ABSTRACT

DARSONO. The Effectiveness of Fiscal Policy Analysis on Agricultural Sector Performance with Emphasis on Agroindustry in Indonesia (MANGARA TAMBUNAN as Chairman, HERMANTO SIREGAR, and D.S. PRIYARSONO as Member of Advisory Committee).

Indonesian economy where agriculture as single biggest sector which recently facing poor agriculture performance. The problem lies in the weak connection between agriculture as source primary commodities with agroindustrial development. This agriculture structural problem, should be understood and can be analyzed in the context government fiscal allocation problem that hypothetically may or may not supported both agriculture and agroindustrial development. The objectives of this research, are: (1) to analyze the aggregate performance of agricultural sector and agroindustry, (2) to analyze the relationship between fiscal policy instruments with performance of agricultural and agroindustrial development, (3) to analyze the effectiveness of fiscal policy instrument on the performance of agricultural and agroindustrial development, and (4) to examining the relationship of agriculture sector with agroindustrial performance under certain fiscal instruments.

The time series data (1970.1 - 2005.4) which quartely grouped were used to empirically examined all four research objectives above. In analyzing the time series data prepared, the Vector Error Correction Model (VECM) was develop along with Impulse Response Function (IRF) and Forecast Error Variance Decomposition (FEVD). This model is essentially used to show the role and response of fiscal instrument on agriculture and agroindustrial performance.

The result of analysis, in general show that fiscal policy was not effective for improving the performance of agricultural sector and agroindustry. Poor performance of agricultural sector was found in the declining contribution of output and value added. The agroindustries competitive level, although increase in absolute term but it was consistently declined. The long term fiscal policy that have strong influence on agricultural and agroindustrial, are: agricultural research and development, agricultural infrastructure, fiscal decentralization, income tax, and value added tax. The agriculture sector and agroindustries response to fiscal instruments shocks was adjusted in the relatively long term; for agriculture it take 8 years and agroindustries 7 years. The fiscal instruments element that would have effects on the performance of agriculture, are: value added tax, agricultural subsidy, agricultural research and development budget, budget for agricultural infrastructure, and fiscal decentralization. Instruments of fiscal policy, in the long term is viewed as an effective tool for improving the performance of agroindustry. The instrument are: value added tax, budget for agricultural infrastructure, and fiscal decentralization. While shocks for agroindustries performance from agriculture show it take 7 years to reach stability. The performance of agriculture sector that have a push effect on agroindustries are: GDP of agriculture, export, and import of agricultural products.

Some important implications derived from result of analysis is that, in order to develop a high performance of agriculture and agroindustries, it is suggested government of Indonesia should improve the fiscal instrument (implied budget allocation) especially focused on: budget of agricultural research and development, agricultural infrastructure, fiscal decentralization, income tax, and value added tax.

Key words: Fiscal policy, agricultural sector, agroindustry, agricultural infrastructure, Vector Error Correction Model