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Review Article

The Effect of the Household Consumption, Investment, Government Expenditures and Net Exports on Indonesia's GDP in the Jokowi-JK Era

***[1]Darman, [2]Aryusmar**

[12] *Management Departement BINUS Business School Undergraduated Program, Bina Nusantara University, Jakarta, Indonesia*

***Correspondence to:** Darman, Management Departement BINUS Business School Undergraduated Program, Bina Nusantara University, Jakarta, Indonesia, E-mail: darman@binus.ac.id

Abstract

The research aims at determining the effect of household consumption, investment, government expenditures and net exports on Indonesia's Gross Domestic Product (GDP) in the Jokowi-JK era. This research uses quantitative descriptive method, with multiple linear regression analysis using IBM-SPSS. The data used in the 2014-2019 annual quarter is sourced from the Central Statistics Agency (BPS) and Bank Indonesia (BI). This study found that there was a positive and significant effect between the variable of household consumption and GDP, on the contrary the investment variable, government expenditures and net export had no significant effect on GDP. Meanwhile, simultaneously household consumption, investment, government expenditures and net exports has a significant effect on GDP. Finally, this study concludes that the contribution of household consumption to GDP is greater than investment, government expenditures and net exports.

The implication is that the government in this case should encourage ease of investment, especially PMA. Government spending sectors, such as infrastructure, need to be increased again in order to create economic efficiency. Furthermore, the government policy to encourage exports and reduce the rate of imports in the future is highly expected.

Keywords: Gross Domestic Product (GDP), Household Consumption, Investment, Government Expenditures and Net Exports.

Introduction

One important indicator to determine the economic conditions in a country in a given period is the Gross Domestic Product (GDP), both at current prices and at constant prices. The measuring tool used in macroeconomic analysis is GDP. GDP measures the flow of income and expenditure in a country's economy over a certain period of time. To measure this economic growth, real GDP (constant prices) is used, so that the resulting growth rate is real growth that occurs due to additional production.

Economic growth needs to be sustained by public consumption, but growth that is sustained by public consumption will not be sustainable growth because sustainable growth is growth supported by investment. Therefore growth supported by investment is considered to be able to increase productivity so that it can help economic growth. Economic balance is one of the targets in order to improve a country's economy. This can be achieved through the involvement of economic variables that affect the balance.

The global economic crisis due to the trade war that struck most countries in the world, including Indonesia, shows that the economic balance of a country cannot rely solely on the private sector. The contribution of the government sector is also very reliable, especially government spending. The government expenditure sector is expected to drive exports greater than imports and can subsequently increase GDP.

During the five years of President Jokowi-Jusuf Kalla's administration, the average growth of Indonesia's economy was at the level of 5% per year. At the beginning of its promise, Jokowi-JK targets economic growth to reach 7%. Able economic growth is above 5.2%. The highest, only able to reach the highest level of 5.17% in 2018. Meanwhile in 2019, or 6 months before the end of the Jokowi-Jk administration period, economic growth was recorded at 5.06%. Overall economic growth at the 5 percent level is the best, amid global economic uncertainty (CNN Indonesia, 2019)

Indonesian Center of Reform on Economics (CORE) economist Piter Abdullah Redjalam said Jokowi failed to deliver on his promise because structural reform policies and development planning were not carried out properly. For example, infrastructure development is only designed massively without clear economic calculations. As a result, not infrequently the infrastructure that has been built actually does not have a major economic impact on Indonesia. In fact, when the global economic conditions are not sufficiently supportive, the government should be able to carry out development in a realistic manner that gives an impact to growth quickly. On the other hand, the government still cannot really maintain people's purchasing power, so that household consumption growth only stands at around 5 percent. In fact, Indonesia still has to depend on these indicators. Fortunately, inflation can be kept low in the range of 3 to 4 percent. (CORE Economic Outlook 2018)

Furthermore, household consumption should be at least 6 percent and investment around 8%. But consumption is still in the range of 5% and investment actually decreases. As a result, growth did not reach the target. However, when compared to the G20 countries, Indonesia's economic growth is high at around 5%. China and India still recorded economic growth over Indonesia. China records an economy growing 6.4 percent and India around 7.1 percent (Warta Ekonomi.co.id)

Finance Minister Sri Mulyani Indrawati said, despite the United States-China trade war and a number of countries since 2018, that the greatest pressure at this time was seen in exports experiencing negative growth, which would reduce the thrust of the Indonesian economy. (sec finance).

The prospect of economic growth must be supported by strong domestic demand, both from consumption and investment. Investment will continue to grow if it is driven by increased investment in infrastructure projects. The increase in economic growth was also supported by improved net exports (BI: 2018)

Economic growth in 2018 is largely supported by growth in household consumption expenditure with a share of 2.74 percent. Household consumption in 2018 grew by 5.05 percent, an increase from 2017 which was only 4.95 percent.). Growth in household consumption expenditure in 2018 was the highest in the era of President Joko Widodo and Vice President Jusuf Kalla's leadership

In the macroeconomic analysis there are four components of aggregate expenditure in the economy, namely household consumption, government spending, private sector capital formation, and net exports.

Based on this in this study will be focused to discuss about:

1. Does partial consumption, investment, government spending and net exports affect national income in Indonesia?

2. Does the level of consumption, investment, government spending and net exports simultaneously affect national income?

LITERATURE REVIEW

Gross Domestic Product

According to McEachern (2001) to understand the expenditure approach to GDP, aggregate expenditure is divided into four components, consumption, investment, government purchases, and net exports.

Furthermore according to Olivier Blanchard the composition of GDP can be divided into 4, namely;

Consumption, abbreviated as letter C, is goods and services purchased by consumers, which range from food to aircraft, and so on. Consumption is by far the largest component of GDP. In 2010, consumption represented 70.5 percent of GDP.

Investment abbreviated by letter I sometimes called permanent investment is the amount of non-residential investment, i.e. the purchase of a new factory or new machine by a company, and residential investment. Both residential and non-residential investments represent the 12.0 percent of GDP.

Government expenditures abbreviated as G are purchases of goods and services by the government. Government expenditure represents 39.0 of GDP.

Net Export or Net Export abbreviated with the letter (X-M); calculate the difference in Total Exports - Total Imports.

Household Consumption

According to BPS, household consumption expenditure is the expenditure on goods and services by households for consumption purposes. In this case the household functions as the end user (final demand) of various types of goods and services available in the economy. Households are defined as individuals or groups of individuals who live together in a residential building. They collect income, have assets and liabilities, and consume goods and services together primarily in the food and housing groups (UN, 1993).

Furthermore, according to N. Gregory Mankiw (2012), consumption is the expenditure of goods and services by households. Goods include household spending on durable goods such as vehicles, household items, and non-durable goods such as food, clothing. Services include intangible goods such as haircuts, health services. Furthermore, on a macroeconomic basis, consumption expenditure is directly proportional to income, the greater the income the greater consumption consumption.

Investation

In the macro economy, investment is one component of national income or GDP, so that the effect of investment on a country's economy can be viewed from the country's national income. Thus investment is positively correlated to GDP. If investment rises, GDP will also go up. Furthermore, investment in macroeconomics, can also be distinguished from autonomous investment (autonomous investment) and investment affected (induced investment). Autonomous investment is investment that is not influenced by national income, meaning that the level of national income does not determine the amount of investment made by companies. This type of investment is generally carried out by the government with the intent of being the basis for further economic growth, for example investment in the construction of roads, bridges and other infrastructure. While investments that are affected are investments that are influenced by national income, meaning that high national income will increase people's income and subsequently high community income will increase demand for goods and services (Sadono Sukirno: 2008).

Government Expenditures

According to the Law of the Republic of Indonesia No 12 of 2018 concerning the state budget and expenditure, the State Revenue and Expenditure Budget, hereinafter abbreviated as APBN, is the annual financial plan of the state government approved by the DPR. Based on this law, government expenditure is part of government policy. When the government has established a policy to buy goods and services, government spending reflects the costs that must be incurred by the government to implement the policy. In macroeconomic theory, government expenditure consists of three items, namely (1) expenses for the purchase of goods and services, (2) expenses for salaries and employees, (3) government expenses for transfer payments.

Export - Import (Net Export)

In general, the concept of foreign export-import used in the preparation of GDP / GRDP refers to the System of National Accounts (SNA) 1993. In the 1993 SNA, export-import transactions of foreign goods in the GRDP component of Provincial Use is one form of international transactions between economic actors who are residents of a province and foreign economic actors (non-residents). Goods export transactions are defined as transactions in the transfer of economic ownership (whether in the form of sales, barter, gifts or grants) for goods from residents of a province to non-resident economic actors. On the other hand, import of goods is defined as transactions in the transfer of economic ownership (including purchases, barter, gifts or grants) for goods from non-resident economic actors to residents of a province.

Furthermore, N. Gregory Mankiw (2006: 27) stated that net exports are the value of goods and services exported to other countries less the value of goods and services imported from other countries. Net exports are positive when the value of exports is greater than the value of imports and negative when the value of imports is greater than the value of exports. Net exports represent net foreign spending on our goods and services, which provides income for domestic producers

METHODOLOGY

Descriptive research methods are carried out to determine the value of independent variables, either one or more variables without making comparisons, or connecting with other variables. Whereas what is meant by a quantitative approach is an approach used in research by measuring the indicators of research variables so that an overview is obtained between these variables. Therefore, descriptive research with a quantitative approach in this study aims to explain the situation to be examined with the support of library studies so that it further strengthens the analysis of researchers in making a conclusion.

In this case, this research will focus to discuss the following research questions:

Does the level of household consumption, investment, government expenditures and net exports partially affect the national income in

Indonesia?

Does the level of household consumption, investment, government spending and net exports simultaneously affect national income?

RESULTS AND DISCUSSION

Statistic Test

After the authors conducted a statistical test, that all variables are valid, reliable, and are in a normal distribution. Homogeneity, heterokedaxity, and mulitinconiality tests indicate that these variables meet the requirements for linear regression.

Multiple Linear Regression Analysis

To determine the effect of the regression results between independent variables (household consumption, investment, government spending and net exports) on the dependent variable (GDP), the following results are obtained (table 1)

Coefficient of Determination

The determination test is used to measure how much the model's ability to explain the dependent variable. If R2 gets bigger (close to one), then it can be said that the effect of the independent variable on the dependent variable is large. This means that the model used is increasingly explaining the effect of the independent variables under study on the dependent variable. Conversely, if R2 gets smaller (near zero), it can be said that the effect of the independent variable on the dependent variable is smaller.

Table 1. Coefficient of Determination

Model	R	R Square	Adjusted R Square
1	.994a	.988	.986

Predictors : (constant), X-M, I, G, C

Based on the results of research calculations, an R2 value of 0.985 was obtained. This means that 98.80% of Indonesia's GDP in the era of President Jokowi can explain the relationship between household consumption, investment, government spending and net exports while the remaining 1.2 percent is influenced by other factors not discussed in this study.

The Results of F test

The F test is used to see whether all variables included in the model have a joint influence on the dependent variable.

Table 2. F test

Model	F	Sig
Regression Residual Total	399.651	.000b

Dependent Variable: GDP

Predictors: (Constant), X-M, I, G, C

Based on the results in the table above the calculated F value with a significant 95% ($\alpha = 5\%$) is 700,991 and the probability level (sig) is 0,000. It can be seen that the F count> F table is 273,413> 3.098. So it is stated that Ha is accepted and Ho is rejected. It can be concluded that at the level of significant level of 95% together all the independent variables namely household consumption, investment, government expenditure and net exports have a significant relationship to GDP in Indonesia.

The Results of t test

Table 3. T test

Model	t	Sig
Constanta	-1.402	.177
Consumption	6.262	.000
Infestation	-1.305	.207
G	1.307	.207
X - M	.884	.388

Based on the results of t test as follows:

Household consumption variable has a t count > t-table (6.262 > 2.086) with a significance level of 0,000 < 0.05, so it can be stated statistically that the household consumption variable has a positive and significant effect on GDP in Indonesia.

Investment tax revenue variable has t count > t-table (-1.305 > -2.086) with a significance level of 0.059 > 0.05, so it can be stated that statistically the investment variable has a negative and not significant effect on GDP in Indonesia.

Government expenditure variable has a t count > t-table (1.307 < 2.086) with a significance level of 0.088 > 0.05, so it can be stated that statistically the government expenditure variable has a positive and not significant effect on GDP in Indonesia.

The net export variable has a t count > t table (.884 < 2.086) with a significance level of 0.398 > 0.05, so it can be stated that statistically the exchange rate variable has a negative and not significant effect on GDP in Indonesia.

RESEARCH FINDINGS

GDP and private investment (PMDN) still have a positive correlation, but the effect is weak. The weak influence of private investment and economic growth in Indonesia may be due to the high interest of foreign investment compared to domestic investment. According to the BKPM (Investment Coordinating Board), the amount of investment in Indonesia is dominated by foreign investment with a ratio of 78% foreign investors and 22% for domestic investors. Furthermore, due to global factors further weaken the contribution of investment to economic growth.

In the 5 year report of the Jokowi-JK administration, it had a big impact on infrastructure development. Increased competitiveness and ease of trying are considered quite successful. However, the management of the state budget by the government by building infrastructure has not encouraged economic growth. Besides that, Jokowi-JK era state budget expenditure was considered to be very wasteful. Its economic policy is just handing out cards and spreading money, without looking at its productivity. The budget for the region that reaches Rp 700 trillion is as much as 90% only to pay employee salaries and operational costs.

Weakening economic growth in the Jokowi-JK era, due to weakening export growth, while import growth jumped almost twice as much as exports. As a result, net exports contribute negatively to economic growth. The large amount of imports made is thought to be caused by the increasing needs of the community for goods and services needed by people who are unable to produce domestically, so that to cover those needs Indonesia is forced to consume goods and services from abroad.

This study found that there was a positive and significant effect between the variable of household consumption and GDP, conversely the investment variable, government expenditure and net exports had no significant effect on GDP. Meanwhile, simultaneous household consumption, investment, government spending and net exports have a significant effect on GDP.

These findings are reinforced by previous research conducted by Abdul Rahim Ridzuan, et al from Malaysia, Alex Reuben Kira from Tanzania, Sayef Bakari and Mohamed Mabrouki from Panama showed that household consumption has a positive and significant effect on GDP or economic growth. The calculation results are also synchronous with BPS data which shows that household consumption is a mainstay sector that has a significant effect on GDP or economic growth.

CONCLUSION

Based on the simultaneous F test, household consumption, investment, government expenditure and net exports affected the GDP in Indonesia during the reign of Joko Widodo (5th President of RI). Furthermore, the t test proved that the household consumption has a positive and significant effect on GDP in Indonesia, but investment, government spending and net exports have no effect on GDP in Indonesia during the reign of Joko Widodo (5th President of Indonesia). Therefore, this research concludes that the contribution of household consumption to GDP is greater than investment, government expenditures and net exports.

Implication

The implication is that the government in this case must be able to increase public income through the ease of obtaining the investment facilities in the business sector. In addition, government expenditures must be used for the productive sector which influences the multiplier effect.

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