CHAPTER II

LITERATURE REVIEW

A. Theoretical Basis

1. The Economic Development and Economic Growth.

According to Sukirno (2012: 29), economic growth is the development of economic activity prevailing from time to time and cause the real national income is growing. The rate of economic growth shows the percentage increase in real national income in a given year when compared with the real national income in the previous year.

According to Sukirno (1996: 3) economic growth and development have different definitions, economic growth is a process of increasing per-capita output continuously in the long term, so that economic growth becomes an important factor in the sustainability of development. Thus, the higher economic growth is characterized along with the increasingly high public welfare. While economic development is an effort to increase income per capita by cultivating potential economy into real economy through investment, technology use, knowledge addition, skill improvement, and management.

Based on this understanding, it can be concluded that economic development is the efforts undertaken by national and local governments for the welfare of the society, while economic growth is

one of the benchmarks used to determine the success or failure of economic development in a country or region.

2. **Theory of Economic Growth.**

The theory of growth is one theory that explains the phenomenon of social change, especially in developing societies. This theory was developed by a number of experts with reference to the idea to improve the socio-economic conditions of developing societies. Initial theory is classified as a classical growth theory, then used by neo-classical groups (Budiono, 1992).

a. Adam Smith.

Broadly speaking, the thought of Adam smith rests on the acceleration of a country's production system. The production system of a state consists of three elements, namely (Budiono, 1992):

1) Available natural resources.
2) Human resources (population).
3) Stock of existing capital goods.

According to Adam Smith, natural resources are fundamental to the production activities of a society. The amount of available natural resources is the maximum limit for the growth of the economy. This means that as long as these resources are not fully utilized, economic growth can still be improved.

Furthermore, the element of population and capital stock determine the output of society from year to year. But if output continues to increase, the natural resources will eventually be fully exploited to the limit.

According to Smith, the market potential will be maximally achieved, if every society is given the widest possible freedom to conduct economic activities. In this theory, society will move from traditional society to modern capitalist society, this theory is commonly called laissez-faire and free trade. The free market economy system creates efficiency, which brings the economy to full employment conditions, and guarantees economic growth to the achievement of stationary state.

This condition the government does not need to interfere in economic affairs. The government's task is to create conditions and provide facilities that encourage private parties to play an optimal role in the economy.

However, in Adam Smith's theory will create the limitations of natural and human resources, where resource constraints are a factor that can hamper economic growth, even in its development it actually lowers the rate of economic growth.

Similarly, if the population does not have the relevant expertise to run production, then the investment rate will be low and will reduce economic growth. This assumption is a weak point of Adam Smith's economic growth theory.

b. David Ricardo.

The characteristics of the economy according to Ricardo are as follows:

1) Limited amount of land.
2) Population (labor) : natural wage.
3) Capital accumulation.
4) Technology advances.
5) The dominant in agricultural sector.

This theory said that limited land area, the population growth (labor) will decrease the marginal product known as the law of diminishing returns. As long as the population (labor) employed on the land can receive a wage rate above the natural rate of wage, then the population (labor) will continue to grow, and this will decrease the marginal product and will emphasize the wage rate below the natural wage rate. If the wage rate falls then the population (labor) decreases.

According to Ricardo, the role of capital accumulation and technological progress is likely to increase labor productivity, which can slow down the law of diminishing returns that will lower

the lifespan to a minimum level of living. This is the capitalist economic growth according to Ricardo.

c. Thomas Robert Malthus.

Theoretical view of Maltus is population growth on economic growth. According to Maltus naturally the population will continue to increase faster than food supply. The food production per capita will surely be reduced, while the population increases.

Population growth is supports growth in the economic structures, if economic development can increase the purchasing power of society as a whole. Under these circumstances will be accomplished capital accumulation as a key feature in the growth process.

d. Keynes and Neo Keynes.

The Keynesian growth theory was developed by Jhon Maynard Keynes. The assumption from Adam Smith's theory that without any government intervention in the economy, economic development will run maximally has been corrected by Keynes.

According to Keynes to ensure stable growth, the government's role in the management of the economy through monetary policy (interest rate and money supply) and fiscal policy (taxation and government expenditure) is needed.

Keynes looks at the economy that macro-economically. This theory is focused on effective aggregate demand in shaping consumption spending, government investment and government expenditure to positively impact economic activity and reduce unemployment.

Neo Keynes's growth theory was developed by Evsey D. Domar and R.F. Harrod Domar. Formulating a long-term development process is arguing the theory of the relationship between savings rates and the level of investment with the rate of economic growth.

In this theory, economic growth can take place continuously in a stable equilibrium state. Harrod and Domar agree with Keynes that the increase in production and national income is not determined by the increase in producing capacity, but by the increase in public spending.

Although production capacity increases, new national revenues will increase and economic growth is created, if public expenditures increase as compared to the previous period. Harrod-Domar's analysis aims to show the necessary conditions so that in the long term the ability to produce that increases from time to time (due to the formation of capital in the past) will always be fully utilized. (Sukirno, 2006).

e. Solow-Swan.

This theory was developed by Robert M. Solow. According to this theory, economic growth depends on increasing the supply of factors of production (population, labor, and capital accumulation) and the rate of technological progress. This view is based on the assumption that the economy will still experience a full employment rate and the capital equipment capacity will remain fully utilized over time.

Solow-swan uses a production function model that allows substitution between capital (K) and labor (L). In the event that the amount of labor exceeds the supply of capital, the price of labor (wage rate) will decrease against the price of capital (interest rate).

Conversely, if the capital increase exceeds the increase in the number of workers then the wage rate will increase. This may limit the likelihood of deviations from the growth equilibrium (Sukirno, 2006)

3. Gross Regional Domestic Product.

The rate of economic growth is determined by the increase in the value of goods and services produced in an economy. Thus, to determine the level of economic growth achieved by a region, it needs to be calculated regional revenue, namely Gross Regional Domestic Product.

According to BPS, GRDP is defined as the amount of value generated by all business units within a certain region, or is the total value of final goods and services produced by all units of economic activity within a region in a given period. GRDP data can be calculated with three approaches, namely:

a. Approach Production.

According to this approach, GRDP is calculated by adding the value of production of goods or services that realized by various business sectors in an area within a period of time (one year). Sector of this business field are grouped into 9 business fields, namely: 1. Agriculture; 2. Mining, and Quarrying; 3. Processing Industry; 4. Electricity, Gas and Water; 5. Construction; 6. Trade, Hotels and Restaurants; 7. Transportation and Communication; 8. Finance, Real Estate, and Company Services; 9. Services.

b. Approach Spending.

According to this approach, GRDP is the total value of household consumption expenditure, government consumption, fixed capital formation of gross domestic product, inventory change / stock, net exports (exports minus import) in an area within a certain period (usually one year).

c. Approach Income.

According to this approach, GRDP is the total amount of remuneration received by factors of production that participate in the production process in an area. Remuneration component factors of production are: wages and salaries, land rent, capital interest and profits, all before the deduction of income tax and other direct taxes.

GDRP data is one of the macro indicators that can show the condition of regional economy every year. The benefits gained or obtained are:

1) GDRP at current market price/nominal :
    a) It shows the ability of economic resources produced by a country.
    b) It shows the possible income that can be enjoyed by residents of a region.
2) GDRP at constant market price / rill:
    a) It shows the overall rate of economic growth of each sector from year to year.
    b) It is measuring the growth rate of consumption, investment and international trade.

Economic growth can be seen as an increase in the number of goods and services produced by all sectors of economic activity that exist in an area within a year. The rate of economic growth calculated based on changes in GRDP at constant market prices of the relevant year against the previous year. This is one of the macro indicators to see real economic performance in a region.

To know the economy is experiencing growth, must be distinguished the GRDP real a year with the GRDP real a previous year. The formula for calculating economic growth can be written as follows:

$$Yt = \frac{GRDP\ rill_t - GRDP\ rill_{t-1}}{GRDP\ rill_{t-1}}\ x\ 100$$

Where:

Y_t : Economic growth

GRDP rill : Gross Regional Domestic Product

t : Year period

After seeing the description of the Gross Regional Domestic Product, it can be concluded that GRDP can be used as a better measuring tool for the growth of the population. This is due to the calculation of GRDP is more narrow than the calculation of

GDP. GRDP only measures the growth of the economy i\n the region, in general the provinces or districts.

4. **Local Original Revenue and Economics Growth.**

   a. **Local Original Revenue (PAD).**

   Local original revenue is the receipts obtained by regions from sources within their own territory levied according to local regulations in accordance with applicable laws and regulations (Yani, 2002). Regional revenue plays an important role in financing the government and regional development.

   According to Law no. 33 of 2004 on the financial balance between central and regional governments, that "local revenue referred to as PAD is revenue derived by areas that levied according to local regulations in accordance with laws and regulations".

   According to Law No. 33 of 2004 on Regional Government, the local regional revenue (PAD) aims to give the authority local governments to finance the implementation of regional autonomy in accordance with the potential of the region as a manifestation of decentralization.

   b. **Resources of Local Original Revenue.**

   The sources of Original Income (PAD) as regulated in Law Number 33 Year 2004 Article 157, namely:

1) Local Tax.

According to Riwukaho (1998: 130), Local Tax is a state tax which submitted to the region to be levied under the laws and regulations that are used to finance regional expenditure as public legal entities. Local taxes are one of the largest contributions to local original revenue (PAD). According to Law No. 34 of 2000 are:

A compulsory duty made by an individual or a regional head body with no equal direct repayment, which may be enforced under applicable legislation, which is used to finance the administration of regional administration and regional development.

The tax classification is regulated in Law No. 34 of 2000 on the amendment of the Law on Local Taxes and Levies, both before and after the amendment:

a) Local Tax Level I (province), comprising from:

(1) Motor vehicle taxes and vehicles over water.

(2) Charges for motor vehicles and vehicles on water.

(3) Motor vehicle fuel tax.

(4) Tax collection and utilization of underground water and surface water.

b) Local Tax Level II (Districts/Cities).

Local taxes levied by the local government consist of: hotel taxes; restaurant tax; Entertainment tax; advertisement tax; Street lighting tax; C class excavation tax and parking tax.

2) Local Retribution.

According to Law No. 34 of 2000 on local taxes and local retributions, the retribution refers to regional expenses as payment for services or grants of special permits specifically provided by the local government for the benefit of the society. Local retribution should be based on local regulations that must be deposited in the state or local treasury. The retribution is a coercion if he uses services from the region then they have to pay a retribution based on the rules of the local regulation concerned.

The sources of local retribution of districts/cities consist of: Health service charges, Retribution for waste or sanitation services; Retribution of replacement print of resident and civil registration cards; Retribution of funeral services and coronation of corpses; Parking charges on public roads; User charges for regional wealth; Terminal charges; Market retribution; Retribution of slaughterhouses; Retribution of recreation places; Retribution on sales of local business

production; Retribution for building permits; and Retribution of a license interference.

3) Local Wealth Management Results.

The regional assets derived from regional-owned enterprises and separated regional wealth management. Types of this income: The share profits of a Regional-Owned Enterprise; The share profits of financial institution of Bank; The share profit of Non-Bank financial institution; The share profits on Equity / Investment.

Share of Regional State Owned Enterprises (BUMD), which consists of the Regional Pension Bank earnings and the profit share of other local enterprises. BUMD is one of the institutions owned by region in increasing revenue of Local original revenue (PAD). Local Government can also make improvement of PAD through optimizing the role of BUMD which is expected to function as main donation.

4) Other income of local original revenue.

These revenues are regional revenue derived from others belonging to the local government. According to Law No.33 of 2004 as for these types of income: Proceeds from the sale of local wealth that is not separated; Receipt of demand deposit services; Deposit interest receipts; Gains on the exchange rate differences against foreign currencies;

Commissions, deductions, or other forms as a result of the sale and procurement of goods and services by the region; Penalty of late implementation of work; And the receipt of compensation for loss or loss of local wealth.

In general, local revenues are revenues derived from potential local management activities in accordance with applicable legislation. It can be said that is a source of regional income derived from the economic activities of the region itself.

c. **Theory of Local Original Revenue.**

John M.Keynes express thoughts that came to be known in macroeconomic theory as Keynessian Revolution. Keynes's theory focused on effective aggregate demand in the country as a strategic variable in overcoming the stagnation of factors of production. Effective aggregate demand in the country shapes is spending on consumption, investment spending, and government spending to positively impact economic activity and reduce unemployment.

The relationship between government spending and economic growth is theoretically described in Keynesian Cross (Mankiw, 2003: 263).

Keynesian theory shows that promoting a mixed economy, where both the State and the private sector play an important role. This theory suggests that macroeconomic trends may affect the behavior of individual microeconomics.

Keyness emphasizes the importance of aggregate demand as a key factor driving the economy, especially in a sluggish economy. He argues that government policy can be used to increase demand at the macro level, to reduce unemployment and deflation. If the government increases its spending, money circulating in the community will increase so that people will be encouraged to shop and increase demand (so aggregate demand increases). In addition, savings will also increase so that it can be used as investment capital, and economic conditions will return to normal levels. Based on the theory of the Keynes, APBD and APBN is one of the engine of economic growth.

d. **Relationship between Local Original Revenue (PAD) with Economics Growth.**

In general, economic growth can be defined as the development of activities in the economy that causes goods and services produced in society increases and the welfare of society increases. According to Saragih in 2003 increasing PAD should have an impact on the regional economy. Harianto and Adi in 2007 asserted that the success of increasing PAD should not only be

measured by the amount received, but also measured by its role to regulate the economy of the community to be more developed, which in turn can improve the welfare of the people in the region. Areas with positive economic growth are likely to gain an increase in PAD.

The local government's financial image will be reflected in the amount of local revenue earned and how the local government's financial allocation is to finance local government's activities for the welfare of its people. To increase PAD revenue, local governments need to analyze existing potentials in the region and develop such potentials as regional income. Potential development will create local original revenue to implement economic development objectives. Contributions achieved from local original revenue can be seen from how much income is channeled to build the region to be more developed and able to improve the welfare of the society.

5. Government's Expenditure and Economic Growth.

a. Government's Expenditures.

According to Law No. 14 of 2015 on the government's budgetary revenues and expenditures of the state budget is a form of state financial management conducted openly and responsible for the greatest prosperity of the people.

According to Sukirno (2000), government spending is a government action to regulate the economy by determining the amount of government revenues and expenditure each year, which is reflected in the State Budget (APBN) for national and Regional Revenue Budgets for the region, which places part of the fiscal policy, the objective of this policy is in order to stabilize prices, output levels, and employment opportunities and spur or promote economic growth.

According to Guritno (1999), Government spending reflects government policy. If the government has established a policy to purchase goods and services, government expenditures reflect the costs incurred by the government to implement the policy.

The wisdom policy pertaining to government revenue and expenditure (Income and expenditure) is called fiscal policy. In the fiscal policy known to exist some budget policy, among others:

1) A balanced budget, a condition where acceptance equals expenditure (G = T).
2) The surplus budget, which is a smaller expenditure of revenue (G <T), is usually used if the government wants to tackle the problem of inflation.

3) Deficit budgets, which are larger expenditure budgets (G> T), are commonly used if governments want to address unemployment and economic growth. The government plans to increase economic growth to reduce unemployment, the government can increase its spending (Mangkoesoebroto, 1994).

According to Mangkoesoebroto (2002) in any country there is always intervention or government investment in the economy. In the modern economy, the role of government can be classified into 3 major classes, namely:

a) The role of allocation.

Owned resources can basically be used to produce private goods and public goods. Private goods is the availability of goods that can be satisfied by the market system, namely through the transaction between the seller and the buyer.

However, not all community needs for goods and services can be provided by the private sector. Goods and services cannot be provided by the market system is called public goods need to be allocated by the state, example: Road infrastructure; defense; air clearance and so on; whose procurement needs state (government) role in it.

b) The role of distribution.

Through fiscal policy, the government can change the position of income distribution. One way is to apply a progressive tax system that is a greater tax burden imposed on the rich and relatively lighter for the poor, accompanied by subsidies to the poor. Through subsidies, the government can indirectly influence the distribution of income through budget policies such as by providing cheap housing loans for low income groups, fertilizer subsidies for farmers.

c) The role of stability.

In addition to the role of allocation and distribution, the government has a major role as an economic stabilizer. This is done through various regulations. Governments that seek to maintain a high level of employment, relatively stable prices and sufficient economic growth.

According to Suparmoko (1996) government's expenditures can be assessed in various ways and can be divided into four classifications:

a) Government's expenditure is an investment to add strength and economic resilience in the future.
b) Direct government's expenditure provides welfare for the community.
c) Government's expenditure is an upcoming expense.

d) Government's expenditure is a means of providing more employment opportunities and wider purchasing power.

Based on the objectives of government expenditures differentiated in two classifications, namely:

a) Routine expenditure, used for government maintenance and administration that includes personnel expenditures, goods expenditures, interest payments on debt, subsidies and other routine expenditures. Regular spending budget plays an important role to support the smoothness of government systems and efforts to increase efficiency and productivity that will achieve the goals and objectives of each stage of development.
b) Development Expenditures, used to finance development in the economic, social and general, which is to increase public capital in the form of development of both physical and non-physical infrastructure implemented in a certain period. Development expenditure is an expenditure intended to finance development programs so that the budget is always adjusted to the funds mobilized. Funds are then allocated to various fields in accordance with the priorities that have been planned.

c) Government spending is one aspect of the use of economic resources directly controlled by the government and indirectly owned by the public through tax payments. In general, government spending will increase if offsetting an increase in a country's economic activity.

b. Theory of Government's Expenditure.

Government expenditure theory can be classified into two parts namely macro theory and micro theory. In macro government spending is one of the government's roles in the national economy.

In this research more emphasis on the theory of the macro side of the development of government expenditure put forward by economists and can be classified into three groups:

1) Rostow and Musgrave.

The development model in the development of government spending was developed by Rostow and Musgrave which linked the development of government spending with the stages of economic development. The stages of economic development according to Rostow and Musgrave are divided into three stages: the early, middle, and advanced stages.

In the early stages of economic development, the amount of investment that the government spends on development is very dominant, this is because at this stage the government must provide infrastructure, such as education,

health, transportation infrastructure, and so on (Guritno Mangkoesoebroto, 2001).

In the intermediate stage, the role of government spending in development has begun to shift with the growing private investment, but at this stage the government still has a significant role in development, this is because if the private role is allowed to dominate the development will lead to market failure and will Causing the government to provide a larger quantity of public goods and services with better quality. In the second stage of economic development also leads to more complex inter-sector relationships.

In the next stage, Rostow explained that in economic development, government activities will shift from providing facilities and infrastructure to social expenditures such as public health service programs, educational programs and other social assistance programs.

2) Wagner.

In the development of government activities, Wagner proposes a theory of the development of government spending that will grow in proportion to GNP. In this case Wagner explained that the role of government is getting bigger, especially because the government must regulate the

relationships that arise in society, law, education, recreation, health, culture, and so forth.

Wagner's law explains that the increase in government spending has an exponential form. Wagner measures government spending on national income and Wagner’s law can be formulated as follows:

$$\frac{GpCt}{YpCt} > \frac{GpCt-1}{YpCt-1} > \frac{GpCt-2}{YpCt-2} \rightarrow \frac{GpCt-n}{YpCt-n}$$

Where :

GpC: Government expenditure per capita

YpC: National income per capita

t: Time Index

Wagner mentions the causes of government activities are always increasing, among them: a) Demands for increased defense protection; b) Increase in income level of the community; c) The phenomenon of urbanization that accompanies economic growth; d) The development of democracy; e) bureaucratic inefficiency that accompanies the development of the government (Suparmoko, 2000).

According to Wagner economic growth will cause the relationship between industry, industry and society will be more complex and complex so that the potential failure of negative externality market becomes greater.

There is a weakness of Wagner's law is not based on the theory of the selection of public goods. This is due Because Wagner's Law is based on the theory of the government's organic (organic theory of the state) that considers the government as free individuals act and regardless of other community members (Guritno Mangkoesoebroto, 2001).

3) Peacock and Wiseman.

Peacock and Wiseman are the two people who put forward theories on the development of the best government spending. Their theory is based on a view that governments are always trying to enlarge temporary spending (Guritno Mangkoesoebroto, 2001).

People do not like to pay the ever-increasing taxes to finance the growing government spending, so Peacock and Wiseman's theory is the basis of the voting theory. Peacock and Wiseman based their theory on a theory that society has a level of tax tolerance, a level where people can understand the amount of tax levy required by the government to finance government spending. Thus, the public realizes that the government needs funds to finance government activities, so that they have a level of public willingness to pay taxes. This level of tolerance is an obstacle for the government to raise tax collection arbitrarily.

The Theory of Peacock and Wiseman states that Economic growth (GDP) causes tax collection to increase even though the tax rate does not change; and rising tax revenues led to increased government spending.

c. Relationship between Government's Expenditures and Economic Growth.

Government spending that is a reflection of fiscal policy is one of the government instruments to influence the economy. In state expenditure, it can have an impact or influence on the economy. There are several sectors of the economy that are generally affected by large or small expenditures of the state, among others:

1) Production Sector.

State expenditures directly or indirectly affect the goods and services production sector. Viewed in aggregate state expenditure is a factor of production (money), complementing other factors of production (man, machine, material, method, management).

Government spending on procurement of goods and services will directly affect the production of goods and services needed by the government. Government spending on the education sector will indirectly affect the economy, because

education will produce more qualified human resources. With qualified human resources production will increase.

2) Distribution Sector.

State expenditures directly or indirectly affect the goods and services distribution sector. For example, subsidies provided by the community cause poor people to enjoy the goods / services needed, such as electricity subsidies, fertilizer, fuel, etc. Government expenditures for the cost of primary and high school education make the poor less able to enjoy a better education (at least to senior high school level). With better education, it is expected that the community can improve their standard of living in the future. If the government does not issue funds for such purposes, then the distribution of income, goods, and services will be different. Only capable societies will enjoy a better level of living, while the underprivileged will not have the opportunity to improve their standard of living.

3) Society Consumption Sector.

State expenditures directly or indirectly affect the public consumption sector of goods and services. With the government spending on subsidies, not only cause the poor to enjoy a goods / services, but also cause people who are able to consume more products / services. Such as the policy of subsidy reduction,

which will cause fuel prices to rise, and the rise in fuel prices will cause the consumption of people to BBM down.

According to Mangkoesoebroto (1993: 169) government spending reflects government policy. If the government has established a policy to purchase goods and services, the expenditure represents the expenses incurred by the government to implement the policy. According to Suparmoko (1987), the expenditure of government in the rill sense can be an indicator of the amount of government activity financed by government expenditure. Smkin large and many government activities in the greater the government expenditure concerned.

The relationship between government spending and economic growth described in the Keynesian Cross where the increase in government spending have a positive impact on the rate of economic growth as measured by revenue and output level (Mankiw, 2003).

In the theory of Peacock and Wiseman states that economic development causes increased taxation even though tax rates are unchanged and increased tax revenues leads to increased government spending, hence under normal circumstances increased national incomes lead to greater government revenues, as well as expenditures The government is getting bigger (Mangkoesoebroto, 1993).

The role of government expenditures are financed through the state budget or the budget, especially expenditure on human capital and physical infrastructure, to accelerate growth, but on the other hand the financing of government spending may be slowing growth. This greatly depends on the extent to which the government's expenditure productivity and the tax-induced distortions, which in this context the government either directly or indirectly can affect the total output (GRDP) through the provision of infrastructure, public goods and government incentives to the businesses such as export subsidies.

Based on the above theory, it can be concluded that good or not the results that can be achieved by government policy depends on the quality of the government itself. If the government is not or less efficient, then there will be waste in the use of factors of production. If the government is too powerful and carries out economic functions within a country's economy, the role of the private sector will become smaller.

6. Population and Economic Growth

a. The population.

As a developing country experiencing an explosion of population, including Indonesia will always link between population and economic development. The large population for Indonesia by some economists is seen as the basic asset of

development and development as well as the development burden. As an asset if it can improve the quality and skills or skills so that it will increase national production. But the large population will be a burden if the structure of the population spread is not evenly distributed so that the dependents of the population who work effectively (Widarjono, 1999).

According to the Law Number 13 of 2003 on Manpower, the so-called labor force is any person capable of performing a job to produce goods and services both to meet the needs of the individual and the community.

According to the Central Bureau of Statistics in the 1970s that set the age limit to be a person aged 10 years or more. Since the SAKERNAS (Labor Force Survey) has been conducted, the working age limit has been changed to 15 years or more, as it is recommended by the International Labor Organization (ILO).

b. Theory of Population.

The Adam Smith's viewed by supporting the empirical proof that high population growth will be able to increase output through increasing levels and market expansion. The addition of the population is a matter of need and not a problem, but as an important element that can spur development and economic growth.

The theory put forward by David Ricardo and Thomas Robert Malthus. Both classical economists have argued that the long-term natural economy will reach a stationary state or a state where economic growth does not occur at all. Meanwhile, according to other classical economists Adam Smith, who is not aware of the law of diminishing returns, the population growth will drive economic development because it can expand the market.

Meanwhile, according to Ricardo and Malthus, rapidly growing population growth will double population growth in a generation, and will lower the rate of development to a lesser extent. At this level, the workers will receive a wage which is very minimal which wages only reached a considerable level of life (subsistence level).

c. Relationship between Population and Economic Growth.

Populations that increase over time can driver or a barrier to economic development. According to Todaro, population growth is closely related to the number of working people and is one of the factors that will affect economic growth. In addition to production factors, the number of workers who work will also increase from year to year so that when utilized to the maximum it will increase economic growth.

The rapid rate of population growth causes the proportion of the immature population to grow and the number of family members growing. With the increasing number of people, it means more and more needed goods and services to meet the needs of the population that can increase the amount of consumption, so as to increase the per capita income of the area.

In general, people's income is sufficient to consume, so there are advantages that can be saved to become a source of foreign exchange investment funds. The growing population will increase the number of workers and the addition allows the state to increase production.

7. Fiscal decentralization and economic growth

a. Regional autonomy.

Understanding of regional autonomy in Law no. 32 of 2004, concerning Regional Government, that regional autonomy is the right, authority and obligation of autonomous regions to regulate and manage their own affairs and the interests of local society in the system of the Republic of Indonesia republic.

Regional autonomy is the ability to take care of himself with regard to local governance and development, which was previously administered by the central government. Therefore, in addition to the necessary financial capabilities, it also required the

existence of quality human resources, natural resources, capital and technology (Silalahi, 1995).

The purpose of regional autonomy is to increase the human resources needed in order to realize regional autonomy, the criteria of human resources needed are (Silalahi, 1995):

1) Have behaviors, qualities, goals and activities based on skills.
2) Creative and innovative, and able to anticipate challenges and developments within a high work ethic. As oriented people centered orientation.
3) Have high discipline

In the implementation of the regional economy, a region must be able to explore the potential and financial resources owned by the region itself in financing all its affairs.

b. Fiscal Decentralization.

Fiscal decentralization is one of the main components of decentralization (Sidik, 2002). Fiscal decentralization is officially effective from 1 January 2001 based on RI Law no. 25 of 1999, which is enhanced by RI Law no. 33 of 2004. Fiscal decentralization is the delegation of authority to regions in managing their own financial resources, so that the regions have more opportunity to manage their households. Bohte and Meier

(2000) cited by Adi (2005) argue that faster and higher economic growth is apparent in decentralized governments.

According to Litvack (1999) decentralization policy is divided into 3 types, among others:

1) Political Decentralization

   Political decentralization is a delegation of greater authority to the region, involving various aspects of decision-making, including the setting of standards and regulations.

2) Administration Decentralization

   Administrative decentralization is a delegation of authority, responsibility, and resources between different levels of government.

3) Fiscal Decentralization

   Fiscal decentralization is the granting of authority to regions to dig sources of income. There is a right to receive transfers higher from government, and to determine routine expenditures and investments.

These three types of decentralization are related to each other and are a prerequisite for achieving the goal of decentralization, namely to realize the welfare of the people.

c. Indicators of Fiscal Decentralization.

There are three variables that are representative of fiscal decentralization in Indonesia. The three variables are as follows:

1) Decentralization of Expenditures.

   This variable is defined as the total expenditure ratio of each Districts/cities (APBD) to total government expenditures.

2) Decentralization of Development Expenditures.

   This variable is defined as the ratio of total development expenditures for each Districts/cities (APBD) to total national development expenditures.

3) Decentralization of Development.

   This variable is defined as the ratio between the total revenue of each Districts/cities (APBD) to total government revenue.

Conceptually, fiscal decentralization can also be defined as a process of distributing budgets from higher levels of government to lower government to support the functions or tasks of the delegated government (Khusaini, 2006).

The principle of fiscal decentralization according to Bahl (1999) is a money follow function explained that the provision of duty and authority to regional governments (expenditure assignment) will be accompanied by the division of authority to the regions in terms of acceptance / funding (revenue assignment).

The local government subsequently undertakes the management of the balancing funds, local original revenue and financing as a form of regional revenue to be used in funding regional activities in the context of decentralization implementation through the mechanism of the Regional Revenue and Expenditure Budget (APBD). The local original revenue can be an important indicator to assess the level of independence of local governments in the field of finance.

The analysis used to measure the degree of regional fiscal decentralization is called "administrative independency ratio" ie the ratio between local original revenue (PAD) and Total Regional Revenue (TPD).

$$DF = \frac{PAD}{TPD} x\ 100\%$$

Information:

DF: Fiscal Decentralization (%)

PAD: Local Original Revenue (Billions of Rupiah)

TPD: Total Regional Revenue (Billions of Rupiah)

TABLE 2.1
Fiscal Decentralization interval scale degree

DDF%	information
0.00 - 10.00%	very less
10.01 - 20.00%	less
20.01 -30.00%	Medium
30.01 - 40.00%	enough
40.01 - 50.00%	good
> 50.00%	very good

Source: Hanafi and Mugroho (2009)

The degree of fiscal decentralization is the level of regional capability in fiscal self-reliance. An area is said to be eligible to become an autonomous region if one of its conditions has a financing capability derived from its own potential. From the scale of the interval to the degree of fiscal decentralization, the autonomous region should have a fiscal decentralization degree of at least 20%.

The degree of fiscal decentralization is a very important aspect in the implementation of regional autonomy as a whole. This leads to the degree of fiscal decentralization representing the ability of regions to increase local revenues (Radianto & Elia, 1997).

Regional autonomy can be realized if accompanied by good financial and economic autonomy. This means financially not dependent on the central government by exploring as much local original revenue as possible.

d. Theory of Fiscal Decentralization.

The decision to implement fiscal decentralization demanded an increase on economic growth in the regions. Because based on several theories, as follows:

Fiscal Fedealism theory is a theory developed by Hayek, Musgrave and Oates. In this theory it is emphasized that economic growth can be achieved by way of decentralization is delegation of authority by central to region to regulate its own region or called Regional Autonomy.

According to Oates (1972), fiscal decentralization will be able to increase economic growth and society welfare. This is because local governments will be more efficient in the production and supply of public goods. Decision-making at the local government level (district / city) will be more heard to diversify local / regional choices and more useful for allocation efficiency.

Tiebout Model theory is the foundation of the concept of fiscal decentralization with the delegation of authority will enhance the region's ability to serve the needs of public goods with better and more efficient.

The underlying cause of these capabilities is that local governments are perceived to be more aware of the needs and character of local societies, so that programs of government policy

will be more effective to run, as well as from the public budgeting side more efficient (Utomo & Sumarsono, 2009)

The various benefits and arguments that support the implementation of indirect regional autonomy can be considered that autonomy is the best system. Various weaknesses still accompany the implementation of autonomy that must be aware of the implementation. Prud'homme (1995) notes several weaknesses and dilemmas in regional autonomy, including:

1) Create a gap between rich and poor regions
2) Threatening economic stabilization due to inefficiency of macroeconomic policies, such as fiscal policy.
3) Reduced efficiency due to less reps legislative branches with weak indicators of public hearings.
4) The expansion of corruption network from the central to the regions.

Provision of regional autonomy through fiscal decentralization contained three main missions, namely (Barzelay, 1991):

a) Creating efficiency and effectiveness of local resource management
b) Improve the quality of public services and community welfare.
c) Empower and create space for the community to participate (participate) in the development process.

e. Relationship between Fiscal Decentralization and Economics Growth.

The relationship between fiscal decentralization and economic growth has, to date, still generated considerable debate in various literatures. Intuitively, fiscal decentralization can promote economic efficiency and dynamically promote economic growth of a region (Oates, 1993), (Martinez and Macnab, 1997). In his argument is spending on infrastructure and social sector will be effective in encouraging economic growth of a region, because the region knows the characteristics of their respective regions.

According to Oates (1993) fiscal decentralization will be able to increase economic growth and public welfare, because sub-national governments / local governments will be more efficient in the production and supply of public goods. Decision-making at the local government level will be more heard to diversify local choices and more useful for efficiency of allocation.

Fiscal decentralization in developing countries if they do not adhere to the standards of decentralization theory, the results may be detrimental to economic growth and efficiency. Fiscal decentralization allows for corruption at the local level because it gives local politicians and bureaucrats considerations that can be accessed and sensitive to local interest groups.

Oates also argues that fiscal decentralization improves economic efficiency which is then linked to the dynamics of economic growth. Infrastructure and social sector spending by local governments spur economic growth rather than central government policy. According to him the region has advantages in making budget spending so more efficient by satisfying the needs of the community because more know the situation.

The effort to implement regional autonomy and fiscal decentralization, local governments are expected to have greater independence. However, there are still many problems faced by the regional government in the effort to increase the revenue of the regions. The government is expected to increase the PAD to reduce dependence on central financing, thereby increasing local discretion.

Fiscal capacity improvement of the area at its base is the optimization of sources of blood acceptance, namely the potential of natural resources, human resources and the potential of financial resources is optimally. The most important is the optimization of budgets for the role of blood regency will be more of a facilitator and motivator in the development of regional development. The local people themselves will play a significant role in building their blood according to their interests and priorities.

B. Previous Studies

Wahyudin and Yuliadi (2013) with the title “Determinant of economic growth in special area of Yogyakarta, Indonesia” Shows that PMDN, PMA, APBN have positive impact and significant on economic growth, but labor has negative impact and significant on economic growth.

Pujiati (2007) with the title “Analysis of Economic Growth in Residency of Semarang the Era of Fiscal Decentralization” Show that Local original revenue (PAD), Revenue Sharing Fund (DBH) and Labor have positive impact and significant to economic growth, while the General Allocation Fund (DAU) has a negative impact and significant on economic growth.

Zainuddin (2016) with the tittle “Analysis of the impact of investment, labor, population and government expenditure on economic growth of special province of Yogyakarta province 2004-2014” Shows that investment has a positive impact and significant on economic growth. Labor and population have insignificant effect on economic growth. Government expenditure has a positive impact and significant on economic growth.

Khilyati (2016) with the title “The impact of government expenditure, local original revenue, number of labor force and population on the economic growth of Solo area period 2000-2014” Shows that government expenditure has a negative impact on economic growth. Local revenue has an insignificant effect on economic growth. The number of

labor force has a negative impact and significant on economic growth, so the population has a positive impact and significant on economic growth.

Idham Khalid (2015) with the title "The impact of fiscal decentralization on economic growth in South Sulawesi" Shows that fiscal decentralization has a positive impact and significant on regional economic growth.

TABLE 2.2
Previous Studies

No	Title and Author	Analysis tools	Results
1.	Analysis Factors affecting economic growth: Comparative Studies: South Tapanuli and Langkat districts (Saragih,2009)	The method used is OLS (Ordinary Least Squares)	Shows that the government expenditure, education level and value added industry have positive influence to economic growth Kab. South Tapanuli and Kab. Langkat
2.	Analysis of Economic Growth in Residency of Semarang the Era of Fiscal Decentralization (Pujiati,2007)	The method used is GLS (Generalized Last Squares)	Show that Local original revenue (PAD), Revenue Sharing Fund (DBH) and Labor have positive impact and significant to economic growth, while the General Allocation Fund (DAU) has a negative impact and significant on economic growth.
3.	Government Expenditure and Regional Economic Growth Data Panel case study in Indonesia (Sodik,2007)	The method used is GLS (Generalized Last Squares)	Show that Private investment does not affect regional economic growth. Government expenditure affect the growth of the regional economy. Economic openness has a consistent relationship with theory but is insignificant. The labor force has a significant and negative impact on regional economic growth.
4.	The role of government's expenditures in	The method used is OLS (Ordinary	Shows that development expenditure has a impact positive and significant on economic

Continue Table 2.2 Previous Studies

	economic growth in the New Order era and the Reform era (Indrawati,2007)	Least Squares)	growth in both the New Order and the Reform era. Routine expenditure has a positive impact and significant on economic growth in both the New Order and the Reform era.
5.	The impact of Public Investment Growth, Private Investment Growth and population growth on the economic growth of Semarang City period 1992-2006 (Saptomo,2008)	The method used is OLS (Ordinary Least Squares)	Shows that the growth of Private Investment and the growth of Public Investment have positive impact and significant on economic growth, but the growth of population has a negative impact and significant on economic growth.
6	Determinant of economic growth in special area of Yogyakarta, Indonesia (Wahyudin and Yuliadi, 2013)	The method used is panel data regression	Shows that PMDN, PMA, APBN have positive impact and significant on economic growth, but labor has negative impact and significant on economic growth.
7.	The impact of government expenditure, local original revenue, number of labor force and population on the economic growth of Solo area period 2000-2014 (Khilyati,2016)	The method used is panel data regression	Shows that government expenditure has a negative impact on economic growth. Local revenue has an insignificant effect on economic growth. The number of labor force has a negative impact and significant on economic growth, so the population has a positive impact and significant on economic growth.
8.	Analysis of the impact of investment, labor, population and government expenditure on economic growth of special province of Yogyakarta province 2004-2014 (Zainuddin, 2016)	The method used is panel data regression	Shows that investment has a positive impact and significant on economic growth. Labor and population have insignificant effect on economic growth. Government expenditure has a positive impact and significant on economic growth.
9.	The impact of Fiscal Decentralization on	The method used in PLS	Shows that fiscal decentralization has a positive impact on regional

Continue Table 2.2 Previous Studies

	regional economic growth with balancing funds and private investment as a moderating variable (Kresnandra, 2016)	(Partial Least Squares)	economic growth. Meanwhile, private balancing and investment funds do not moderate the impact of fiscal decentralization on regional economic growth.
10.	Regional economic growth in West Java province (Lestari,2013)	The method used is panel data regression	Local original revenue has insignificant on regional economic growth. The population has a negative impact and significant on regional economic growth. The level of education has a significant effect on regional economic growth. The policy of regional autonomy as a dummy variable also has a significant influence on regional economic growth. All fiscal decentralization policies have a significant effect on regional economic growth.
11.	The impact of fiscal decentralization on economic growth in South Sulawesi (Khalid, 2015)	The method used is OLS (Ordinary Least Squares)	Shows that fiscal decentralization has a positive impact and significant on regional economic growth.
12.	The role of fiscal decentralization on economic performance in the district / city of Central Java province (Sasana, 2009)	The method used is PLS (Pooled Least Square)	Shows that decentralization has a positive impact on economic growth. Economic growth has a positive impact on absorbed labor. Economic growth has a negative impact on the number of poor people. Economic growth has a positive impact on welfare. Absorbed workers have a positive impact on the welfare. The number of poor people has a negative impact on the welfare.

C. Theoretical Framework

Based on previous research, in an effort to increase the economic growth of DI Yogyakarta, it will examine the variables associated with the development of economic growth in DI Yogyakarta, namely: local original revenue, government' expenditure, population and fiscal decentralization.

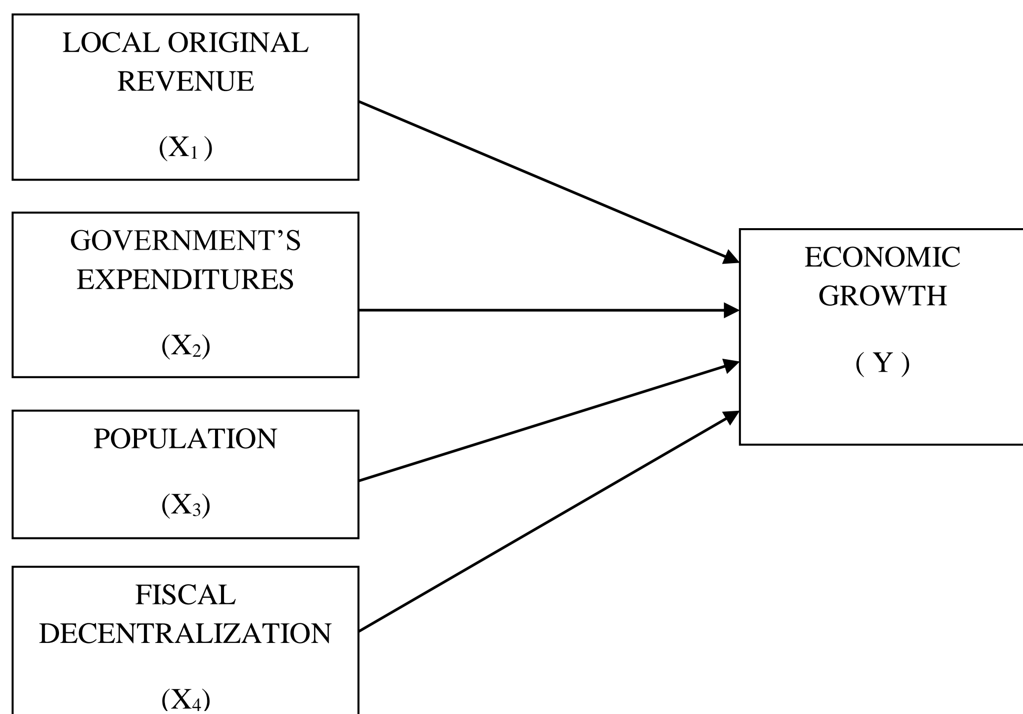

FIGURE 2.1

The Frameworks of Variables

D. Hypothesis

The framework is explained that simultaneously, the magnitude of local original revenues, government's expenditure, population and fiscal decentralization will impact on economic growth in each regency / city of DI Yogyakarta. Referring to the theories proposed, the hypothesis is proposed as follows:

1. Allegedly there is a positive impact and significant between the local original revenue of the region on economic growth.
2. Allegedly there is a positive impact and significant between the government's expenditure of the region on economic growth.
3. Allegedly there is a positive impact and significant between the population of the region on economic growth.
4. Allegedly there is a positive impact and significant between the fiscal decentralization of the region on economic growth.