

Government expenditure and economic growth : an empirical study in Indonesia

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Abstrak

Indonesia has been experiencing a rapid economic growth amid global crises in the United States and the European Union countries. In addition, government expenditures in Indonesia have also shown an increasing trend in recent years. Using panel data from 33 provinces in Indonesia from 2007 to 2012, this paper describes the current condition of GDP growth and government expenditures, examines the relationship between government expenditure and economic growth, and formulates government expenditure policy in order to harmonize GDP growth, poverty alleviation, and income inequality. The result indicates that government expenditure for development, such as building roads, hospital, bridges, electricity, and water supply, has a significant and positive effect on the regional economic growth rate. Not only can government expenditures affect economic growth but it also can reduce poverty by strengthening human capital through better education and health facilities.