ABSTRACT

ENNY SRI HARTATI. The Impact of Government Spending Composition on Economic Growth, Employment Opportunity, and Poverty Rate (RINA OKTAVIANI as Chairperson, DIDIK J. RACHBINI and MUHAMMAD RDAUS as the Members of the Advisory Committee)

The Indonesian government spending composition after the 1997 crisis has been dominated by recurrent spending. This condition had caused the fiscal space to occupy 4-5 percent of Gross Domestic Product (GDP) during 2006-2010. The lack of fiscal space had resulted in limited role of fiscal policy to stimulate the economy. Furthermore, the economy has grown at the rate of 5.7 percent in yearly average; unemployment rate at 9.49 percent per year; and the average populations of poor people has reached 33.5 million people. The shifting of government spending composition is necessary, especially to raise the portion of capital spending. By using simultaneous equations model, the simulation result indicate that effective capital spending improvement should focus on infrastructure funding. A simulation of shifting government spending composition through the increasing capital spending in the amount of Rp 20 trillion only increase economic growth by about 0.33 percent, reduce unemployment by about 0.83 percent and poverty by about 0.02 percent. Meanwhile, if the increasing capital spending becomes more efficient, the economy will grow by about 1.37 percent, while unemployment and poverty will decrease by about 3.33 percent and 0.21 percent, respectively. To increase the affect of government spending on economic growth, employment and poverty alleviation, the composition of government spending should be fundamentally changed, specifically to increase the share in capital spending and the efficiency of capital spending utilization.

Keywords: government spending, fiscal space, budget composition, economic growth.