

CHAPTER I

INTRODUCTION

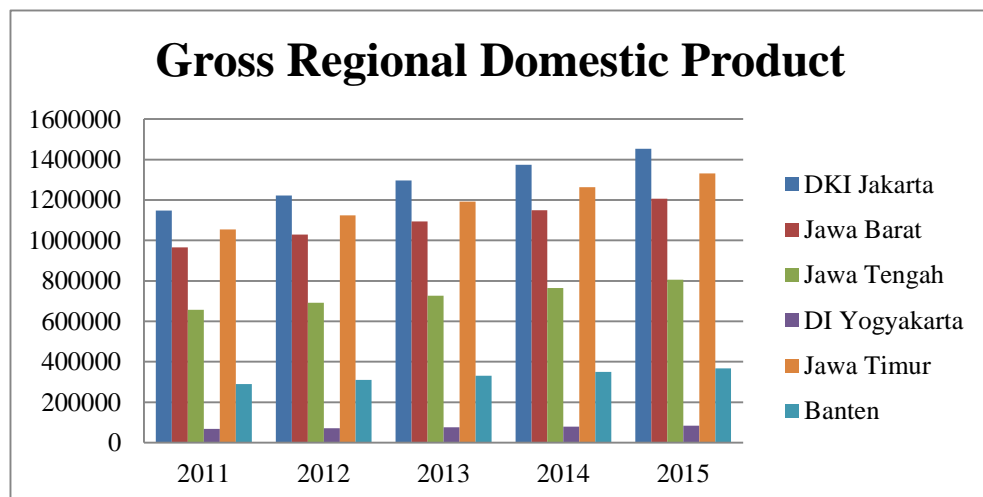
A. Research Background

Economic growth is one of the indicators affecting economic development. Development is essentially multidimensional processes that make changes such as the change in social structure, change in public attitudes and change in the national institutional (Wahyudin & Yuliadi, 2013). A state requires economic development that macroeconomic policies will be able to improve the standard of living and the welfare of society. The economic development is a process where the government and the whole society to manage a variety of natural resources as a form of cooperation between the government and the society to create jobs and stimulate the development of economic activities in the area (Kuncoro, 2004).

One of the indicators to measure the success of the development of a region is economic growth. Therefore economic growth is able to measure the level of economic development from one period to another. According to Mankiw (2003), economic growth shows the extent to which economic activity will generate additional income of the people in a given period that will be able to lead improvement the economic welfare of society.

An economy had ^{increased} from year to year due to the additional of the factors of production increased the value of the quantity of goods and services produced in a region. The economic growth of an area can be seen through the regional gross domestic product (GRDP).

According to BPS GRDP is the calculation using two kinds of prices namely the GRDP at current market prices and GRDP at constant market prices. Generally, the GRDP at constant prices can be used to indicate the rate of economic growth as a whole each sector or component usage from year to year, because it is considered from the goods and services that produced or consumed at a fixed prices in the base year. The economic development on the Island of Java in six Province can be seen the following graph:



Source: BPS-Statistics Indonesia, Processed.

FIGURE 1.1

GDRP at 2010 of 5 Province in Java Island period 2011-2015

Based on the graph showed the data GRDP at constant market prices, It can be seen the last five years in Jakarta, West Java, Central Java, East Java, and Banten have an average level of the highest economic growth in Java Island. Meanwhile, Province of D.I Yogyakarta is the lowest average level of economic growth among the five other provinces. It matter, which led the government of D.I Yogyakarta should encourage the development and increase economic growth. Because of the scope of the area is a measure of the success of development in economics needed for evaluation and planning.

The economic condition of D.I Yogyakarta reflected in the GRDP and the rate of economic growth from the year 1996 to 2015 can be seen in the following table:

TABLE 1.1

Development of Economic Growth of DIY period 1996-2015 (million rupiahs)

Years	GRDP at Constant Prices	Economic Growth %
1996	13736792	7.8
1997	14203843	3.4
1998	12584605	-11.4
1999	12962114	3
2000	13480599	4
2001	14056321	4.27
2002	14689240	4.5
2003	15360409	4.57
2004	16146424	5.12
2005	16910877	4.73

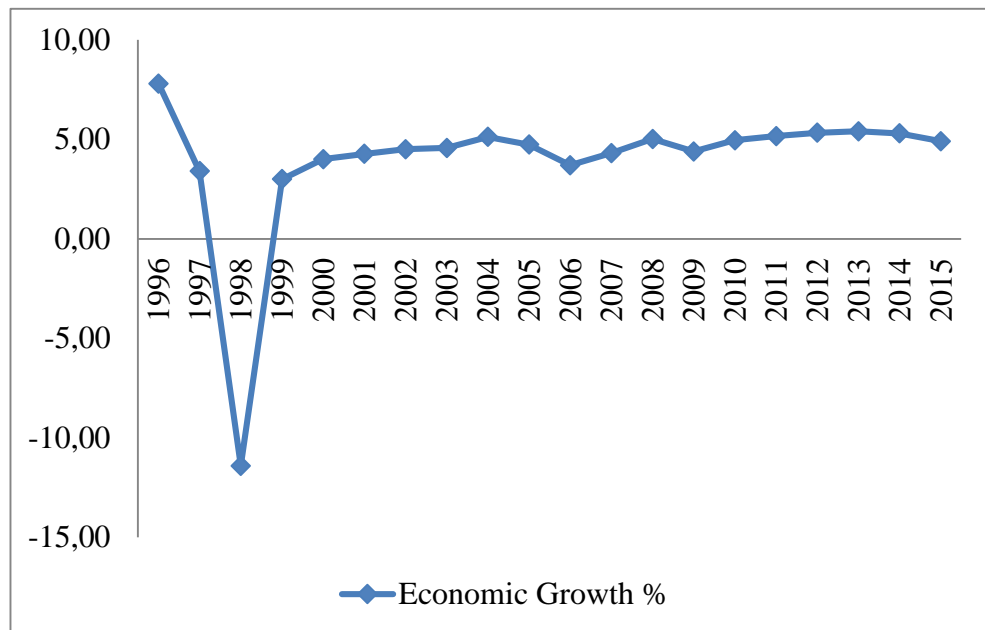
Continue Table 1.1 Development of Economic Growth of DIY period
1996-2015 (million rupiahs)

Years	GRDP at Constant Prices	Economic Growth %
2006	17535749	3.7
2007	18291512	4.31
2008	19208938	5.02
2009	20051496	4.39
2010	21044420	4.95
2011	22129707	5.16
2012	23308558	5.33
2013	24567476	5.4
2014	25869522	5.3
2015	27137128	4.9

Source: Gross Regional Domestic Product, BPS, Several Editions, Processed.

Based on BPS in the Gross Regional Domestic Product's document indicated the pattern of development of the GRDP at 2000 constant market price of D.I Yogyakarta showed an increase trend from the year 1999 to 2015. However in 1998 the economy of D.I Yogyakarta was decreased by 12.584.604 rupiahs, it caused by the monetary crisis that occurred in 1997. Post-crisis monetary the economy of D.I Yogyakarta was gradually increased up to 27.137.128 rupiahs in 2015.

Different things are shown by the rate of economic growth of D.I Yogyakarta was fluctuating from year to year, it can be seen in the graph of economic growth rate are:



Source: Gross Regional Domestic Product, BPS, Several Editions, Processed.

FIGURE 1.2

Economic Growth of DIY period 1996-2015

Based on the graph of economic growth in D.I Yogyakarta in the year 1996 to 2015, the economic growth was quite fluctuating due to several factors that affect economic growth in D.I Yogyakarta. The rate of economic growth in 1996 has a percentage of economic growth of 7.80 percent, it shows a sufficiently high value. Whereas in 1997 the rate of economic growth decreased by 3.40 percent, because of the Indonesia economy in that year was hit by the economic crisis. Even in 1998, the rate of economic growth has negative growth of 11.40 percent.

Post-crisis the economy of D.I Yogyakarta gradually began to recover their economy shown by the rate of economy growth grew up to 5.12 percent in 2004. The rate of economic growth was increasing due to positive growth in all sectors. Despite the positive growth, the economy of D.I Yogyakarta slowed down by 4.73 percent in 2005, as the impact of rising fuel prices due to pressure on world oil prices that were soaring too high and followed by the economic turmoil that was the depreciation of the rupiah, rising interest rate, and inflation.

Subsequently compounded by the aftermath of the earthquake that occurred on 27 May 2006, which has a significant impact on economic growth in D.I Yogyakarta slowed down by 3.7 percent, it was lower than in 2005. Because of the amount of damage suffered by the industry sector due to the earthquake that forced a number of business units were forced to decrease its production capacity and some stop producing due to damage production equipment. This influences the reduction in the amount of labor used in the business unit.

In 2008 the economic growth increased by 5.02 percent, but in that year the Indonesia economy exposed to the impact of the subprime crisis in the U.S which in the economy of D.I Yogyakarta slowed down by 4.39 percent in 2009. Gradually the economy began to recover indicated by the rate of economic growth was 5.40 percent in 2013.

Positive economic growth showed an increase in the economy of a region, whereas negative growth showed the decline in the economy of a region. An economy said to grow or flourish if the level of economy activity was higher than what was achieved earlier (Restiatum, 2009).

On the other hand, the economic growth rate was a benchmark to see how the development of a region with a high economic growth did not mean there has been increased development. In this case, the notion of economic growth and economic development were different. Economic growth associated with an increase in goods and services in the society, while the economic development associated with the change and distribution more evenly to the whole society (Maasyarah, 2011).

According to Sukirno (2012) in the Neo-Classical theory proposed by Solow-Swan, Economic growth depends on the increase of production factors such as the rate of capital growth, the rate of population growth and the rate of technological progress. To improve economic growth required investments as capital growth. Investment defined as expenditure's companies to purchase capital goods and production equipment to increase the ability to produce goods and services available in the economy (Sukirno, 2010).

The capital growth in D.I Yogyakarta reflected in the local regional revenue and the government's expenditure, which part of the fiscal policy (Sukirno, 2000). It was one form of government intervention in the economy in order to address market failures.

Government's expenditure is one of the variables forming the Gross Regional Domestic Product (GRDP), along with consumption of society, investment and net exports (exports minus imports). Government's expenditure includes State Budget (APBN) to national and Regional Budget (APBD) to local or regional. The budget consists of budgetary revenues, regional expenditures, and financing. Regional Budget (APBD) consists of government's receipt, government's expenditures, and financing.

Budget plan of Government's receipt is consisting of local original revenue, balancing funds, and others. Local original revenue is one the pillars of the independence of a region. According to Law No. 33 of 2004 on the financial balances between central and local government.

Source of local original revenue consist of local tax, local retribution, local wealth management results, and others. According to Law No. 28 of 2009 that local tax and local retribution are one of the important sources of government's revenues in order to finance the implementation of the regional government. Then, the development of

local original revenue in Province of D.I Yogyakarta can be seen in the following table:

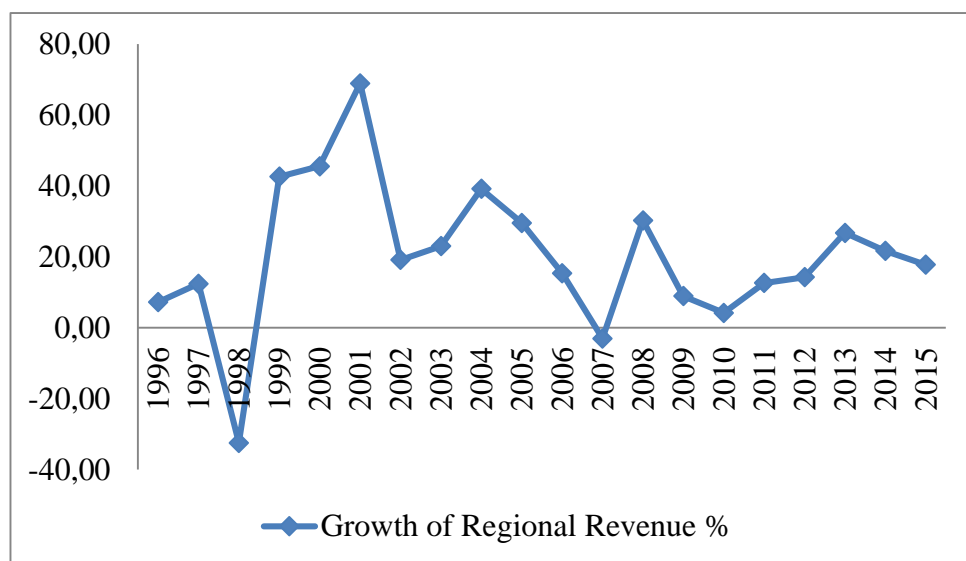
TABLE 1.2

Development of Local Original Revenue in DIY period 1996-2015
(million rupiahs)

Years	Local Original Revenue	Local Original Revenue Growth %
1996	53497244	7.2
1997	60119526	12.38
1998	40594308	-32.48
1999	57877500	42.58
2000	84225979	45.52
2001	142284892	68.93
2002	169489772	19.12
2003	208475720	23
2004	290099681	39.15
2005	375879788	29.57
2006	433757022	15.4
2007	420568426	-3.04
2008	547887175	30.27
2009	596850802	8.94
2010	621738060	4.17
2011	700339192	12.64
2012	800156498	14.25
2013	1014089544	26.74
2014	1233738562	21.66
2015	1453213231	17.79

Source: Province of D.I Yogyakarta in Figures, BPS, Several Editions, Processed.

Based on the local original revenue in the year 1996 to 2015 is showing the fluctuation's trend from year to year, but there were factors that affecting a decrease in the local original revenues. It had happened in 1997 where the country experienced the monetary crisis. Thus, in the year 1998, the local original revenue was decreased by 40.594.308 rupiahs. In 2006 D.I Yogyakarta had experienced the earthquake that affecting the local regional revenue decrease to 420.568.426 rupiahs in 2007. At least the development of local original revenue from year to year was experiencing increase up to 145.321.323 rupiahs in 2015.



Source: The Central Bureau of Statistics, BPS, Several Editions, Processed

FIGURE 1.3

Local Original Revenue Growth of DIY period 1996-2015

Based on the graph of local original revenue growth in D.I Yogyakarta in the year 1996 to 2015, the local original revenue growth

was quite fluctuating due to several factors that affect economic growth in D.I Yogyakarta. On the monetary crisis, the local original revenue growth slowed down to 32.48 percent in 1998.

Gradually, the local original revenue growth in D.I Yogyakarta was growing up to 68.93 percent. It was the impact of the implementation of regional autonomy policy in 2001. In a few years, the local original revenue growth is not stable and fluctuation. Until in 2007 in the local original revenue in D.I Yogyakarta has negative growth that slowed down by 3.04 percent, because of the earthquake in 2006. Up to now, the local original revenue has 17.49 percent.

On the other side, budget plan of government's expenditures divided into to two expenditures are indirect expenditures and direct expenditure. It reflected in State Budget (APBN) that consists of operating expenditure, development expenditure, and public services. According to Law No. 14 of 2015 on the budgetary revenues and government's expenditures that APBN is a form of state financial management conducted openly and responsible for the greatest prosperity of the people. Then, The development of government's expenditures in Province of D.I Yogyakarta in the following table:

TABLE 1.3

Development of Government Expenditure of DIY period 1996-2015
(million rupiahs)

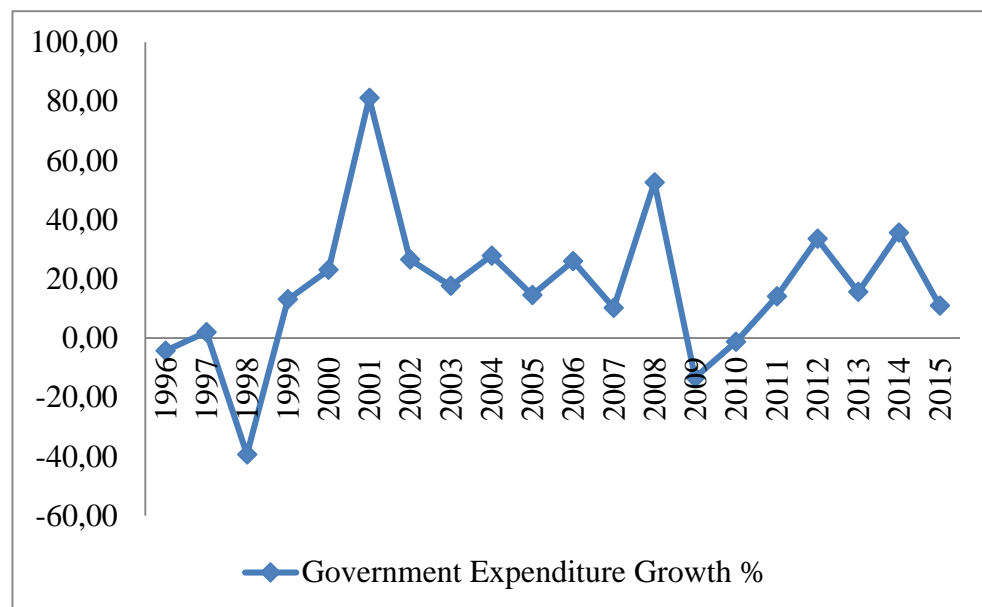
Years	Government's Expenditures	Government's Expenditures Growth %
1996	225512926	-4.27
1997	230102860	2.04
1998	139709347	-39.28
1999	158012564	13.1
2000	194460190	23.07
2001	352176546	81.1
2002	445738906	26.57
2003	524487353	17.67
2004	670712040	27.88
2005	768498592	14.58
2006	968386066	26.01
2007	1067390920	10.22
2008	1629069251	52.62
2009	1412048985	-13.32
2010	1394446100	-1.25
2011	1590785711	14.08
2012	2124288708	33.54
2013	2454919429	15.56
2014	3330069350	35.65
2015	3696264877	11

Source: Province of D.I Yogyakarta in Figures, BPS, Several Editions, Processed

Based on the government's expenditure in the year 1996 to 2015 was showing the fluctuation's trend from year to year, but there were factors that affecting a decrease in government's expenditures. It had happened in 1997 where the country experienced the monetary crisis.

Thus, in the year 1998, the government's expenditures decreased by 139.709.347 rupiahs.

It was also happened the Indonesia economy exposed to the impact of the subprime crisis in the U.S which decrease in the economy of D.I Yogyakarta by 141.2048.985 rupiahs in 2009. Post-crisis, the Indonesia economy gradually was growing up and increasing the government's expenditure of D.I Yogyakarta up to 3.696.264.877 rupiahs in 2015.



Source: Province of D.I Yogyakarta in Figures, BPS, Several Editions, Processed

FIGURE 1.4

Government Expenditure Growth of DIY period 1996-2015

Based on the graph of government's expenditure growth in D.I Yogyakarta in the year 1996 to 2015, the government's expenditures growth was quite fluctuating due to several factors that affect economic

growth in D.I Yogyakarta. On the monetary crisis, the local original revenue growth slowed down by 39.28 percent.

Gradually the government's expenditure growth in D.I Yogyakarta was growing up to 81.10 percent. It was the impact of the implementation of regional autonomy policy in 2001. In a few years, the government's expenditures growth was not stable and fluctuation. In 2009 in the government's expenditures in D.I Yogyakarta has negative growth that slowed down by 1.25 percent. Up to now, the government's expenditures grew up to 11.00 percent.

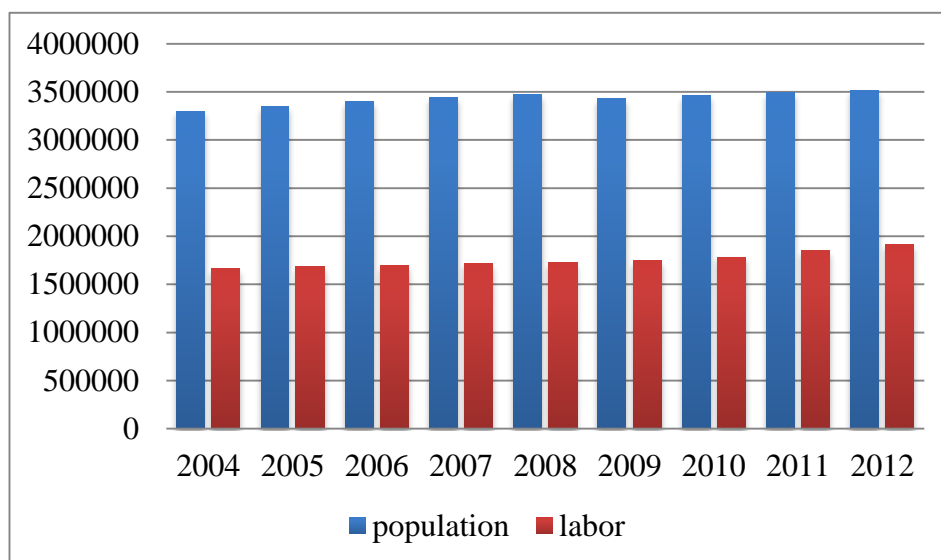
Began to 2001, regional autonomy had implemented in Indonesia, where economists began to pay special attention to regional economic growth. According to Law No. 23 of 2014 on regional autonomy, it is the rights, powers, and obligations of autonomous region to regulate and manage the affairs of government and interests of local society in the republic of Indonesia unity state system.

The impact of regional autonomy was providing a lot of changes undertaken by the local government in empowering their respective regions. The regional autonomy policy is a means to create a better development, as these policies will be able to increase the growth of economic and public welfare, where the local government will be more efficient in the management of available resources in each region and the provision of public goods to facilitate economic activities. It has been

demonstrated by the rate of the original local revenue growth and the rate of government's expenditures growth is the highest rise.

The ability of government's receipts and government's expenditure has contributed to economic growth. Because of the larger the regional budget funds, it will show the independence of a region. Reveals that a rising budget will affect economic growth, each increase in budget can optimize and increase activity in the sectors related to economic growth, such as industry sector and trade sector, service sector and other sectors (Setiyawati, 2007). Therefore the government should explore the economic potentials that exist in each region.

Another factor that determines economic growth is population. Because it has the role of actors production and consumption associated with the increase in goods and services as the economic growth of a region. The classical economists who pioneered by Adam Smith consider that the population have a potential input that can be used as a factor of production to increase production of a company. In this case, the increasing number of population will be used more labor.



Source: Projected Population in Province of D.I Yogyakarta and State of the labor force, BPS, Several Edition, Processed

FIGURE 1.5

Development of Population and Labor of DIY period 2004-2014

Based on the chart the development of population and labor in the Province of D.I Yogyakarta in the year 2004 to 2014, it showed that the number of people in D.I Yogyakarta has increased but in 2009 the number of people in D.I Yogyakarta decreased by 3.428.646 inhabitants. While the amount of labor absorbed in D.I Yogyakarta has increased every year. In another hand, large population growth would tend to affect the economic growth of the region. On the other hand, the economic growth will slow if the number of workers cannot be absorbed well into jobs.

Related research that discussed the economic growth had done by some previous studies, the following summary of the results of these studies. Wahyudin and Yuliadi (2013) showed that the domestic investment, foreign direct investment, and the state budget has a positive impact and significant on economic growth, but the labor has a negative impact and significant on economic growth.

Khilyati (2016) showed government expenditure has a negative impact on economic growth. Local Original revenue has insignificant on economic growth. The number of labor force have a negative impact and significant on economic growth, so the population has a positive impact and significant on economic growth.

The continuous increase the local original revenue, government's expenditure, population, and fiscal decentralization accompanied by rising economic growth in D.I Yogyakarta. But seen from the economic growth in the last five years the province on the island of Java, it proved D.I Yogyakarta has a province with the lowest economic growth in the Java Island.

This phenomenon was the cause of the importance of this research because of economic growth as a benchmark for the economic welfare of society in the long term. Therefore, to assess the economic growth would be observed from the factors affecting economic growth. Some factors that seem to have a big impact on economic growth in the province of D.I

Yogyakarta are the local original revenue, government's expenditures, population, and fiscal decentralization. This is the underlying authors take the title research "**Analysis of the Impact of Local Original Revenue, Government's Expenditures, Population and Fiscal Decentralization on Economic Growth in Special Districts of Yogyakarta Period 1996-2015 (Case Study 5 Districts/Cities in DIY)**"

B. Research Questions

From the background of the problems that have been described previously, the research questions in this study are:

1. What is the impact of the local regional revenue on economic growth districts/cities of D.I Yogyakarta period 1996-2015?
2. What is the impact of the government's expenditure on economic growth districts/cities of D.I Yogyakarta period 1996-2015?
3. What is the impact of the population on economic growth districts/cities of D.I Yogyakarta period 1996-2015?
4. What is the impact of the fiscal decentralization on economic growth districts/cities of D.I Yogyakarta period 1996-2015?

C. Research Objective

Based on the research questions, thus the objectives of this paper are:

1. Analyze the impact of local regional revenue on economic growth districts/cities of D.I Yogyakarta period 1996-2015.
2. Analyze the impact of government's expenditure on economic growth districts/cities of D.I Yogyakarta on period 1996-2015.
3. Analyze the impact of population on economic growth districts/cities of D.I Yogyakarta on period 1996-2015.
4. Analyze the impact of fiscal decentralization on economic growth districts/cities of D.I Yogyakarta on period 1996-2015.

D. Research Benefit

The benefits of this research are:

1. For Academics

This research is expected to add insight and knowledge of the public economy and provide benefits to the reader as reference material and information for further research in particular who want to raise the issue of economic growth.

2. For Government

It can be used as an illustration for the government about the impact of the local original revenue, government's expenditure, population and fiscal decentralization on economic growth in D.I Yogyakarta region.

It can formulate development policies that suitable to the

characteristics of each region and able to optimize the role of province as the policy coordination districts/cities of D.I Yogyakarta.