

The Effect of Household Consumption and The Government Expenditure on Economic Growth in Indonesian

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Abstract: This study aims to determine the relationship between household consumption and government spending on economic growth in Indonesia. The method used in this study is the regression data panel, the data used is national income data from 2010-2016. The results of the study show that household consumption variables have a significant effect on economic growth in Indonesia. Government expenditure variables have a significant influence on economic growth in Indonesia. Simultaneous testing results to find household consumption and government expenditure variables affect economic growth in Indonesia. The results of the classical assumption test do not occur heteroscedasticity, multicollinearity, autocorrelation and normality data.

1 INTRODUCTION

Economic development is a process that aims to make changes in the level of community welfare to be better than the previous situation. There are three macro indicators that serve as a measure of development progress. These indicators are the rate of growth, the level of job creation and price stability (Mankiw, 2003).

Economic growth in a country is a long-term economic problem, which continues to change every year. In addition, economic growth can also be used as a measuring tool to see and analyze the macro and microeconomic developments in the country. Economic growth can be caused by many factors. In advanced countries, they can rely on the production of their goods and services, but do not cover the likelihood of their loans and the investment entering the country (Susanti, Ikhsan, Widyanti, 2000).

Indonesia's economy Gross domestic regional growth from 2006 increased and decreased, 2006 was 15%, 13% in 2007, 2008 increased, was in the range of 20%, then decreased significantly in 2009 by 7%, in 2010 increased to 13%, 2011 to 2015 in Indonesian amounted to 4.79% decreased compared to the year 2014 of 5.02%. The weakening of the economy is in line with various weak indicators. Growth on the production side is in the category of information and communication that annually grows above 10%,

while the growth characteristic on the demand side remains at its trademark characteristic, which is dominated by household consumption expenditure movements that make up more than half of the total Gross Domestic Product (GDP).

The higher household income levels, the smaller the proportion of food expenditure on all household expenditures. It can be said that households will be more prosperous when the percentage of expenditure on food is much smaller than the percentage of non-household expenditure, household expenditure includes all expenditures for consumption of goods and services. Household expenditures decreased from 17% to 15% in 2006, and then increased to 16% in 2008, after a fluctuating rise and fall in 2008, with significant decline in 2016, in the range of 5 % (Badan Pusat Statistik Indonesia).

The role of government is very necessary in regulating the economy, one of them is by applying fiscal policy to allocate government expenditure in the construction of facilities and infrastructure needed by the community. The level of effectiveness of government spending can be measured by how much economic growth can be achieved, this is because government spending is more closely related to the regional income and expenditure budget, which can directly affect the revenue and financing of the region, thus affecting the direct economic growth. The highest growth of government spending occurred in 2006, with a value of 24%, then increased and

decreased volatile and the lowest occurred in 2016 with a value of 1%.

2 LITERATURE STUDIES

2.1 Economic Growth

According to Rostow (1960), economic growth can be interpreted as a process that causes changes in people's lives, namely political change, social structure, social values, and the structure of economic activity. Whereas Kuznets, economic growth is defined as a long-term increase in the ability of a country to provide more and more types of economic goods to its population where this ability grows in accordance with technological progress, and the institutional and ideological adjustments it needs. But using various types of production data is very difficult to provide an overview of economic growth achieved. Therefore to provide a rough picture of the economic growth achieved by a country, the measure that is always used is the level of real national income growth achieved.

Harrod-Domar's analysis in the economy of two investment sectors must increase so that the economy experiences prolonged growth and the increase in investment is needed to increase aggregate expenditure. In Harrod-Domar's theory, the requirement to reach full capacity is not considered if the economy consists of three sectors or four sectors. Although based on the theory, it can easily be concluded that things need to apply if aggregate expenditure includes more components, which include government expenditure and exports. In such circumstances increased capital goods can be used fully if $AE = C + I + G + (X - M)$ where $I + G + (X - M)$ is equal to $(I + \Delta I)$.

2.2 National Income

Gross Domestic Product (GDP) or also referred to as Gross Domestic Product (GDP) is the market value of all final goods and services produced in a country in a period (Mankiw, 2003), covering the factors of production owned by its own citizens and those of citizens foreigners who produce in the country. Nanga (2005) suggests that consumption expenditure factors are income, taste, social factors of culture, wealth, government debt, capital gains, interest rates, price levels, money illusion, distribution, age, geographic location, and income distribution. Basically, the most influential factor on consumption is income, but cannot be influenced by other factors

which have a strong influence on people's consumption.

The value of shopping carried out by households to buy goods and the type of needs in a particular year is called household consumption expenditure or in macroeconomic analysis more commonly referred to as household consumption. The income received by the household will be used to buy food, buy clothes, finance transportation services, pay for children's education, pay for rent and buy a vehicle. These items are purchased by households to meet their needs and the shopping is called consumption, which is buying goods and services to satisfy the desire to own and use the goods.

Not all transactions carried out by households are classified as consumption (household). Household activities to buy a house are classified as investments. Furthermore, some of their expenses, such as paying for insurance and sending money to parents (or children who are in school) are not classified as consumption because they are not shopping for goods and services produced in the economy (Jhingan, 2012).

The consumption theory developed by Milton Friedman in his book entitled *The Theory of the Consumption Function* in 1957 known as the theory of permanent income on consumption suggests that current consumption expenditure or current consumption depends on current income or current income and estimated income in the future or anticipated future income (Nanga, 2005).

2.3 Government Expenditures

Government expenditure reflects government policy. If the government has established a policy to buy goods and services, government expenditure reflects the costs that must be incurred by the government to implement the policy. (Mangkoesebroto, 1994). Government spending reflects government policy. If the government has established a policy to buy goods and services, government expenditure reflects the costs that must be incurred by the government to implement the policy. The relationship between government spending and economic growth is theoretically explained in the Keynesian Cross (Mankiw 2003) which states that increasing government spending has an impact on the increase in economic growth measured through income and output levels.

Government expenditure has a theoretical basis that can be seen from the national income balance identity that is $Y = C + I + G + (X - M)$ which is the source of the legitimacy of the Keynesian view of the

relevance of government intervention in the economy. From the above equation can be examined that the increase or decrease in government expenditure will increase or decrease national income. Many considerations underlie government decision-making in managing its expenses. The government is not enough to only achieve the ultimate goal of every expenditure policy.

But also must take into account the intermediate goals that will enjoy the policy. Increasing expenditures for the sole purpose of increasing national income or expanding employment opportunities is inadequate. But it must be taken into account who will be employed or increase their income. The government also needs to avoid increasing its role in the economy to undermine the activities of the private sector (Dumairy, 1997)

3 METHODS

Regression analysis in statistics is one method for determining the causal relationship between one variable and another. This analysis is used to determine the degree of closeness of the relationship between variable X and variable Y expressed by:

$$Y: a + b_1X + b_2X + e$$

4 RESULT AND DISCUSSION

Hausman Test

| Test Summary | Chi-Sq Statistic | Probability |
|--------------|------------------|-------------|
| Cross-Setion | 75,5163 | 0,0000 |

Source: Data processed, 2018.

Chi Table 164,342 while the values of Chi Statistics 75,5163, Chi-Statistic value is smaller than Chi- Table, it means the model used is random effect.

Multicolinearity Test

| | Economic growth | Household consumption | Government excretion |
|-----------------------|-----------------|-----------------------|----------------------|
| Economic Growth | 1 | 0,8613 | 0,7495 |
| Household Consumption | 0,861 | 1 | 0,7344 |
| Government Excretion | 0,749 | 0,7344 | 1 |

Source: Data processed, 2018

Based on table 4.3 discovered that the tolerated value of all independent variables <0.10. Based on the criteria in decisioned make can be concluded that there is no multicollinearity.

Autocorrelation Test

| | |
|--------------------|--------|
| Durbin Watson Stat | 1,8238 |
|--------------------|--------|

Source: Data processed, 2018

The values of Durbin-Watson 1.8238.Santoso (2006) if the D-W number below -2 means there is a positive autocorrelation, the D-W number between -2 to +2, means there is no autocorrelation and the D-W number above +2 means there is negative autocorrelation. So it can be concluded there is no autocorrelation because the values of D-W is between -2 to +2 (Santoso, 2006).

Heteroskedasticity Test (Park Test)

| Variables | Probability |
|-----------------------|-------------|
| Economic Growth | 0,0000 |
| Household Consumption | 0,0213 |
| Consumption | 0,0000 |

Source: Data processed, 2018

Heteroskedasticity test using park test, with probability level which become measuring instrument, if probability value below 0,05 does not mean heteroskedasticity.

Normality Test

| Variable | Value |
|-------------|----------|
| Jarque-Bera | 87,20483 |

Source: Data processed, 2018

A good regression model has a normally distributed residual value. Criteria of decision making is normal distributed data value Jarque-Bera value is smaller than Chi Square. Jarque-Bera value of 87.20483 smaller than Chi Square is 164.342.

Panel Data Analyze Test

Based on test results panel data that researchers have done then the panel data equation as follows:

$$PE = 6.211109 + 0.863821 C_{i,t} + 3.108809 P_{i,t} + e_{i,t}$$

The explanation of the equation is as follows =

1. Constant 6.211109, meaning that if consumption and government expenditure is 0, then the constant value of Y is 6,211. If adjusted for existing government consumption and expenditure data, each increase of 0, then the value of economic growth will be constant at 6.211 in 2017 and the following year.

2. Consumption variable regression coefficient of 0.863821, meaning that any increase in consumption of 1 unit will raise Y by 0.863821. If based on existing economic growth data, then the growth of economic growth in 2017 and next year with the value of the unit of 0.863821 if there is an increase in household consumption, and vice versa.

3. The regression coefficient of government expenditure variable amounted to 3.108809, meaning that any increase of government expenditure by 1 unit will increase Y by 3,108809. Government spending has an effect, if there is an increase and decrease in government spending, then the value of economic growth in 2017 and next year will increase and decrease by 3.109909.

Coefficient of Determination (adjusted R-squared)

| Variable | Value |
|--------------------|--------|
| Adjusted R-squared | 0,5275 |

Source: Data processed, 2018

Based on the data table, it can be seen the value of the coefficient of determination, that is equal to 52.75%, while the remaining 41.25% influenced by other factors not examined (Ghozali, 2013).

5 CONCLUSIONS AND RECOMMENDATIONS

a. Variables of household consumption have a significant effect on economic growth in Indonesia.

This is consistent with the theory that household consumption tends to affect economic growth. Revenue earned by households will be used to buy food, buy clothes, finance transportation services, pay for children's education, pay rent and purchase vehicles.

b. Government expenditure variable has significant effect to economic growth in Indonesia. This is in line with the theory that there is a relationship between government spending on economic growth. Increased government spending has an impact on the growth of economic growth as measured by income and output levels.

Suggestions for further research are as follows:

a. For economic developers to pay more attention to the rate of economic growth from other sectors that are considered capable of affecting economic growth.

b. For the next researcher, it is suggested to add research variable, research period to be more detail in analyzing the economic growth that happened.

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