean up the government and restore growth. Moricz & Sjöholm (2014) empirically estimated that using quasi-experimental research methods, the causality effect between regional head elections on regency economic growth in Indonesia was obtained. In the direct election of regional heads in regencies in Indonesia, they found that direct elections had an impact on their economic growth.

Freedman & Tiburzi (2012) pointed out that there were two sides to Indonesian democracy. The first perspective is on Indonesia's experience of democratic success and the other is more cautious. Even though Indonesia has truly made the transition to democracy, Indonesia must go further for the existence of civil liberties and guarantees of civil rights for all citizens as well as the eradication of radicalism, violence, and high levels of corruption, or in other words, democracy that occurs has not yet been resolved, especially on the issues of social justice, accountability, and the rule of law. Research on democracy and its impact on economic growth continues to be an interesting research topic and is still a matter of debate for a country.

The new growth theory of economics only explains that economic growth is determined more by the production system (endogenous) than outside the production system (exogenous). But in reality, there is people's behavior (individuals and groups) that can affect economic growth, one of which is the behavior and democratic order, the application of a democratic system in political institutions and economic institutions can have an impact on economic growth. Democracy can encourage public participation in influencing public policy and encourage public participation to play an active role in the economy through freedom of opinion, association, and business.

Adopting Levine and Renelt (1992), which states that in forming a model of economic growth must include the main variables that must be included in the economic growth function, namely the variables of capital, labor, and initial growth, researchers can also add other variables that are of interest to researchers in the main variables, and in this study, the democracy variable was added. However, the issue of implementing democracy at the regional level, both at the district and provincial levels, has not been widely used because the IDI was only calculated in 2011 for the provincial level so that the research hypothesis was formed, namely the Indonesian Democracy Index, initial growth, investment, and labor had a positive effect on the economic growth of the provinces in Indonesia.

2. Literature Review

2.1. Democracy

The 2009 IDI report (UNDP Indonesia 2012) states that democracy is a system of government characterized by the freedom of citizens to 1) form and participate in organizations; 2) Statement of opinion; 3) Become a public official; 4) Conducting competitions or contestations among citizens to gain support for public office; 5) Voting in general elections; 6) There are free and fair elections; 7) The existence of alternative sources of information other than information from the government; 8) There is a guarantee of periodic general elections so that every policy made by the government is open to be evaluated and accounted for.

There are 4 types of democratic political systems, namely: 1) Direct democracy: where citizens have the opportunity to be directly involved in decision-making and make consensus; 2) Representative Democracy in which citizens appoint or elect their representatives and provide instructions for decision-making or consensus; 3) Democracy of trust, namely that community members give trust to appointed representatives in taking trust or making consensus in consultation with those who are also appointed as representatives of the community; 4) Grassroots democracy, which is a direct democratic process as a guide for appointed people's representatives. The Indonesian Democracy Index (IDI) is a number that shows the level of development of democracy in all provinces in Indonesia based on certain aspects of democracy. The level of development of democracy is measured based on the implementation and development of some aspects of democracy in all provinces in Indonesia. There are three aspects in the preparation of the IDI, the first is Civil Liberties, the second is Political Rights, and the third is the Institution of Democracy.

According to Acemoglu et al., (2019), democracy is determined by the following factors: 1) Civil society, an unorganized society will find it difficult to switch to democracy. Therefore, some level of development in civil society is also necessary for democratization. 2) Shocks and crises, democratization occurs because of the temporary nature of political power. Such crises and macroeconomic shocks lead to short-term fluctuations in de facto political power. 3) Sources of Income and Composition of Wealth are important determinants of the trade-off between democracy and repression. Differences in attitudes between landowners and owners of physical and human capital towards democracy: (a) Land is easier to use for taxes than physical and human capital. Therefore, landowners are more afraid of democracy than non-democracy, which makes them more resistant to democracy. (b) Social and political upheaval may be more damaging to owners of physical and human capital who must rely on cooperation at work and in the trade process, making landowners more willing to use force to maintain their chosen regime. (c) Various sets of economic institutions are possible in a predominantly agrarian economy, which affects the relative intensity of the preferences of elites and citizens with different regimes. 4) Political institutions. Democratic political institutions can be structured to limit the power of the majority. The idea of representative democracy, as opposed to participatory or direct democracy, can be seen as an attempt to reduce populist pressure and weaken majority rule. 5) Globalization, namely: (a) International financial integration means that the owners of capital, the elite, can more easily spend their money from certain countries. (b) International trade influences factor prices and, through this channel, modifies redistributive politics. (c) Increased international trade also means that disruption of economic activity can become more expensive for many underdeveloped countries now integrated into the world economy. Therefore, repression may now be much more expensive for elites, again supporting democracy. (d) Increased political integration and the end of the Cold War may imply that countries that oppress their citizens can expect stronger sanctions and reactions from the world's democracies.

2.2. Economic growth

Changes in the capital stock, changes in the labor force, and technological progress interact in the economy and their effect on output in the economy is stated in Solow's theory. This theory is a modification of the Harrod-Domar growth model, in which conditionally, the economies of various countries will converge at the same income level. The condition that must be met is that these countries have the same level of savings, depreciation, labor force growth, and productivity growth. The convergence of increasing income in an open economy will occur if there are trade, investment, and so on relations with other countries or outside parties.

The amount of stock of capital goods, population, natural resources, and the level of technology used are factors that affect economic growth, according to classical economists. Economic growth depends on many factors and focuses on the effect of population growth on economic growth. It is assumed that the land area and natural wealth are fixed and the level of technology does not change. At first, the population was relatively small and natural wealth was relatively excessive, then the rate of return on capital from investment was getting higher and investors/entrepreneurs were getting more and more profits, giving rise to new investments and economic growth. If the population is too large, the increase will reduce the level of economic activity because the productivity of each resident becomes negative, so that the welfare of the community decreases (Mankiw, 2019).

In analyzing the relationship between democracy and economic growth, we first look at the types of economic and political institutions. The type of economic and political institutions implemented in each country will affect the level of welfare of the country. Economic institutions that have an inclusive nature are more liberating for their citizens and include them in economic activities, without coercion, without being hindered, and without discrimination against their background. This inclusive economic institution will guarantee the existence of ownership rights for each individual to make individuals feel safe and comfortable in doing business. The opposite type of institution is an extractive institution. In this type of institution, generally, ownership rights will be controlled by certain groups or controlled by the State. These types of institutions will usually restrict their citizens from participating in economic activities and can manipulate these economic activities for the benefit of certain elites or groups (Acemoglu et al., 2019).

Furthermore, the type of political institution chosen is also very important in determining the welfare of a country. As with inclusive economic institutions, the implementation of inclusive political institutions will give each citizen the right to be directly involved in government either passively or actively, without coercion, obstacles, and discrimination so that people can ensure that politicians or the government work earnestly in the service of the people.

The economic system and political institutions are generally interrelated, if political institutions are inclusive then economic institutions are also inclusive. On the other hand, if political institutions are extractive, it will cause economic institutions to become extractive. This relationship can occur because extractive political institutions do not involve people's participation in implementing government, so that they tend to be manipulated by elite groups for the economic interests of the elite and the groups concerned.

Democracy is conditional on the implementation of the Trias Politica, which can prevent power from being manipulated by one or a few certain people who are vulnerable to corruption, collusion, and nepotism. Furthermore, the democratic system used in which there are general elections and the limitation of the term of office will prevent the possibility of the re-election of corrupt and unfair politicians. Freedom of opinion will be more guaranteed in a democratic system so that people have the opportunity to speak out the truth until injustice occurs. In a democracy, the application of the rule of law can guarantee legal certainty and enforce the law for the people. Furthermore, the freedom of the media and press encourages information disclosure to provide an overview to the people of the State of government so that the people can participate in evaluating the performance of policymakers.

According to Acemoglu et al. (2019), the ideal position of political institutions does not exist because different political institutions will create a different majority and minority groups. Oligarchy, for example, supports the already rich and creates distortions to protect the already established people. On the other hand, democracies usually involve higher taxes on the rich and businesses to generate income to be redistributed to the less fortunate. It is difficult to conclude which system enhances growth more. However, it makes sense and is consistent with the data that dynamic trade-offs between democracy and other regimes may differ from static trade-offs. While democracy can create static distortions because it tends to be redistributive in the long run, as democracies avoid political sclerosis that results when dominating the political system and erect barriers to entry to protect their businesses from new individuals. Therefore, the democratic system is more conducive than other political regimes to creativity which is part of the growth of modern capitalism. In addition, democracy is more flexible and adaptable to the arrival of new technology.

3. Research Methodology

The type of data collected is panel data which consist of cross-section data and time-series data. Time series data are for the 2011-2019 period and cross-section data are from 33 provinces in Indonesia. Data were obtained from the Central Statistics Agency (BPS), the Investment Coordinating Board (BKPM), and other sources. The dependent variable used in this study is the per capita economic growth (2010 constant prices) in 33 provinces in Indonesia in 2011-2019 in percentage units.

Meanwhile, the independent variables in this study are 1) The Indonesian democracy index (IDI) published by Badan Pusat Statistik (2020), which is a composite indicator that shows the level of democracy development in the provinces in Indonesia. The IDI measurement uses the Unified Index from the numbers 0-100; the lower the IDI score, the worse the democracy, and the higher the IDI score, the better the implementation of democracy. 2) The labor force uses the ratio of the working population aged from 15 years old and over to 64 years old to the workforce in percentage units. 3) The investment used in this study is the ratio of the realization of foreign investment (PMA) to the Gross Regional Domestic Product of each province (GRDP) at constant prices in 2010 in percentage. 4) Initial growth is data on economic growth per capita of the year before.

The type of data collected is panel data consisting of cross-section data and time-series data. Time series data for the period 2011-2019 and cross-section data from 33 provinces in Indonesia. Data were obtained from the Central Statistics Agency (BPS) and the Investment Coordinating Board (BKPM) and other sources. The dependent variable used in this study is the dependent variable is economic growth per capita (constant 2010 prices) in 33 provinces in Indonesia in 2011-2019 in percentage units.

While the independent variables in this study are:
1) The Indonesian democracy index (IDI) published by BPS, is a composite indicator that shows the level of democracy development in the provinces in Indonesia. The IDI measurement uses the Unified Index from the numbers 0-100, the smaller the IDI score the worse the democracy, and the higher the better the implementation of democracy. 2) The labor force uses the ratio of the working population aged 15 years and over to 64 years of age to the workforce in percentage units. 3) The investment used in this study is the ratio of the realization of foreign investment (PMA) to the Gross Regional Domestic Product of each Province (GRDP) at constant prices in 2010 in percentage. 4) Initial growth is data on economic growth per capita of the previous year.

3.1. Analysis Models and Methods

This study uses analysis by adopting the economic model of Levine & Renelt (1992), which are as follows:

$Y = \beta_i I + \beta_m M + \mu$

Where:

Y = Economic Growth
I = Growth Function Variable
M = Researcher's Interest Variable
μ = *Error Term*
β_i, β_m = The regression coefficient of each variable that affects.

Then the above model is transformed into a panel data regression equation model as follows:

$PE_{it} = \beta_0 + \beta_1 IDI_{it} + \beta_2 TK_{it} + \beta_3 PMA_{it} + \beta_4 IG_{it-1} + \mu_{it}$

Information:

PE = Economic growth per capita (percent)
IDI = Indonesian Democracy Index (index)
TK = Labor (percent)
PMA = Foreign Investment (percent)
IG = Initial Growth (percent)
i = 1, 2, 3, …*n*, the number of the individual cross
t = 1, 2, 3, …*t*, dimension of time series
β_i = Constant (intercept)
μ = *Error Term*

3.2. Panel Data Regression Model

In the analysis with panel data models, there are three types of estimation approaches that are commonly used, namely Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). To determine the best model in panel data analysis, model specification tests were carried out, namely the Chow test, Hausman test, and Lagrange Multiplier (LM) test (Baltagi, 2015).

3.2.1. Common Effect Model (CEM)

This method is the simplest technique for analyzing combined panel data of time series data and cross section data. By simply combining this data without looking at the difference between individuals and time, we can use the Common Effect method to estimate the panel data model, in this approach, it doesn't pay attention to individual dimensions or time (Baltagi, 2015).

3.2.2. Fixed Effect Model (FEM)

The Fixed Effect Model is a panel data regression model that assumes different interceptions in the equation. The Fixed Effect Modeling technique uses dummy variables to capture intercept differences in the equation. In FEM based on the same intercept between time but different on the intercept. Also, the regression coefficients between firms and over time in this model are assumed to be fixed. The Least Squares Dummy Variables (LSDV) technique is another term for FEM regression. (Baltagi, 2015).

3.2.3. Random Effect Model (REM)

The random effect approach is an approach taken to increase the inefficiency of the least squares process by taking into account the cross-sectional and time series errors. The random effect model is a variation of the generalization of least squares estimates. This approach assumes that unobserved individual effects are not correlated with the regressor or in other words random.

3.3. Statistical Hypothesis Testing

The main component of econometric testing is hypothesis testing. This test has uses in drawing research conclusions, in addition to hypothesis testing is used to determine the accuracy of the data. In testing the hypothesis, there are three (3) forms of testing to be carried out, namely the individual parameter significance test (t test), the simultaneous significance test (F test), and the coefficient of determination (R^2).

3.3.1. Statistical t-test

According to Gujarati & Porter (2009), the t-statistical test looks at the relationship of influence between the independent variables individually on the dependent variable. The hypothesis used is as follows:
Testing the regression coefficient hypothesis by using individual parameter significance tests at 99%, 95%, and 90% confidence levels with degrees of freedom (df = (n-k)). This test is based on positive and negative values. The test criteria are as follows:
If H_0 is rejected, it means that the independent variable being tested has a significant effect on the dependent variable. If H_0 is accepted, it means that the independent variable being tested has no significant effect on the dependent variable.

3.3.2. F-Statistics Test

According to Gujarati (2007), the F-statistical test was conducted to determine whether all independent variables had a significant or insignificant effect on the dependent variable. Testing the hypothesis simultaneously using the F statistical test using a 95% confidence level and with degrees of freedom (df 1 = (k-1)) and (df 2 = (n-k)).

3.3.3. Coefficient of Determination (R^2)

The coefficient of determination (R^2) is used to see how well the regression line fits the data or to measure the percentage of the total variation in Y explained by the regression line using the concept of the coefficient of determination (R^2). The value of the coefficient of determination lies between 0 to 1. The closer the number is to 1, the better the regression line is because it can explain the actual data. The closer to zero we have a less good regression line. R^2 is the unadjusted coefficient of determination. Then the next is the adjusted coefficient of determination. In this case, it is called adjusted R^2.

4. Discussion

Table 2. Panel Data Estimation Results with Common Effect, Fixed Effect, and Random Effect Approaches

Bound Variable = Growth-Economy			
Independent Variable	Model		
	CEM	FEM	REM
Constant	4.121	3.175	0.1492
Index-democracy	0.002	0.026 **	0.002
Labor	0.046	0.149 **	0.046
PMA	0.147 ***	0.230 **	0.147 **
Intial-growth	0.375 *	0.108 **	0.375 *
R-squared	0.129	0.619	0.129
F-Statistic	10.819	8.347	24.4021
Cross-section F		2.391	
(Chow Test)		(0.000) *	
Cross-section Random		70.278	
(Hausman Test)		(0.000)	

Source: Processed Data using Eviews 9.0

Information:
* = Significant at 99% confidence level (α 0.01)
** = Significant at the 95% confidence level (α 0.05)
*** = Significant at 90% confidence level (α 0.10)

Based on the results of the tests conducted, the best model for analyzing the data is the Random Effect Model (REM) approach. The following is the regression coefficient obtained from the REM approach.
$PE_{it} = 3.175 + 0.026IDI_{it}^{**} + 0.149TK_{it}^{**} + 0.230PMA_{it}^{**} + 0.108IG_{it-1}^{***}$

The constant value (C) shows a positive sign of 0.1225, but it is not statistically significant. The Indonesian Democracy Index (IDI) is significant and has a positive effect. This finding is in accordance with the hypothesis that the increase in the quality of democracy in the long run tends to have an effect on driving economic growth in a positive direction. Democracy is a condition with the existence of a Trias Politica that is applied which can prevent power from being manipulated by one or few certain people who are vulnerable to corruption, collusion, and nepotism. Furthermore, the democratic system used in which there are general elections and limitation of the term of office will prevent the possibility of the re-election of corrupt and unfair politicians. Freedom of opinion will be more guaranteed in a democratic system, so that people have the opportunity to reveal the truth about the injustices that occur. In a democracy, the application of the rule of law can ensure legal certainty and enforce the law for the people. Furthermore, the freedom of the media and the press encourages information disclosure to be able to provide the people with a picture of the condition of the government, so that people can participate in evaluating the performance of policymakers.

Freedman & Tiburzi (2012) who stated that in Indonesia democracy has taken root in society, but some things have not been optimally done, such as eradicating corruption. Corruption still occurs at the bureaucratic and private levels, both parties commit acts of corruption to gain personal and group benefits. Shabbir (2017) finds that corruption becomes a lubricant for the economy in countries that have poor democratic norms and corruption becomes the sand for the economic engine in countries that already have good democratic norms. They argue that the promotion of democratic norms is essential to curb the level of corruption and improve the nation's economic performance because institutional development encourages a system of checks and balances in the country that increases economic growth through increased investment.

In addition, democracy in Indonesia has led to political corruption. Political corruption is at the top of corruption cases in Indonesia. The Corruption Eradication Commission (KPK) said that more than 60% of the perpetrators of corruption crimes handled were politicians. Data on the handling of KPK cases in 2018 revealed that around 61.17% of the perpetrators were processed in corruption cases with a political dimension, namely 69 members of the DPR, 149 members of the DPRD, 104 regional heads, and 223 other parties involved in the case.

According to Acemoglu et al. (2019), the ideal position of political institutions does not exist because different political institutions will create different majority and minority groups. Oligarchy, for example, supports the already rich and creates distortions to protect these established people. On the other hand, democracy usually involves higher taxes on the rich and businesses to generate income to be redistributed to those who are less fortunate. It is difficult to conclude which system promotes growth more. However, it is plausible and consistent with the data that dynamic trade-offs between democracies and other regimes may differ from static trade-offs. Meanwhile, democracy can create static distortions because it tends to be redistributive in the long run as it avoids political sclerosis that results when it dominates the political system and erects entry barriers to protect their businesses from new individuals. Therefore, the democratic system is more conducive than other political regimes to creativity which is a part of the growth of modern capitalists. Also, democracy is more flexible and adaptable to the arrival of new technologies.

Colagrossi et al. (2017), by adopting a multi-level meta-analysis framework, found that the effect of democracy on economic growth was weak although it was positive. The relationship between democracy and growth is not homogeneous across regions and world time periods. At the same time, the models estimated using the internal estimator have a significant, albeit negative, impact on economic growth. This seems to suggest that the effects of democracy in Indonesia also follow a similar trend. Polterovich & Popov (2007) and Doucouliagos & Ulubaşoğlu (2008) stated that in countries with poor legal structures and foundations, rapid democratization had an impact on the deterioration of macroeconomic policies and institutional capacities which adversely affected economic growth. Early transitions of electoral democracy in countries with weak structures and legal foundations can undermine growth and impose high social costs. This means that the application of democracy must be gradual and in line with the strengthening of order and law.

Based on the calculation results, it shows that the labor ratio has a significant and positive effect on economic growth in provinces in Indonesia. This result is also in accordance with the research conducted by Levine & Renelt (1992), which states that the population that is transformed into the workforce will always have a significant and positive effect on economic growth in a region. Foreign investment has a significant and positive influence on economic growth in provinces throughout Indonesia. This result is also consistent with the research of Levine & Renelt (1992) which states that capital will have an impact on increasing economic growth. According to the calculation, it shows that Initial Growth has a positive and significant effect on economic growth in provinces in Indonesia and Initial Growth also shows a positive sign, which means that there is a convergence of economic growth in provinces in Indonesia for the 2012-2019 period. This shows that some poor/underdeveloped provinces in Indonesia have been able to catch up with developed provinces in terms of their economy and development.

5. Conclusion

Democracy in Indonesia has a statistically significant effect on economic growth in Indonesia. In the long run, a good quality democracy tends to encourage an increase in economic growth. The variables used, such as labor and foreign investment, have a statistically significant effect on economic growth in Indonesia as increases in labor and foreign investment are able to boost economic growth. Economic growth in Indonesia is already in good condition because the economic growth that occurs is convergence growth which shows that some poor/underdeveloped provinces can catch up with developed provinces. Improvements in democracy in Indonesia should also strengthen democratic norms that apply in society, such as the reduction of corrupt behavior, especially political corruption and money politics in obtaining public office because if this behavior cannot be improved, then the resulting democracy will have little impact on the economy.

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