

ANALYSIS OF ECONOMIC STRUCTURAL CHANGE INDONESIA AFTER THE REFORMATION ERA

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ABSTRACT - Economic progress of a country can be seen from the global economic structure changes. Similarly, Indonesia has started the process of development since the New Order proved to have changed the economic structure of the expenditure is declared successful. The purpose of this study wanted to determine the development of the expenditure side after the reform era because of the various phenomena that occur as weaker purchasing power and the high burden of government in providing public goods. From the calculation result that after the reform of private consumption to GDP ratio decreased and the ratio of government spending to GDP increased significantly so in accordance with the theory of structural changes in the economy.

Keywords: structure of the economy, spending, government, private

Background

The success of a country's economic development is an important factor to be considered every country, including Indonesia. As is known the development process in Indonesia has started since the New Era and in general have shown success. It can be seen from the various economic indicators: consumption, saving and a reduction in the number of poor and structural changes in the Indonesian economy, from agriculture to industry (Faisal Basri, 1995).^[4]

In further changes in the economic structure of Indonesia can be seen from the production, spending and international trade. Where on the expenditure side include an increase consumption government and downs of the

private consumption sector along with rising per capita income of Indonesia. The conditions in the macro perspective shows that during the new era welfare of the people of Indonesia have been increasing. Where an increase in per capita income will encourage acceptance of direct taxes in Indonesia can ultimately increase government spending (Hera, 1995).^[1]

A sense of optimism about the economy Indonesia is very important to do further research on changes in the structure of the Indonesian economy, especially after the Reformation Era. With the emergence of various phenomena that reason contrary to the New era such as the exchange rate is likely to depreciate after the financial crisis, rising oil prices in the international market that affect the increase in imports and a decline in the production of food crops, especially rice (Tulus Tambunan, 2014).^[2] Of the various phenomena which many predict will affect the decline in the purchasing power of the community.

On the other hand views from efforts to improve the people's welfare duties Indonesian government through fiscal policy feels quite heavy, especially in the provision of infrastructure, both economic and non-economic. As the realization of the statement, one of the obstacles for foreign investors to enter Indonesia is the lack of infrastructure in Indonesia. It turned out that until now the provision of public goods is still being pinned on the government. This factor is expected to lead to increased government spending in Indonesia.

To know the development of private consumption and government in Indonesia during the period 1997-2014 can be seen from the following graph (Figure 1).

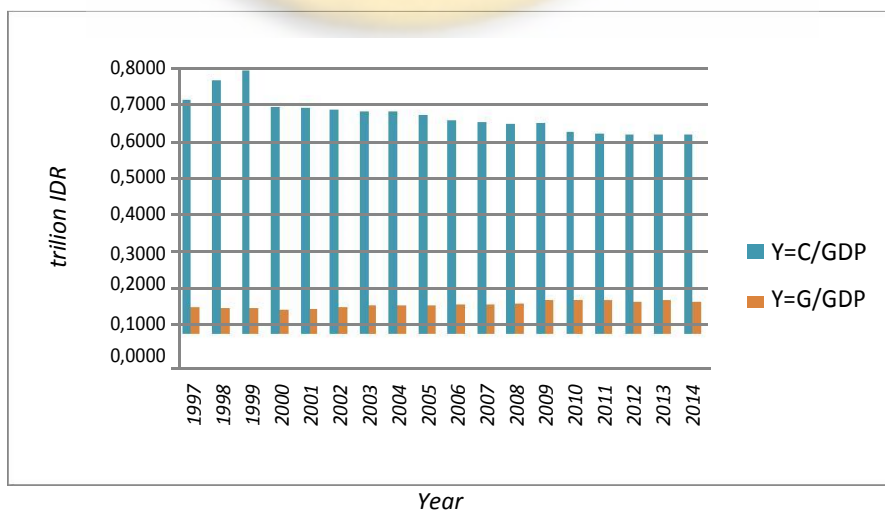


Figure 1. The development of consumption and the ratio of government expenditure to GDP.

From the chart above shows the development of private consumption ratio against the National Income Indonesia from 1997 to 1999 increased from 0.6396 becomes 0.7172. While the subsequent years tends to decrease until it reaches 0.5420 2013. Then in 2014 there was an increase again is at 0.5426. While the ratio of government spending to national income of Indonesia from 1997 to 2000 has decreased from 0.0732 becomes 0.0653. Then in the following years there was an increase until it reaches the peak years of 2010 to reach 0.0901. Then in 2011, 2012 and 2014 a decline of up to 0.0868 .

Based on the contradiction between this phenomenon and the reality of the data above, the researchers are interested to analyze changes in the economic structure Indonesia expenditure.

Formulation of the problem

1. How is the development of public sector spending in Indonesia after the reform ?
2. How does the development of private-sector spending in Indonesia after the reform?

Research purposes

1. To know the development of public sector spending in Indonesia after the reform.
2. To determine the development of private-sector spending in Indonesia after the reform.

Benefits of research

1. To determine the progression of the government sector in the economy of Indonesia since the Reformation Era.
2. To determine the progression of the private sector in the economy of Indonesia since the Reformation Era.

Theoretical review

Theory of Economic Structure Changes

Interchangeability of changes in economic structure are interrelated in the composition of aggregate demand, foreign trade (exports and imports) and aggregate supply to support the process of development and sustainable economic growth. There are two main theories in the changing economic structure that is from Arthur Lewis (migration theory) and Hollis Chenery (the theory of structural transformation). [2]

Arthur Lewis theory assumes the economy of the country is divided into two traditional rural economy is dominated by agriculture and modern urban economy with the industry as a leading sector. In the countryside, because of the high population growth then an excess supply of labor to the level of people's lives those are subsistent so that the real wage rate is also low. By contrast, in the urban sector is a rapidly growing industry provides high labor productivity so that the real wage rate is also high.

The gap between rural and urban areas gave rise to the process of migration and urbanization. The impact of labor that move from agriculture to industry increased revenue and earnings in the aggregate would encourage developing countries will increase. Furthermore, these conditions encourage the demand for food increases so that the aggregate demand is also increasing. In the long term the main factor of growth of the rural economy. On the other hand, consumer demand patterns will change as a result of the increase in income/capita to the various kinds of industrial products and services.

Thought the same as Lewis Chenery's theory, which focuses on structural changes in the stages of the process of economic change in Developing Countries from the traditional agricultural sector to the industrial sector. The results of empirical research Chenery and Syrquin (1975) emphasized that the increase in per capita income will be changing patterns of consumer demand from the food and goods of basic needs for manufactured goods and services, the accumulation of physical and human capital (SDM), the development of towns along with the migration of people from rural to urban areas, a decrease in the rate of population growth and family size to play small and changes in economic structure which was originally dominated by agriculture and mining leading to the non-primary sectors, especially industry (Tulus TH Tambunan, 2014). [2]

Based on both the theory can be inferred changes in economic structure in conjunction with the increase in national income/capita will change the taste of the society that is driven by technological progress and improving the quality of human resources, the contribution of primary sectors to the Gross Domestic Product (GDP) decreased and vice versa for the contribution of the secondary sector and tertiary.

Research methodology

In this study used a descriptive approach regarding the evaluation of changes in the economic structure of Indonesia after the reformation era.

The types of data used in this research is secondary data obtained from the Asian Development Bank from 1998 to 2014 year. Use of the data for the period in question so that the analysis carried out can limit the time dimension of the development process variables studied in order to obtain more realistic results.

From the data obtained, the regression model used is as follows:

$$Y = a + b (t)$$

where: Y= Ratio Consumption of Gross Domestic Product (C/GDP) and the ratio of government spending to Gross Domestic Product (G/GDP).

$$t = \text{time}$$

Thus there is one dependent variable and one independent variable. This study uses Old Least Squares (OLS).

Results and Discussion

In the calculation of the regression coefficients in structural equations based on data from the years 1998-2014 obtained results:

$$C/GDP = 0.67497 - 0.0083 t$$

(60.685) (-8.083)

$$F = 65.329 \text{ Adj. } R^2 = 0.7909$$

$$G/GDP = 0.06607 + 0.00137$$

(37.554) (8.485)

$$F = 71.994 \text{ Adj. } R^2 = 0.8068$$

From the calculation results obtained will do economic analysis and statistics as follows:

Economic analysis

In the development of private-sector spending equation obtained a negative correlation with the number coefficient of -0.00083. This suggests that the development of private-sector spending emerges that during the period under study. This is consistent with the theory of economic structural change which stated that along with the increase in national income/capita annually in Indonesia, the public taste will surely shift from the primary to the purchases of goods secondary or tertiary. The statement is further strengthened by Engel's Law that the income elasticity of primary goods or basic necessities is smaller than one. In contrast to the type of luxury goods will have elasticity greater than one.

As the realization of the statement seen in consumption patterns Indonesia has changed from the need of food towards secondary stuff. An example is the ownership of motorcycles in Indonesia is more dominated by the middle to lower. The main factor with the use of motor vehicles is far more efficient than using public transport. Besides, from the buy-side is relatively easy because it can be done in installments.

Similarly, the need for high-priced homes although the reality is already owned by many community groups to the middle. This potential can be realized due to the persistence of the community to improve their welfare by saving and do extra work that can increase their income. Even seen most of the people who will strive gradually from the purchase of land until the establishment of houses. Attitude consistency to improve the efficiency has a positive impact on improving the welfare of society.

Based on both these reasons, it is logical if the development community consumption ratio to GDP in Indonesia decreased. Means that after the reform of the economic structure changes have occurred in the Indonesian economy and also describe the progress of the Indonesian economy.

In equation consumption government spending growth looks positive relationship with the coefficient value of 0.00137. This shows that the ratio of government spending to GDP showed growth increased each year during the period studied. When linked to the Theory of Economic structural changes that result was appropriate

where increased income per capita of a country it will encourage government spending will also increase.

As the realization of the statement can be seen from the development of government spending continues to increase as a result of the demand supply infrastructure by the government to respond to the influx of foreign investors in Indonesia. As is known the role of government through state-owned until now still dominate in infrastructure spending that is still valued below 50 billion IDR. Potential government according to the actual theory of government spending should be a higher level. But the reality of the role of government is still large enough or dominate for infrastructure such low values. That situation illustrates the weakness of the private sector's role in responding to the infrastructure sector in Indonesia. Given the supply of infrastructure is necessary to support increased economic growth in Indonesia, the increase in per capita income in Indonesia has been followed by an increase in government spending in the infrastructure sector.

Another reason that supports the statement is based on the theory of government spending proposed Peacock and Wisseman (Guritno, 1998) ^[5] showed that the more advanced a country's economy; the increase in public sector expenditure will also be increased. As evidence after entering the Era of Reform direct tax revenue in Indonesia has been an increase in indirect taxes exceeded. This success has brought the impact of increased government spending in Indonesia to provide public goods, among others infrastructure in education, health and so forth (Sugartiningsih, 2014). ^[6]

For example, the Indonesian government are working hard to make the logistics support infrastructure for economic growth in Indonesia (Tempo, 23 to 29 November 2015). ^[7] As is known, the target of Indonesia's economic growth is expected to reach seven percent in the next five years. In order to achieve the government improve policies include policies to reform the bureaucracy, the development and effectiveness of the logistics support infrastructure for economic growth in Indonesia. Selection of the logistics is considered important because it can combine various components that are difficult to manage such a system of customs, infrastructure, international shipments, logistics competence and timeline.

While the settlement infrastructure in the public sector through the Ministry of Public Works and Public Housing performs Setup program neighborhoods slum into a healthy occupancy, comfortable and gender-responsive (Tempo, April 18 to 24, 2016).^[8] The purpose of the basic infrastructure services is an increasing contribution to meeting the needs of drinking water for the community; meet the housing needs and settlement and compliance with sanitation access for the public. Hopefully, through the infrastructure construction of about 38 thousand hectares of slum areas are scattered in various provinces in Indonesia can be overcome.

In more remote infrastructure is key to regional development. It was like a government in North Borneo as

the youngest province in Indonesia. North Kalimantan province has a wealth of natural resources which could become the backbone of regional and national economic development. Natural resources contained within the earth North Borneo include coal, gold, fishing, agriculture, plantation to oil and gas. To develop the potential of its natural resources, the government expenditure on infrastructure development is the priority in Indonesia.

Based on the above reasons it can be said that since the Reformation Era development of Indonesian economy, particularly changes in the structure of public sector spending has occurred.

Statistic analysis

To be able to determine the significance of changes in the structure of the Indonesian economy performed using the t test. From the calculation of the expenditure equation obtained t count value of -8.8083 for private consumption and value of 8.485 for government spending. Means having a level of considerable significance in the top 1 % where the value t - table is 2.977.

Conclusion

1. Changes in the structure of the Indonesian economy from private consumption expenditure after the reform era showed a decrease.
2. Changes in the structure of the Indonesian economy from government spending after the reform era showed an increase.

Suggestion

1. Changes in the structure of the Indonesian economy should be improved by optimizing tax revenues in Indonesia.

2. Changes in the structure of the Indonesian economy to the category of government spending must be followed by a higher contribution from the private sector.

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