European Journal of Molecular & Clinical Medicine
ISSN 2515-8260 Volume 07, Issue 07, 2020

The Influence Of Government Policies On Investment, Employment, And Consumption Levels On Economic Growth In Indonesia In 2008-2017

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Abstract
This research is quantitative. The data used were secondary data obtained from the Central Bureau of Statistics (BPS). The data analysis employed was multiple linear regression analysis, which was processed using SPSS 23. The results revealed that investment had a significant and positive effect, with the t-count value of 9,300 higher than the t-table of 1,968 with a significance level of 0,000. Labor had a significant and positive effect, with the t-count value of 8.691 higher than the t-table of 1.968 with a significance level of 0.000. The consumption level had a significant and positive effect, with the t-count value of 7.474 higher than the t-table of 1.968 with a significance level of 0.000. Simultaneously, the variables of investment, labor, and consumption levels had a significant and positive effect on economic growth. From the regression results, the R-Squared (R^2) value was 0.744. It indicated that the independent variables could explain the variation in economic growth in Indonesia by 74.4%. Meanwhile, the remaining 25.6% was explained by other variables outside the research.
Keywords: Investment, Economic Growth, Labor, Consumption Level

1. INTRODUCTION

Economic growth is one of the essential indicators in analyzing economic development that occurs in a country. According to Mankiw, economic growth indicates the extent to which economic activity will generate additional public income in a certain period, which in turn can lead to improvements in people's economic welfare [1]. According to Sukirno, in macro analysis, the rate of economic growth achieved by a country could be measured by the development of real national income achieved by that country [2].

The development may include changes in the rate of economic growth, reducing income inequality, and reducing poverty. To achieve the desired target, a country’s development could involve three main points for society: increasing the living standard for the community and enhancing communities’ ability to access both economic activities and social activities in their lives [3].

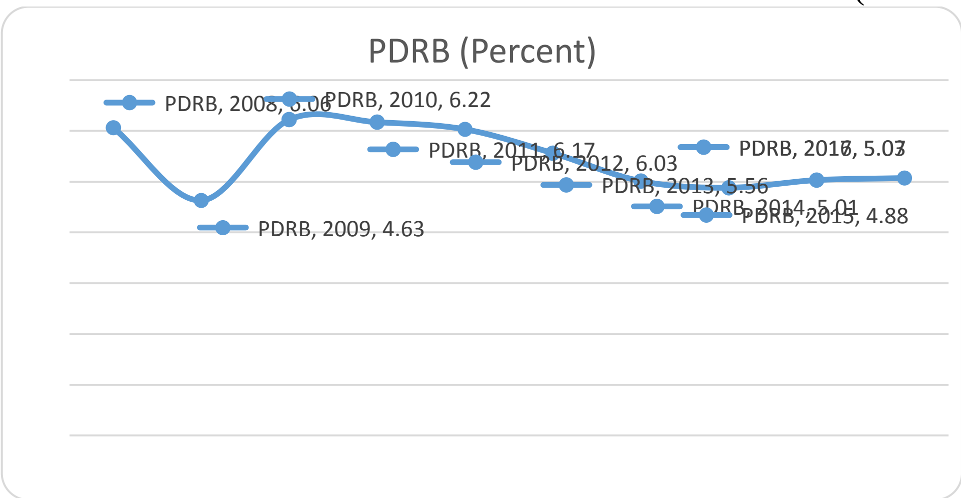
The development itself can also be interpreted as efforts made to increase the growth of gross domestic product (GDP) at the national level and gross regional domestic product (PDRB) at the regional level. On the other hand, in general, development can also be elucidated as an effort to boost further the productivity of potential resources owned by a country in the form of natural resources, human resources, and financial resources [4]. Thus, development can be said to be a basic effort to change the bad past into a new, better era to pass on the future to future generations [2].

As a developing country, Indonesia cannot be separated from various obstacles and challenges in development. Among them are the problems of poverty, unemployment, low capital, and the low quality of human resources. Some problems faced in Indonesia's development must be addressed immediately. One way to overcome these various problems is by striving to increase investment, both domestic and foreign.

Investment can be defined as the activity of expenditure or spending by investors to purchase capital goods and production equipment to advance the ability to produce goods and services available in the economy [2].

Based on data from the Central Bureau of Statistics (BPS), data on economic growth rates in Indonesia were obtained, as shown in the following figure:

Graph 1.1
Economic Growth Rate in Indonesia at Constant Prices in 2008-2017 (in Percent)



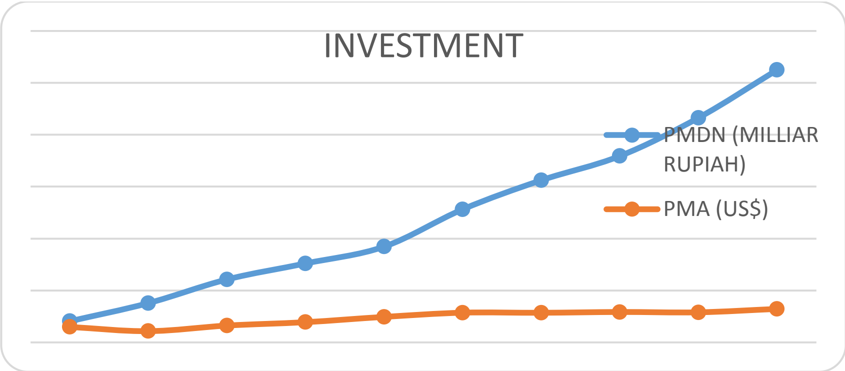
Source: Central Bureau of Statistics, 2017

Based on graph 1.1 above, it is known that Indonesia's economic growth rate from 2008-2017 fluctuated but tended to decline. During the 2008-2017 period, the average economic growth was 5-6%. In 2008, there was a decline in the economic growth of 1.43% compared to the previous year. It was due to the global financial crisis, which impacted Indonesia's economic growth. In 2010, there was an increase of 1.59%. In 2011-2015, it continued to decline from the previous year. It was due to the economic slowdown. However, in 2016 and 2017, the economic growth rate appeared to increase even though the increase was only 0.15% and 0.04% from the previous year.

Investment in Indonesia from year to year has escalated in several regions, but the increase has not been too significant. It most probably was because the interest rates in Indonesia were uncertain, and the licensing process was very difficult. Besides, it was also may be caused by the political situation in Indonesia and the regions.

European Journal of Molecular & Clinical Medicine
ISSN 2515-8260 Volume 07, Issue 07, 2020

Graph 1.2
Investment in Indonesia in 2008-2017



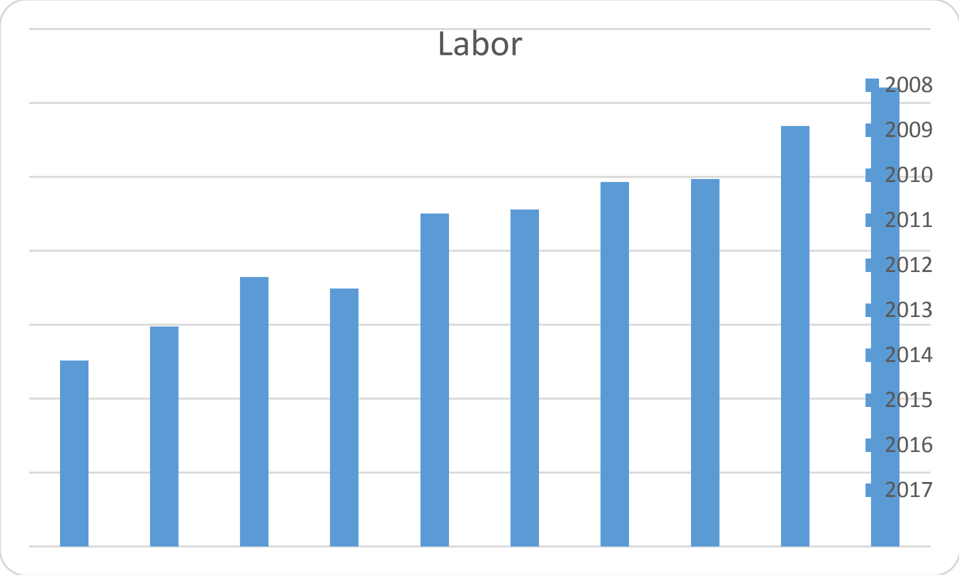
Source: Central Bureau of Statistics

In graph 1.2, it can be seen that the development of investment realization in Indonesia has tended to increase in the last ten years. It showed that Indonesia is one of the countries which have a good potential market for investment

Although the value of investment realization in the last ten years always has risen, it seems not evenly distributed throughout Indonesia. According to data from the Investment Coordinating Board (BKPM, 2015-2017), investment realization in the last three years was still centered on the Java island, with a total of 54% foreign and domestic capital. It may be due to factors that affect each region. One of the factors is market openness, such as exports. If the market in an area is more open, it will be easier for investors to invest in that area. On the other hand, the centralized economic turnover in the Java region seems to invest unevenly spread out to other regions in Indonesia.

Besides, labor is also one of the factors that affect an area's output. A large workforce usually will be formed from a large population. However, it is feared that population growth may harm economic growth. According to Todaro, rapid population growth could encourage the underdevelopment problem and makes development prospects even farther away. However, a sufficient population with a high level of education and skill will likely drive the rate of economic growth. A large number of productive age population will be able to increase the number of the available labor force, and in the end, will be able to boost the production output in an area.

Graph 1.3
Labour in Indonesia According to Population Aged 15 and Over and Types of Activities During the Week in 2008-2017

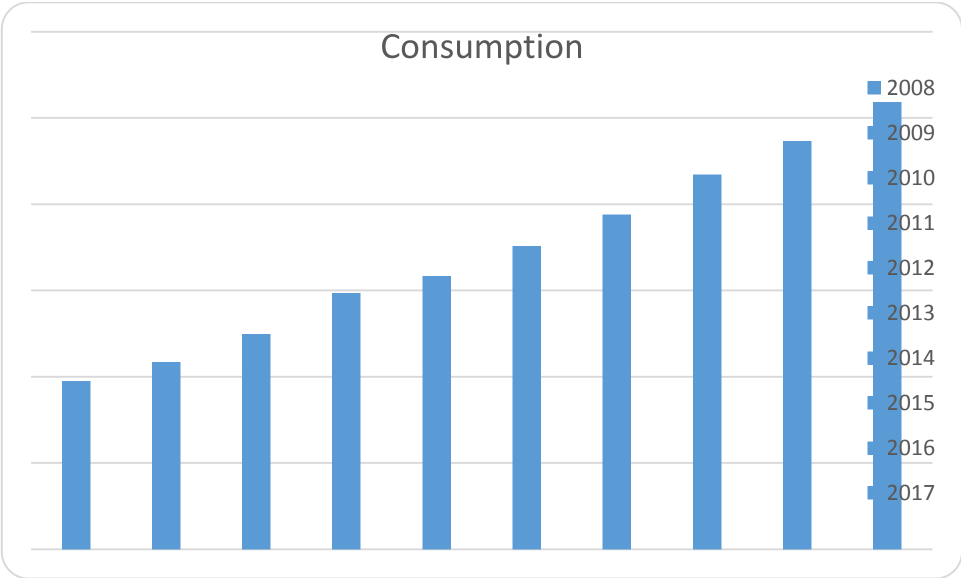


It can be seen from Graph 1.3 that the labor in Indonesia has fluctuated from year to year, but basically, it has mostly experienced an increase. For example, in 2008, the workforce in Indonesia was 102,552,750 people. It has shown that the working population has reached 91.61% of the total workforce. Furthermore, in 2009-2010, there was an increase of 92.86% of the total workforce in 2010. Meanwhile, in 2011, the working population tended to decline from the previous year, which was 107,416,309 people or 92.52% of the total workforce. Furthermore, in 2012-2017, it always increased. As of 2017, Indonesia's total workforce was 121,022,423 people, or 94.50% of Indonesia's total population. It signified that more than 90% of Indonesia's population has already had a job.

Moreover, a country's welfare level is one of the benchmarks to determine the success of development in that country, and consumption is one of the supports. The greater the expenditure for the consumption of goods and services, the higher the family welfare level. Household consumption varies from one another evidently due to different income and needs. Each person or family most probably has a measure of need influenced by income. A person's income condition usually will affect the consumption level. The higher a person's income, the more goods are consumed. If someone wants to increase consumption while the income earned is constant, he has to dip into their savings; that way, the savings perhaps will be reduced.

According to data sourced from BPS, it can be known that Indonesia's per capita consumption as a developing country in one month during 2008-2017 increased, but this increase was not accompanied by an increase in GDP. In 2008, the per capita expenditure of people in Indonesia reached Rp. 389,956, then rose to Rp. 1,036,497 in 2017. The following is a table of the average per capita expenditure in households for 2008-2017.

Graph 1.4
Average Monthly per Capita Expenditure in Urban and Rural Areas by Province and Group of Goods (rupiah) in 2008-2018



Source: Central Bureau of Statistics, 2017

In this case, there are less prosperous or poor people who have not met their households' daily needs. However, generally, the population in Indonesia is consumptive, especially in urban areas. High household consumption could be balanced with high income in a normal condition. Nevertheless, if household consumption is higher than income, it could negatively impact the economy, reducing the social welfare level.

Growth in investment, labor, and consumption level experienced erratic developments, sometimes increasing or decreasing. It turns out that the sizeable investment growth has not been able to drive economic growth. Likewise, high growth in the workforce does not guarantee high economic growth either. Also, the consumption level due to an increase in consumption means that there has been an increase in demand for goods and services. An increase in demand for goods and services will force the economy to increase production. Increased production of goods and services will lead to an increase in economic growth. Conversely, if the development of consumption has decreased, then economic growth will also decline. Due to a decline in consumption development, there has been a decline in demand for goods and services. This decline will result in the reduction of the production of goods and services. A decrease in the production of goods and services will cause a decline in economic growth.

Based on the above background, the following problems could be formulated: How will investment affect economic growth in Indonesia? How does labor influence economic growth in Indonesia? How does the consumption level affect economic growth in Indonesia? How do investment, labor, and consumption levels impact economic growth in Indonesia?

2. RESEARCH METHODS AND MATERIALS

The data used in this study were secondary data from the Central Bureau of Statistics (BPS), agencies, institutions, or other relevant sources. The collected data were then processed and analyzed quantitatively by multiple regression. The data analysis technique in this study employed panel data regression analysis. Analyzing panel data utilized the SPSS 23 program. The data used were the combination of time series and cross-sections.

3. RESULTS AND DISCUSSION

3.1. Hypothesis Testing the Effect of Investment on Economic Growth

Table 4.11 shows that the t-count value of investment was > t-table, namely 9,300> 1,968, with a significance value of 0,000 <0.05. Thus, it could be concluded that Ho1 was rejected, and Ha1 was accepted. Therefore, it could be inferred that part, the investment variable had a significant and positive effect on economic growth.

Based on the regression results, investment had a significant effect on economic growth. It means that it is according to the initial hypothesis that the investment variable significantly and positively impacted Indonesia's economic growth.

This study's results are in line with the research results conducted by Mutia Sari, Mohd. Syehhalad, Sabri. Abd. Majid stated that there was a significant and positive influence of investment on economic growth in Indonesia [5].

According to Jhingan, through investment, economic activity will be able to develop, and people's welfare can increase [1].

This study results also align with the theory put forward by Harrold-Domard, which affirms that in a two-sector economy, an investment must increase so that the economy experiences prolonged growth, and the increase in investment is needed to increase aggregate expenditure [2].

Sukirno argued that investment activities allow society to continuously improve economic activity and job opportunities, increase national income, and intensify community welfare level. This role comes from three essential functions of investment activities: (1) Investment is one component of aggregate expenditure so that an increase in investment will raise aggregate demand, national income, and employment opportunities. (2) The increase in capital goods because of investment will improve production capacity. (3) Investment is always followed by technological developments [2].

Domestic investment is a crucial matter for a region, especially in carrying out its economic development to reduce public consumption of foreign products, reducing the level of savings created for the future. This investment or capital formation is essential to move a region's economy. With the presence of Domestic Investment (PMDN) in Indonesia, it will overcome the lack of capital that occurs in Indonesia's regions, and the increasing PMDN investment in Indonesia will encourage and accelerate the process of economic growth in Indonesia.

In the context of economic development, especially in developing countries, the investment appears to be the primary target whose contribution is very reliable in pursuing faster economic growth targets, especially in developing the growth rate of local own-source revenue (PAD). Besides, an increase in a country's investment cannot be separated from foreign investment.

3.2. Hypothesis Testing the Effect of Labor on Economic Growth

From table 4.11, it displays that the t-count value of labor> t-table, namely 8.691> 1.968 with a significance value of 0.000 <0.05. Thus, it could be concluded that Ho2 was rejected, and Ha2 was accepted, meaning that there was a significant effect. Therefore, it could be assumed that part, the labor variable was stated to positively and significantly impact economic growth.

Based on the regression results, labor had a significant effect on economic growth. It denotes that it is consistent with the initial hypothesis that the labor variable had a significant and positive influence on Indonesia's economic growth.

This result is compliant with the research conducted by Nurul Fitriani. The higher the number of workers, the higher the output produced to increase economic growth [6].

According to the Solow-Swan theory, economic growth depends on the availability of production factors, such as population, labor, capital accumulation, and technological progress. In this theory, Solow-Swan asserts that the labor factor can increase economic growth. The workforce here is not only the quantity of labor but also the quality of the workforce, which is taken into account. Human capital is one of the crucial capitals in increasing productivity. The higher a person's education level, evidently the higher the productivity produced to spur economic growth in an area [7].

Todaro mentioned that population growth and workforce growth are traditionally seen as positive factors that spur economic growth. A larger number of workers means an increase in the production level, while a larger population growth indicates a larger domestic market size. Furthermore, it is said that the positive or negative effects of population growth depend on the ability of the regional economic system to absorb and productively take advantage of the increased labor [3].

Labour can also be specified as the population of working age (aged 15-64 years), or the total population in a country that can produce goods and services if there is a demand for their labor and if they are willing to participate in these activities.

Based on the research results, it can be concluded that the workforce can drive economic growth if jobs can absorb all workers. However, an increased workforce may also have a negative impact, namely, the emergence of unemployment. It can be overcome usually by increasing investment, where funds originating from investment can be used to create jobs. Thus, income may increase and economic growth is achieved.

3.3. Hypothesis Testing the Effect of Consumption Level on Economic Growth

Table 4.11 exhibits that the t-count value of the consumption level was > t-table, namely 7.474> 1.968 with a significance value of 0.000 <0.05. It could be concluded that Ho3 was rejected, and Ha3 was accepted, meaning that there was a significant effect. Thus, it could be deduced that partially, the consumption level variable was stated to positively and significantly impact economic growth in Indonesia.

Based on the regression results, the consumption level had a significant effect on economic growth, which means that it is following the initial hypothesis that the consumption level variable significantly and positively influenced economic growth in Indonesia.

According to Sukirno, consumption expenditure is the value of households' spending to purchase goods and types of needs in a specific year. It is called household consumption expenditure, or in macroeconomic analysis, more commonly referred to as household consumption. The income received by households will be used to buy food, buy clothes, pay for transportation services, pay for children's education, pay for house rent, and purchase vehicles. Households purchase these goods to meet their needs, and this spending is called consumption, namely buying goods and services to satisfy the desire to own and use these goods. Not all transactions conducted by households are classified as (household) consumption. The household activity of purchasing a house is classified as an investment. Furthermore, some of their expenses, such as paying for insurance and sending money to parents (or children who are currently in school), are not classified as consumption because they do not constitute spending on goods and services produced in the economy [2].

The greater the household income a person has, the greater the consumption expenditure level, and if the consumption expenditure level increases, it will also positively influence economic growth. An increase in consumption development means that there has been an increase in demand for goods and services. An increase in demand for goods and services will force the economy to increase production. Increased production of goods and services will lead to an increase in economic growth. Conversely, if the development of consumption has decreased, then economic growth will also decline. Due to a decline in consumption development, there has been a decline in demand for goods and services. This decline will result in the economy, reducing the production of goods and services. A decrease in the production of goods and services will cause a decline in economic growth.

This study's results are in line with Mankiw's opinion that consumption decisions are crucial for short-term analysis because of their role in determining aggregate demand. Consumption is two-thirds of GDP, so fluctuations in the economy are an essential element of booming and recessions.

Moreover, this study's results are in agreement with the research results carried out by Yosi Shandra, which stated that partially, the development of consumption had a significant and positive impact on economic growth. Then, this study also supports the research conducted by Muhammad Rafiq, which discovered that consumption significantly and positively affected economic growth [8].

3.4. Hypothesis Testing the Effect of Investment, Labor, and Consumption Levels on Economic Growth

From table 4.10, it exposes that the F-count value was 267.008. From the comparison, it was known that the value of F-count> F-table (266,789> 3.01). From the table, it could also be seen that the sig. F-count 0.000 <0.05. Thus, it could be inferred that there was an influence of investment, labor, and consumption levels simultaneously on economic growth. The dependent variable that could be explained by the independent variable was economic growth, explained by the investment, labor, and consumption level variables of 74.4%. Meanwhile, the remaining 25.6% was explained by other variables outside the research [9].

Based on the regression results, investment, labor, and consumption level significantly affected economic growth. It means that it aligns with the initial hypothesis that the variables of investment, labor, and consumption level significantly and positively impacted economic growth in Indonesia. The higher the investment, the better the economic growth will be, and the more investment will open up jobs, which will indirectly absorb labor. The more people working or creating jobs will generate much income. With high income, the higher the consumption level in an area. The high level of consumption will impact regional economic growth. Thus, investment, labor, and consumption affect economic growth.

This study's results are consistent with Aminah's research results, which found a significant influence of investment, labor, and consumption. It showed that investment, labor, and consumption simultaneously significantly affected economic growth in Padang City [10].

4. CONCLUSIONS

Based on the descriptions previously described, several conclusions can be drawn, including:

1. The investment variable partially had a significant and positive effect on economic growth.
2. The labor variable partially had a significant and positive influence on economic growth.
3. The consumption level variable partially had a significant and positive impact on economic growth.
4. Based on the analysis results and discussion, the variables of investment, labor, and consumption levels simultaneously had a significant effect on Indonesia's economic growth. The dependent variable that could be explained by the independent variable was the variable of economic growth explained by the investment, labor, and consumption level variables of 74.4%. Meanwhile, the remaining 25.6% was explained by other variables outside the study.

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