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The Effect of Government Expenditures, Private Investment and Labor on Economic Growth in Pidie District

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Abstract

This study aims to determine the effect of government spending, private investment, and labor on economic growth in Pidie District, Data analyzed from 2000-2016, using multiple linear regression model. The results of research on government spending, private investment and labor both simultaneously and partially have a positive and significant impact on economic growth in Pidie District. Variations of government expenditure variables, private investment and labor are able to explain the variation of economic growth in Pidie District by 48,7 percent and the rest of 51,3 percent influenced by other variables. Labor is the most dominant variable of influence on economic growth in Pidie District. Private investment is the least influence variable to economic growth in Pidie District. The need for a policy that could make private government investment spending, and labor increases simultaneously so it is likely to have a positive impact on improving economic growth in Pidie District.

Keywords: Economic Growth, Government Expenditure, Private Investment, Labor

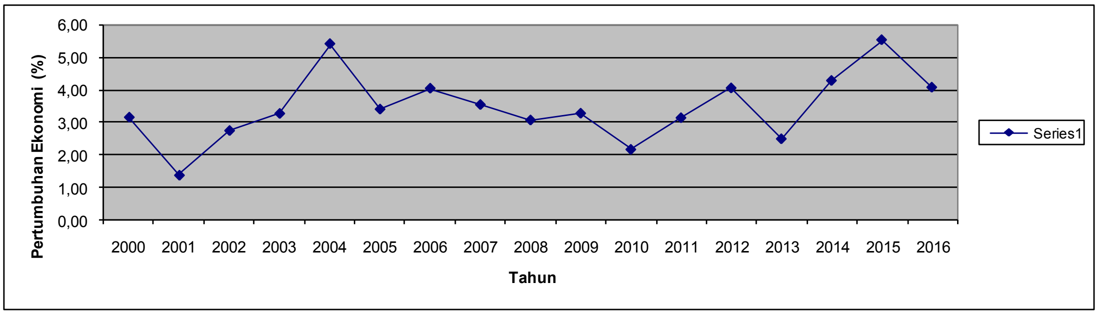
INTRODUCTION

Indonesia's monetary crisis since 1997 and then followed by economic and political crisis has led to decentralization to reduce the burden of the state budget that is too heavy due to foreign debt. The arrangement of financial relations between the central and local governments should be done fairly, proportionally and accountably so that the needs of expenditures that will be the responsibility of the regions can be funded efficiently and effectively from decentralized sources of revenue.

Economic growth is defined as a long-term increase in per capita output. There are three aspects to note in the definition, namely process, output per capita, and long term. Economic growth is a process, not an economic picture at one time (Putra, 2009). Relatively low economic growth and income is sustained by public consumption (Kuncoro, 2004). Economic growth is defined as an increase in Gross Domestic Product (GDP) and Gross National Product (GNP) regardless of the increase is greater or less than the rate of population growth, or changes in economic structure and not (Arsyad, 2009:15).

Economic growth is measured by changes in the growth of gross domestic product can be used as a measuring tool to see the structure of the economy, whether an economy is growing or not. An economy is said to be growing if the level of economic activity achieved in year is higher than the level of economic activity achieved in the previous year. To know the economic growth in Pidie District period 2000 to 2016 can be shown in Figure 1.

Figure 1. Economic Growth Development of Pidie District Period 2000-2016

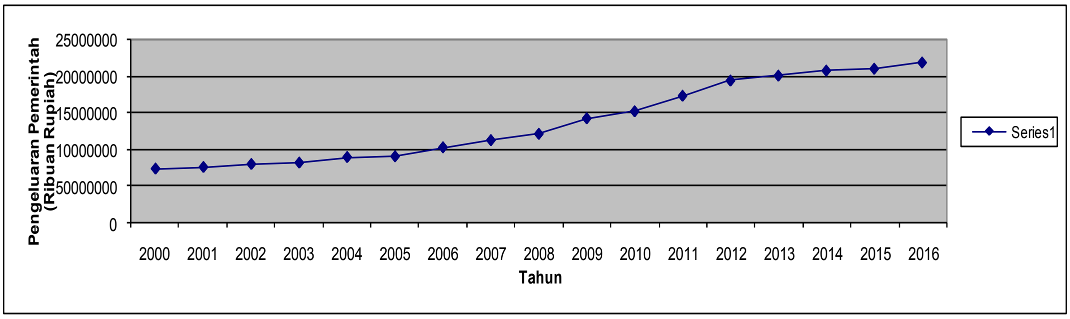


Source : BPS of Aceh Province, 2017

From Figure 1, economic growth in Pidie District from 2000-2016 is relatively increasing but fluctuating. The average rate of economic growth in Pidie District ranges from 1.39 to 5.5 percent. The main goal of long-term development is the realization of a strong foundation for the nation to grow and thrive on its own power to a just and prosperous society.

Economic growth is also largely determined by the role of government. The role of government is crucial to the success of economic development of a region. Economic activities undertaken by the government are shown for changes in economic structure by fiscal policy through the establishment of state budget revenues and expenditure plans. Government expenditures in principle should be sufficiently financed by domestic income. The net difference between the total revenues and expenditures of the government budget will distinguish the type of fiscal policy to be implemented. Governments in any system and form of government play a direct role through fiscal policy and monetary policy.

Figure 2. Pidie District Government Expenditures Period 2000-2016

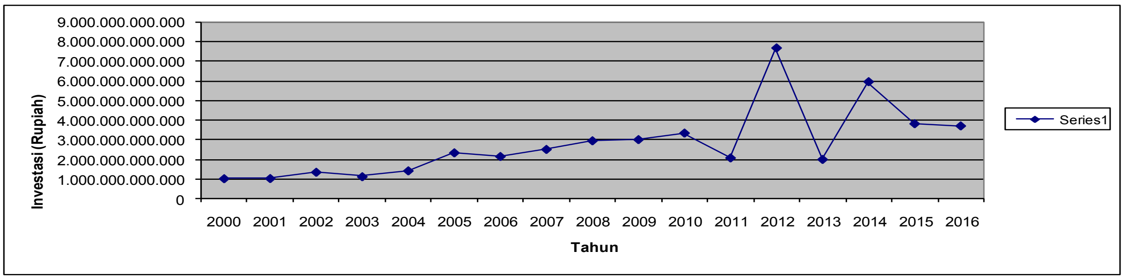


Source : BPS of Aceh Province, 2017

From Figure 2 illustrates the development of government spending in Pidie District 2000-2016. In general, government expenditures in Pidie continue to increase, we can argue that based on the theoretical concepts of public expenditure devoted to the public interest and welfare of society will encourage increased per-capita income from year to year. This increase is marked by the rise of Gross Domestic Product through the working of multiplier effects. In turn, the increase in Gross Domestic Product will increase the economic growth itself.

Indonesia's bureaucratic system is still far from an efficient, strong and clean bureaucracy. Poor bureaucratic performance leads to the development of collusion practices, especially in the form of bureaucratic alliances and economic power for their immediate short-term interests and thus result in distorting economic policies. Thus it can lead to high cost economy and ultimately can hinder the development of private investment. Investment is an investment for one or more assets owned and usually long-term in the hope of gaining profit in the future. Today there are many countries that conduct policies aimed at increasing investment in both domestic and foreign capital. To know the development of investment in Pidie district period 2000-2016 can be seen below:

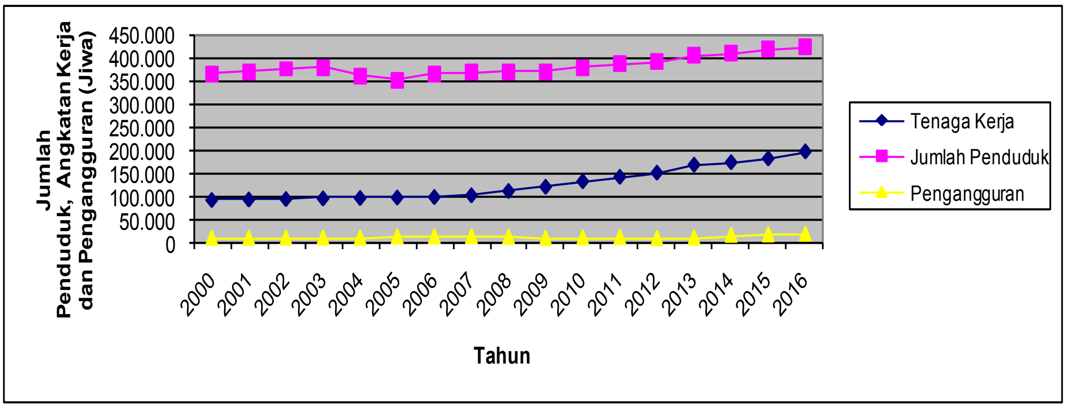
Figure 3. Development of Private Investment Pidie District Period 2000-2016



Source : BPS of Aceh Province, 2017

Figure 3 illustrates the development of private investment in Pidie District, showing a fluctuating trend each year. This is because private investment in Pidie District as well as economic conditions in general, did not escape the symptoms of inequality. Investment inequality occurs sectorally and regionally. Economic growth is also largely determined by the amount of labor. Labor is also a factor affecting the output of an area. Labor is divided into two groups: the labor force and not the labor force. The labor force is a manpower who works or has a temporary job, does not work and is looking for a job. The non-workforce are unemployed workers who are not looking for work, those are school (student and student) activities, taking care of the household (mothers who are not career women), as well as receiving income but not the benefits directly on his services (pension).

Figure 4 Development of Manpower, Population and Unemployment in Pidie District Period 2000-2016



Source : BPS of Aceh Province, 2017

Population growth in Pidie District in 2000-2016 period shows an increasing trend every year but labor also increases with increasing population, while unemployment is relatively constant. The increasing workforce provides an opportunity for the Pidie District Government to continue to increase investment opportunities that can create new job opportunities that will ultimately boost economic growth.

LITERATURE REVIEW

Economic Growth

Development in a country is basically the development of human resources. This development should be implemented evenly so that there is no development imbalance. Development carried out is usually focused on the economic field. Development is as a process of continuous improvement of a society towards a better or more humane life (Todaro, 2011:19).

Economic growth can be measured by an increase in national income as reflected in the value of Gross Domestic Product (GDP). More relevant in this measure is used because of its measurement according to the region boundary. With this the effectiveness of government policy can be assessed. According to Froyen (1996: 20) a more relevant measure to measure the rate of economic growth is the value of Gross Domestic Product based on constant prices, as it may reflect real national income. In this case it means that economic development is measured from the size of income.

Economic growth is an absolute thing that every country or region wants to achieve. Todaro (2011:123) explains that the pursuit of growth is a central theme in the economic life of all countries today. Generally, economic growth is difficult to achieve, especially countries with low natural resources or human resources. A country with abundant natural resources does not guarantee good economic growth. The closest example is that Indonesia is a country with abundant natural resources, but its economic growth rate is low, but on the other hand, although a country with limited natural resources but it is capable raising high levels of economic growth as it is supported by human resources which is good as Japan and Singapore.

According to Classical theory, the accumulation of capital and the amount of labor has a very important role in economic growth. Smith mentioned there are three main elements in the production of a country, namely:

a. Available resources: land.
b. Human resources: population,
c. Stock of existing capital goods.

Sasana, (2009:116), argues that there are several important factors in the role of economic growth, namely: the role of free market system, market expansion, specialization and technological progress. Ananta (2013:2), added that to see the fluctuation of economic growth in real terms from year to year is illustrated by constant presentation of GDP at constant prices, that is positive growth indicates an increase in the economy, whereas negative indicates a decline in economic growth is usually accompanied by the process of accumulation or process of use of resources and state funds.

Adam Smith's Economic Growth Theory

Adam Smith in his book "An Inquiry Into the Nature and Causes of the Wealth of Nations", put forward the factors that give rise to economic development. In Adam Smith's view, which was coined in 1776, Laissezfaire's wisdom or system of market mechanisms will maximize the level of economic development that a society can achieve (Smith, 2007:18).

The growing population will expand the market, and market expansion will drive the level of specialization. Specialization will enhance the level of economic activity or accelerate the process of economic development, because the specialization will encourage labor productivity and encourage the level of technological development. Concerning the pattern and process of economic growth, Adam Smith suggests that if development has taken place then the process will continue to take place cumulatively.

Smith's optimistic view of the pattern of the above development process is very much against the opinions of David Ricardo and Malthus, who are more pessimistic about the long-term development process. Because in the long run they think the economy will reach the "stationary state", a condition in which economic development does not occur at all. While the development of the population in their opinion, will reduce back the level of development of low phases.

Economic Growth Theory of Rostow and Harrod-Domar

Rostow's theory explains that there are steps that a country passes through in economic growth. One way to accelerate economic growth is by strengthening national savings. This theory is clarified again with Harrod-Domar theory which states that the more portion of GDP saved will increase the capital stock to increase economic growth. Both theories explain that high levels of savings and capital stock will increase economic growth. However, some empirical studies show different results between countries in Eastern Europe and in Africa. This suggests other factors affecting economic growth, such as the quality of human resources and supporting infrastructure (Todaro, 2011:129).

Harrod-Domar is an economist who developed Keynes's analysis that emphasized the need for investment in creating economic growth. Therefore, according to him every economic effort must save a certain proportion of the national income is to increase the stock of capital to be used in new investment.

Solow Economic Growth Theory

This theory explains how savings and investment rates, population growth and technological advances affect the level of economic output and growth over time (Mankiw, 2010:132). In this theory technological developments are assumed to be exogenous variables. The relationship between output, capital and labor can be written in the form of the function y = f (k). According to Solow's theory there are several things that are done to spur economic growth.

Increasing the share of savings will increase the accumulation of capital and accelerate economic growth. In addition, it increases the appropriate investment in the economy both in physical and non-physical form. Encouraging technological advances can increase income per work force so that the provision of opportunities to innovate in the private sector will have a major impact on economic growth.

In his theory, Solow explains that investment, savings, population growth, and technology affect the level of the economy and its growth. The basic model of Solow's growth theory is Y = F (K.L). Where Y = output, K = physical capital, and L labor force. If both sides are divided by L, then the result will be: Y = f (k). With Y = output per worker and K = capital per worker. From the equation, if it is known that according to Solow, economic growth depends on the development of capital and population or population growth, because the increase of capital or capital is influenced by the size of the savings and the depression of capital. As for certain periods capital or capital gain can be zero (Mankiw, 2010:105).

Endogenous Growth Theory

Endogenous Growth Model by looking at a simple production function: Y = AK Where Y is output, k is a capital stock, and A is a constant that measures the amount of output produced for each unit of capital. This production function does not show the payload of decreasing capital returns. An additional unit of capital produces an additional A output unit, regardless of how much capital there is. The presence of an increasingly decreasing capital return is an important distinction between the endogenous growth model and the Solow model.

Concept of Government Expenditure

Government expenditure is a set of produced products that contains the choices or decisions made by the government to provide public goods and services to the public. Total government expenditure is the overall sum of budget decisions at each level of government (Central-Provincial-District / City). At each level within the government it can have a final decision on the different manufacturing process, and only a few things the government under it can be affected by a higher government.

Government expenditure is part of fiscal policy. Sukirno (2012:168), states that a government action to regulate the economy by determining the amount of revenues and government expenditure each year as reflected in the APBN document for national and regional budgets. The objective of this fiscal policy is order to stabilize prices, output levels and employment opportunities and spur economic growth. Wagner's observations of European countries, the United States and Japan in the 19th century show that government activities are increasing from year to year. Wagner measures it from a comparison of government spending on national products. Wagner put forward a theory of the growing development of government spending in percentages of GNP. As

Wagner's law states in an economy, if per-capita income increases, relative government spending will also increase as well.

Wagner mentions there are five things that cause government spending is always increasing. The five causes are the increasing demands of security and defense, the increase in the level of income of the people, the urbanization that accompanies the economic growth, the development of democracy and the inefficiency of the bureaucracy that accompanies the development of the role of government spending (Dumairy, 2010:162).

Government Expenditures and Economic Issues

The economically viable expenditures of government activities (government expenditures) and the transfer of purchasing power from one group of people to another can have a significant effect on the private and household sectors in the economy, according to Due (2011:195), among others:

1. Effects of allocation and efficiency, the government consciously reallocates resources from various goods to other goods and services by producing general goods or services that have external benefits.
2. The effect concerning the supply of factors of production, the government may affect the level of real GNP by changing the inventory of various factors that can be used in production through expenditure programs such as education, human resources improvement and also through its financing programs, which may changing the willingness of factors to provide for these factors.
3. Securities relating to the redistribution / revenue sharing of national income, the government affects the real income distribution pattern.
4. The effects on stability and growth, expenditure and financing programs will affect the level of achievement of full-employment by changing the total expenditure of the economy and able to change the level of GNP and can affect the rate of economic growth.

Concepts and Functions of Investment

According to Keynes, investment in economic development has a dual impact, namely increasing the capacity of production productivity and national income. While the neo classical opinion, that economic growth is very dependent on the amount of labor and available capital stock. With investment means increasing the amount of capital stock and labor usage for increasing production capacity and market expansion. Increased public income will increase public consumption (effective demand) so that entrepreneurs will be encouraged to enlarge their production and expand the company by adding materials, labor and other equipment (Sobri, 2007:13).

Investing means placing some capital for production and expenditure purposes used to maintain capital goods. The classics argue that investment is an expense that will increase the capacity of society's production that will ultimately increase national income and economic growth (Dornbusch and Fisher, 2012:236).

Indonesia, like other developing countries, lacks capital in development, this is due to the low savings rate as of the low income of the community. For that foreign capital is included as one source of investment financing in Indonesia. Foreign investment, has a strategic value in lightening the burden of development financing. It is also expected to improve the structure of the domestic economy through increased productivity both due to increased capital and the entry of modern technology.

Theory of Growth and Investment

Almost all economists emphasize the importance of investment (investment) as one of the main factors and determinants of economic growth. Investment, on the one hand, reflects effective demand, and on the other hand it reflects the bidding ability to create productive efficiency for future production. Even Rostow argues that investment is one of the important conditions that must be met in entering the stage of take-off process (Jhingan, 2008:172).

According to Glassburner, Harrod-Domar's growth theory combined with the analysis of two precipices has underpinned the analytical framework in predicting capital and output in development in Indonesia (Sukirno, 2012:350). This is due to the limited capability of capital formation in Indonesia, causing investment to be financed through two sources, namely domestic sources (domestic savings = government savings + private savings and foreign exchange exports) and foreign sources (foreign aid) foreign debt and foreign private investment. The entry of foreign capital in economic development in Indonesia is only temporary as a driver of economic growth and an increase in the ability of the formation of domestic savings.

Understanding Labor and Labor Force

In general it can be said that the definition of labor is a part of the population that has reached working age, the working age in question is different in each country, depending on the provisions of the law that apply to the country concerned. This difference is due to the individual labor situation of each country is also different.

Labor is a resident who is in working age. According to Law No. 13 Year 2003 Chapter I Article 1 paragraph 2 mentioned that the workforce is anyone who capable do work to produce goods and or services both to meet the needs of themselves and for the community. Broadly speaking the population of a country is divided into two groups, namely labor and not labor. Residents belong to the workforce if the population has entered the working age. The working age limit applicable in Indonesia is 15 years old - 64 years old. According to this understanding, everyone who able to work is called a workforce.

Simanjuntak (2012:3) suggests that the size of the workforce in society is the number of people offering services to the production process, some of whom are already active in their activities in producing goods and services, they are called the working class and some are classified as ready to work and looking for work, they are called job seekers or unemployed. The number of employed and job seekers is called the labor force.

Population Growth and Labor Force

Population growth and the labor force, traditionally, are considered a positive factor in stimulating economic growth. Larger workforce means increasing the number of productive forces, while greater population growth will increase the breadth of the domestic market. Nevertheless, it is questionable whether the rapid growth of labor supply offerings in developing countries with excess labor force will have a positive or negative effect on economic development. In fact, it depends on the ability of the economic system to absorb and productively employ the additional labor force.

In the third world countries are abundant labor force but scarce capital. The advancement of capital-saving technology is something that is most needed. Such advances will result in more efficient (is lower cost) labor-intensive production methods such as rotating lawnmowers or hand-held sieving machines, foot-driven pumps and mechanical sprayers on the backs for small-scale farming (Todaro, 2011:119).

Balance of Labor Market and Wages

In a traditional free-market economy, its main features include the protagonist's sovereignty, utility or individual satisfaction, and the principle of profit maximization, perfect competition and economic efficiency with atomistic producers and consumers. An atomistic producer and consumer means that no producer or consumer has any influence or power enough to dictate input prices or production output. The absorption rate of labor and its price (ie wage rate), determined jointly or simultaneously by all output prices and factors of production (excluding labor), in an economy operating through the balance of forces of demand and supply (Todaro, 2011:124).

Previous Research

Sjoberg (2003) argues that there is a positive and significant relationship between government spending on consumption, investment and transfer with economic growth in Sweden during the period 1960-2001. In addition, private investment, private consumption and interest rates have an appropriate and significant mark for economic growth in Sweden for the same period. Hasan et al (2013) in his research found that there is a significant influence of investment, labor force, government spending on economic growth (Y) in West Sumatra Province. This is shown by the significance value of each independent variable (investment, labor force, and government expenditure) on economic growth smaller than α = 5%. With the increase of investment, labor force, government spending will increase economic growth (Y) in West Sumatra Province.

Mursal (2015) in his research mentions that labor has a significant and positive effect on economic growth, this is in accordance with the hypothesis that developed in this study. Economic growth can be explained by labor variables, and investment of 91.4 percent and the rest of 8.6% can be explained by variables. Based on the estimation result of investment variable did not have a significant effect to economic growth in Aceh Province.

Theoretical Framework

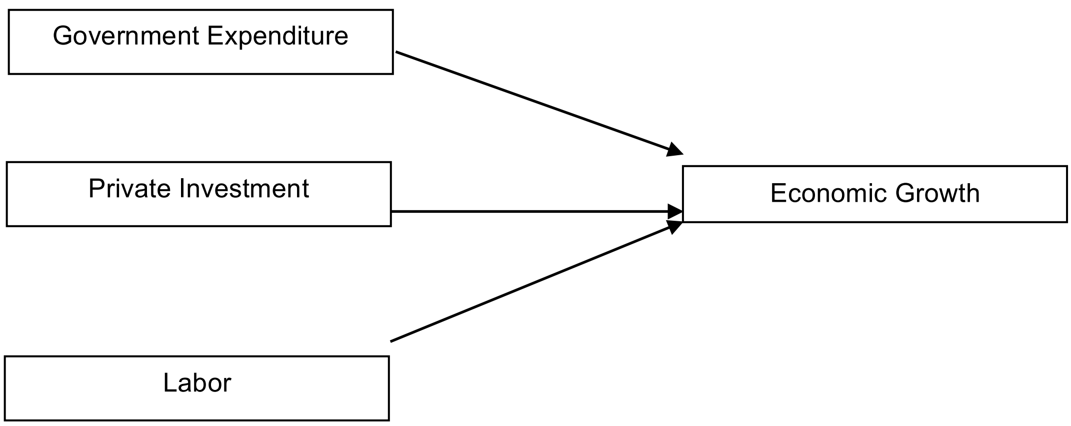


Figure 5. Framework

From the picture above shows that economic growth in Pidie District is influenced by government expenditure, private investment and labor, this research will be analyzed by using multiple linear regression model.

Research Hypothesis

Based on the framework that has been stated before, the research hypothesis formulated that there is a positive influence of government spending, private investment, and labor on economic growth in Pidie District.

METHODS

This study aims to examine the effect of government spending, private investment, and labor on economic growth in Pidie District. Government spending, private investment, and labor as independent variables and economic growth as dependent variables. The data used in this study comes from the Indonesian Central Bureau of Statistics (BPS), Ministry of Manpower, Bappeda and others. The type of data used is secondary data using government expenditure variables, private investment, and labor and economic growth from 2000-2016.

Regression Model

The model of economic growth analysis in this study uses a model of economic growth analysis developed by Solow, using the growth function with influencing variables, namely government expenditure, private investment and labor. The mathematical model used is the general regression equation (Gujarati, 2006:162)

$$Y = \alpha + \beta 1X1 + \beta 2X2 + ... \beta nXn + \varepsilon$$

Then the model is formulated into semi-Ln form because to make the units in each variable in this research model have the same unit and easier to analyze with equation as follows: (Gujarati, 2006:162}.

$$Y = \alpha + \beta 1Ln\ Exp + \beta 2Ln\ I + \beta 3Ln\ L + \varepsilon$$

Where:

Y	=	Economic growth
α	=	Constants
β1...β3	=	Regression Coefficient
Ln Exp	=	Government Expenditure
Ln I	=	Private Investment
Ln L	=	Labor
ε	=	Error Term (variable interrupt)

Data analysis technique

From the above equation will be estimated using Ordinary Least Square (OLS) method and considering the possibility of deviation of classical assumption that is multicolinierity, heterocedasticity and autocorrelation. Statistical testing is done by looking at the t-test and the F-test. This t test is conducted to see the effect of independent variables on the dependent variable individually (partial). Assuming other variables are constant. If t-hit> t-table with significant value below 5%, it can be concluded that the partial independent variables significantly affect the dependent variable. If the t-hit <t-table with a significant value above 5% then it can be concluded that the independent variable has no effect on the dependent variable.

Test F is done to see the effect of independent variables on the dependent variable simultaneously (simultaneously). If F-hit> F-table with a significant level of 5% then it can be concluded that together independent variables significantly influence the dependent variable. Conversely, if the F-hit <F-table with a significant level of 5% then it can be concluded that together independent variables have no effect on the dependent variable.

FINDINGS

Regression Estimation Results

To find out the effect of government expenditure, private investment and labor on economic growth in Pidie District, the following results are obtained:

Tabel.1. Regression Estimation Result

Unstandardized Coefficients				$F_{calculated}$	
	B	t	Sig		
(Constant)	1,543	1,306	0,214	F Change	= 18,896
government expenditure	1,902	2,545	0,004	Sig F	= 0,000
private investment	0,936	2,308	0,030		
Labor	2,547	2,631	0,000		
Adj R2	0,487				
R2	0,509				

Source: Data Processing Results (2017)

From the table above shows that economic growth in Pidie District is influenced by government expenditure, private investment and labor of 48.7 percent which means variation of government expenditure variable, private investment and labor can explain or influence variation of economic growth in Pidie District equal to 48.7 percent and the rest of 51.3 percent influenced by other variables.

From the research result, it is found that the final equation of estimation is Y = 1,543 + 1,902Ln Exp + 0,936Ln I + 2,547Ln L From the equation is obtained constant of 1,543 meaning that if government expenditure, private investment and labor is considered constant then economic growth in Pidie District only 1.543 percent. The estimated coefficient of government expenditure of 1.902 means that every 1 percent increase in government spending will affect the economic growth of 1.902 percent with the assumption that private investment and labor variables are considered constant. This also fits with the theory that Keynes says, government spending will have an impact on the domestic economy. The results of this study are also in accordance with the research conducted by Sodik (2007) and Hasan (2013) who said that government expenditure has a significant effect on economic growth.

Private investment obtained by regression coefficient of 0.936 which means any increase of 1 percent to private investment will affect the economic growth growth in Pidie District of 0.936 percent with the assumption of variable labor and government spending is considered fixed. This is in line with Solow's theory that investment influences the economy and growth. Economic growth depends on capital development. Almost all economists emphasize the importance of investment (investment) as one of the main factors and determinants of economic growth. Investment, on the one hand, reflects effective demand, and on the other hand it reflects the bidding ability to create productive efficiency for future production. Even Rostow argues that investment is one of the important conditions that must be met in entering the stage of take-off process. The results of this study are also in accordance with research conducted by Pieter (2007), Suindyah (2009), Pambudi (2013) who said that investment showed positive and significant results on economic growth.

The coefficient of labor estimate of 2,547 means that every 1% increase of labor will affect economic growth of 2.547% with assumption that private investment variable and government expenditure are considered constant. This also corresponds to Solow's theory that economic growth is also influenced by the growth of labor seen from the population. More population growth can account for sustainable economic growth. Population increases the number of labor and by itself will increase economic growth. The results of this study are also in accordance with research conducted by Salhab and Soedjono (2012) which says that the number of workers significantly influence the economic growth.

According to Solow's theory there are several things that are done to spur economic growth. Increasing the share of savings will increase the accumulation of capital and accelerate economic growth. In addition, it increases the appropriate investment in the economy both in physical and non-physical form. Encouraging technological advances can increase income per work force so that the provision of opportunities to innovate in the private sector will have a major impact on economic growth.

From the results of the study obtained that F calculated by 18.896 greater than F table 4:2051 at the convident interval 95% means simultaneously government spending, private investment and labor affect the economic growth in Pidie District. If private investment, labor and government expenditures are increasing simultaneously, the likelihood of a positive impact on improving economic growth in Pidie District is, because at the same time, if economic variables such as government spending, private investment and labor effects occur in the economy as well the greater the effects on growing economic growth.

Implication of Research Results

From result of research variable of government expenditure have significant effect to economic growth in Pidie District. This also fits with the theory that Keynes says, government spending will have an impact on the domestic economy. With increasing government expenditure it will also have an impact on the economic growth of a country. Private investment has a significant effect on economic growth in Pidie District. This is in line with Solow's theory that investment influences the economy and growth. Economic growth depends on capital development. Almost all economists emphasize the importance of investment as one of the main factors and determinants of economic growth.

Labor also has a significant effect on economic growth in Pidie District. This also corresponds to Solow's theory that economic growth is also influenced by the growth of labor seen from the population. More population growth can account for sustainable economic growth. Population increases the number of labor and by itself will increase economic growth.

CONCLUSION

Government expenditures, private investment and labor both simultaneously and partially have a positive and significant impact on economic growth in Pidie District. Variations of government expenditure variables, private investment and labor able to explain the variation of economic growth in Pidie District by 48.7 percent and the rest of 51.3 percent influenced by other variables. Labor is the most dominant variable of influence on economic growth in Pidie District. Private investment is the least influence variable to economic growth in Pidie District.

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