



Research Paper

The Effect of Fiscal Policy on Economic Growth of Districts/Cities in South Sulawesi

Ramlah Ram,¹Indraswati Tri Abdireviane,²Sultan Suhab.³

1. Students of the Master of Resource Economics Faculty of Economics, Hasanuddin University Postgraduate

2. Lecturer at the Hasanuddin University Faculty of Economics

3. Lecturer at the Hasanuddin University Faculty of Economics

Corresponding Author: Ramlah Ram

ABSTRACT: Economic growth is a fundamental thing for sustainable development. Most economists argue that fiscal policy can increase economic growth. This study aims to look at the effect of capital expenditure on economic growth both directly and indirectly through investment and labor in districts/cities in South Sulawesi and the effect of local revenue on economic growth both directly and indirectly through investment and district/city labor in South Sulawesi. This study uses secondary data. Data collection is done through documentation studies, namely in the form of data panels (pooled data) that combine cross-section data and time series data. The cross section data in this study is data consisting of 24 (twenty four districts/cities in South Sulawesi Province). Whereas for time series data, it is an entity data with time/period dimensions in this study using the period 2012-2016. Data were analyzed quantitatively using path analysis. The results show that capital expenditure has a positive effect on economic growth both directly and indirectly through investment and labor. Whereas local revenue has a negative effect on economic growth both directly and indirectly through investment and district/city labor in South Sulawesi.

KEYWORDS: Capital Expenditures, local revenue, Economic Growth, Investment and Labor.

Received 02 December, 2018; Accepted 08 December, 2018 © The Author(S) 2018.

Published With Open Access At www.Questjournals.Org.

I. INTRODUCTION

The achievement of the rate of economic growth is quite fundamental for sustainable development, where economic development is a process of investment activities that are directed to changes in the structure and harmony of inter-sectoral linkages in order to enhance the level of economic growth, therefore the government always strives for economic growth to increase from the year which will improve overall community welfare in a country or region in the long run.

In today's economic development the problem will always be faced with problems of limited natural resources, limited human resources, limited capital and technology resources. Quantitative human resource limitations and especially the quality problem of human resources, so that later raises new problems, namely the problem of employment opportunities that will have an impact on unemployment and poverty. But on the other hand, in working on natural resources as an economic potential, capital strength, quality human resources, and appropriate and efficient technology are needed because an economic potential of an area will only be looked at by investors if they have the prospect of developing high economic value in the future.

The more financial resources that have been successfully explored in an area, then this will increase regional income which should be followed by an increase in economic growth in the area. High economic growth can encourage local governments to carry out regional development which is realized in the form of infrastructure and infrastructure facilities aimed at the public interest. In other words, the regional government is encouraged to improve its capabilities as optimally as possible in financing its own expenses by exploring all potential sources of funds in its area.

An increasingly prominent role has the consequence that district / city engagement will greatly affect national development performance. In order for the role to be given to be run optimally, especially in order to improve development and the welfare of the community, resources are needed, especially human resources and budget. The development activities themselves will be largely determined by the final objectives to be achieved by development efforts and the funds available in the economy, both from individuals / private and government (Widanta, 2007).

If observed, economic growth in several Regencies / Cities in South Sulawesi Province during 2012-2016 experienced a fluctuating increase. In general, increasing the economic growth of local governments in South Sulawesi Province gives an indication that the fiscal policy of the Regency / City of South Sulawesi Province gives a large contribution to increasing economic growth, so that in the long term it will have an impact on increasing the capacity of the number of investors who will invest in investment in Districts / Cities in South Sulawesi and in turn have an impact on expanding employment opportunities.

This idea was conceived by Keynesian economists where they underlie the idea that government variables (especially budgets) are considered as one of the driving forces for economic growth in a country. The budget from the government is expected to create a multiplier effect on other economic sectors. This multiplier effect of government spending will be even greater if the assumption that government spending is used for productive activities can be fulfilled.

The main challenge faced by the district / city government in South Sulawesi Province in regional autonomy today, is how to build its area with its resources. Considering the limited budget they have, the regional order must be able to attract private investment, in developing their regions well according to their potential and human resources, to be able to provide stimulus to economic growth, given the economic conditions of regencies / cities in South Sulawesi Province experiencing economic growth which is fluctuating.

Determination of the size of the capital expenditure budget has made the local government have a significant role in encouraging economic growth in the region. Capital expenditure is a government investment in providing public facilities and infrastructure so that it can help the utilization of the region's potential and development. In line with this, the district / city government in the province of South Sulawesi through capital expenditure also strives to continuously improve public facilities and infrastructure such as the construction of schools to improve the quality of education, the construction of roads to support the economic activities of the community, health centers, etc. (Gita, 2010). The district / city capital expenditure budget in South Sulawesi Province is relatively increasing from year to year and cannot always be ascertained to have a positive effect on economic growth.

The challenge to increase local revenues on the one hand, will have an impact on increasing production costs that can lead to high cost economy, which in turn affects production, and disrupts the business climate. Further impacts can reduce private investment, economic growth and employment.

Susiyati (2007) suggested that some regions wished to increase the role of their own regional income, as a reflection of their fiscal policies. However, due to a lack of understanding of the principles of good taxation, many of the efforts they are doing actually disrupt (distort) the economic activities of the region, as well as the regional economy as a whole. Various levies carried out by the regions actually disrupt the investment climate and the business world in the regions.

As an effort to improve economic growth, fiscal policy is needed to encourage interest in investing in the region. Business development should be directed to activities that are labor-intensive in order to be able to absorb as much labor as possible. In the end the role of local government through fiscal policy can stimulate increased investment and absorption of the workforce is expected to be able to improve regional economic activities in order to achieve economic growth and increase income per capita (Deddy, 2008).

Starting from several aspects of thought that have been described and remembering that the problem of economic growth is very fundamental and employment which often triggers social problems, the writer feels interested in conducting research entitled "The Influence of Fiscal Policy on Economic Growth in Regencies / Cities in Sulawesi Province South".

The achievement of the rate of economic growth is quite fundamental for sustainable development, where economic development is a process of investment activities that are directed to changes in the structure and harmony of inter-sectoral linkages in order to enhance the level of economic growth, therefore the government always strives for economic growth to increase from to the year which will improve overall community welfare in a country or region in the long run.

In today's economic development the problem will always be faced with problems of limited natural resources, limited human resources, limited capital and technology resources. Quantitative human resource limitations and especially the quality problem of human resources, so that later raises new problems, namely the problem of employment opportunities that will have an impact on unemployment and poverty. But on the other hand, in working on natural resources as an economic potential, capital strength, quality human resources, and appropriate and efficient technology are needed because an economic potential of an area will only be looked at by investors if they have the prospect of developing high economic value in the future .

The more financial resources that have been successfully explored in an area, then this will increase regional income which should be followed by an increase in economic growth in the area. High economic growth can encourage local governments to carry out regional development which is realized in the form of infrastructure and infrastructure facilities aimed at the public interest. In other words, the regional government is

encouraged to improve its capabilities as optimally as possible in financing its own expenses by exploring all potential sources of funds in its area.

An increasingly prominent role has the consequence that district / city engagement will greatly affect national development performance. In order for the role to be given to be run optimally, especially in order to improve development and the welfare of the community, resources are needed, especially human resources and budget. The development activities themselves will be largely determined by the final objectives to be achieved by development efforts and the funds available in the economy, both from individuals / private and government (Widanta, 2007).

If observed, economic growth in several Regencies / Cities in South Sulawesi Province during 2012-2016 experienced a fluctuating increase. In general, increasing the economic growth of local governments in South Sulawesi Province gives an indication that the fiscal policy of the Regency / City of South Sulawesi Province gives a large contribution to increasing economic growth, so that in the long term it will have an impact on increasing the capacity of the number of investors who will invest in investment in Districts / Cities in South Sulawesi and in turn have an impact on expanding employment opportunities.

This idea was conceived by Keynesian economists where they underlie the idea that government variables (especially budgets) are considered as one of the driving forces for economic growth in a country. The budget from the government is expected to create a multiplier effect on other economic sectors. This multiplier effect of government spending will be even greater if the assumption that government spending is used for productive activities can be fulfilled.

The main challenge faced by the district / city government in South Sulawesi Province in regional autonomy today, is how to build its area with its resources. Considering the limited budget they have, the regional order must be able to attract private investment, in developing their regions well according to their potential and human resources, to be able to provide stimulus to economic growth, given the economic conditions of regencies / cities in South Sulawesi Province experiencing economic growth which is fluctuating.

Determination of the size of the capital expenditure budget has made the local government have a significant role in encouraging economic growth in the region. Capital expenditure is a government investment in providing public facilities and infrastructure so that it can help the utilization of the region's potential and development. In line with this, the district / city government in the province of South Sulawesi through capital expenditure also strives to continuously improve public facilities and infrastructure such as the construction of schools to improve the quality of education, the construction of roads to support the economic activities of the community, health centers, etc. (Gita, 2010). The district / city capital expenditure budget in South Sulawesi Province is relatively increasing from year to year and cannot always be ascertained to have a positive effect on economic growth.

The challenge to increase local revenues on the one hand, will have an impact on increasing production costs that can lead to high cost economy, which in turn affects production, and disrupts the business climate. Further impacts can reduce private investment, economic growth and employment.

Susiyati (2007) suggested that some regions wished to increase the role of their own regional income, as a reflection of their fiscal policies. However, due to a lack of understanding of the principles of good taxation, many of the efforts they are doing actually disrupt (distort) the economic activities of the region, as well as the regional economy as a whole. Various levies carried out by the regions actually disrupt the investment climate and the business world in the regions.

As an effort to improve economic growth, fiscal policy is needed to encourage interest in investing in the region. Business development should be directed to activities that are labor-intensive in order to be able to absorb as much labor as possible. In the end the role of local government through fiscal policy can stimulate increased investment and absorption of the workforce is expected to be able to improve regional economic activities in order to achieve economic growth and increase income per capita (Deddy, 2008).

Starting from several aspects of thought that have been described and remembering that the problem of economic growth is very fundamental and employment which often triggers social problems, the writer feels interested in conducting research entitled "The Effect Of Fiscal Policy On Economic Growth Of Districts/Cities In South Sulawesi".

II. LITERATUR REVIEW

According to the growth theory of Traditional Neo Classical, output growth always comes from one or more than 3 (three) factors, namely the increase in the quality and quantity of labor, the addition of capital (savings and investment) and improvement of technology (Todaro, 2000). Dornbusch, Fischer, and Startz, (2001) state that national output (as a representation of economic growth is symbolized as Y) is a function of physical capital, labor and technological progress achieved. An important factor that influences the procurement of physical capital is investment, in the sense that high economic growth is expected to have a positive impact on employment rates.

A supportive view of capital expenditure has a significant impact on economic growth, starting from the general theory which states that the addition of capital in each development activity will have a positive impact on the development of employment. Thus, every addition to a new investment, of course, will change the quantity of labor, therefore to find out the prospect of employment, must first know the investment prospects in the future. A further issue that needs to be known is how far the employment opportunities change as a result of increased investment.

GRDP growth, as a measure of growth in a regional economy also cannot be separated from the role of government expenditure in the public service sector. Regional government expenditure is measured from the total routine expenditure and capital expenditure allocated in the regional budget. Keynesian theory which states that the greater the expenditure of productive local governments, the greater the level of the economy of an area (Wibisono, 2003).

Anaman (2004) states that government consumption expenditures that are too small will harm economic growth, proportional government spending will increase economic growth and wasteful government consumption expenditures will hinder economic growth. In general, government spending has a positive impact on economic growth.

Bashir and Yusuf (2014), government spending really has an impact on economic growth as one of the objectives of the macro economy. Therefore, government spending must be directed at developing human resources that will generate positive and sustainable economic growth and must be in economic activities. productive and budget must be designed and programmed more for capital expenditure to encourage economic growth that will be felt by Nigerians as real growth.

Basri (2016) The more capital expenditure the higher the productivity of the regional economy, because capital expenditure in the form of infrastructure clearly has an impact on economic growth and job creation. with the availability of good infrastructure it is hoped that it will create efficiency and effectiveness in various sectors, productivity of the people is expected to be higher, and in turn an increase in economic growth.

A supportive view of local revenue has a significant impact on economic growth, starting from the general theory Keynes said that in order to help the economic systems of these countries, people must be willing to abandon the laissez faire ideology contained in classical thought. The government must do more active intervention in controlling the national economy. Keynes argues that the production and ownership of factors of production are still entrusted to the private sector but now the government is obliged to carry out active policies to influence the movement of the economy. Based on Keynesian theory, the management of the economy of a region can be done by the intervention of the local government in managing the regional finances.

Tax has a two-way impact on a country's economic growth. On the other hand, high tax revenues can spur a country to increase government expenditures that can spur the economy so that it can lead to an increase in the level of economic growth. But on the other hand, the tax rate set too high by the government will have a direct impact on decreasing public consumption, and vice versa. The direct impact of tax collection is on the disposable income of the community, where disposable income is a amount of income that can be spent on public consumption. When the tax rate is increased, disposable income will decrease, because people need to pay taxes higher than they should. With this decline in disposable income, people's consumption will automatically decline as well. The decline in aggregate consumption of society will have an impact on the production of goods and services which in turn will cause a decline in economic growth. Likewise, if the tax collection is lowered, then relative consumption rises. The increase in this component will be able to increase gross domestic income assuming ceteris paribus.

III. RESEARCH METHODS

3.1 Location and Type of data

This research was conducted in 24 districts / cities in South Sulawesi Province. The type of research used is quantitative research to determine the effect of capital expenditure and local original income on economic growth both directly and indirectly through investment and labor.

3.2 Types of Data and Analysis Methods

Types of data to be analyzed in this research are secondary data in the form of data panels (*pooled data*) with the characteristics of *cross section* and *time series* simultaneously. The data *cross section* in this study

is data consisting of 24 districts / cities in South Sulawesi. Whereas for *time series*, it is entity data with time / period dimensions in this study using the 2012-2016 period. Furthermore, data analysis techniques used in this research are techniques *Path Analysis*. The analysis model equation can be written into the following equation:

$$Y_{1it} = F(X_{1it}, X_{2it}) \dots\dots\dots (1.1)$$

$$Y_{2it} = F(X_{1it}, Y_{1it}) \dots\dots\dots (1.2)$$

$$Y_{3it} = F(X_{1it}, X_{2it}, Y_{1it}, Y_{2it}) \dots\dots\dots (1.3)$$

Where:

- Y₁ = Investment
- Y₂ = Labor
- Y₃ = Economic Growth
- X₁ = Capital Expenditures
- X₂ = Regional Original Revenue
- i = Cross Section
- t = Time Series

Next, from the three non-linear equations above then changed to the linear equation form as follows:

$$Y_{1it} = \alpha_0 X_{1it}^{\alpha_1} X_{2it}^{\alpha_2} e^{\mu_{1it}} \dots\dots\dots (2.1)$$

$$Y_{2it} = \beta_0 X_{1it}^{\beta_1} Y_{1it}^{\beta_2} e^{\mu_{2it}} \dots\dots\dots (2.2)$$

$$e^{Y_{3it}} = \delta_0 X_{1it}^{\delta_1} X_{2it}^{\delta_2} Y_{1it}^{\delta_3} Y_{2it}^{\delta_4} e^{\mu_{3it}} \dots\dots\dots (2.2)$$

From the three equations above, the explanatory variable is determined along with the dependent variable usually correlates with the error term so that it causes bias and inconsistencies in the equation so that to eliminate exponentials logarithms (carried out *ln*) are on the variable Y₁ and Y₂.

$$\ln Y_{1it} = \ln \alpha_0 + \alpha_1 \ln X_{1it} + \alpha_2 \ln X_{2it} + \mu_{1it} \dots\dots\dots (3.1)$$

$$\ln Y_{2it} = \ln \beta_0 + \beta_1 \ln X_{1it} + \beta_2 \ln Y_{1it} + \mu_{2it} \dots\dots\dots (3.2)$$

$$Y_{3it} = \ln \delta_0 + \delta_1 \ln X_{1it} + \delta_2 \ln X_{2it} + \delta_3 \ln Y_{1it} + \delta_4 \ln Y_{2it} + \mu_{3it} \dots\dots\dots (3.3)$$

Then by using the reduced form equation, equation 3.1 is substituted into equation 3.2:

$$\begin{aligned} \ln Y_{2it} &= \ln \beta_0 + \beta_1 \ln X_{1it} + \beta_2 (\ln \alpha_0 + \alpha_1 \ln X_{1it} + \alpha_2 \ln X_{2it} + \mu_{1it}) + \mu_{2it} \\ &= \ln \beta_0 + \beta_1 \ln X_{1it} + \beta_2 \ln \alpha_0 + \alpha_1 \beta_2 \ln X_{1it} + \alpha_2 \beta_2 \ln X_{2it} + \beta_2 \mu_{1it} + \mu_{2it} \\ &= (\ln \beta_0 + \ln \alpha_0 \beta_2) + (\beta_1 + \alpha_1 \beta_2) \ln X_{1it} + (\alpha_2 \beta_2) \ln X_{2it} + \mu_{3it} \dots\dots\dots (4.1) \end{aligned}$$

Next by using the reduced form equation, equations 3.1 and 4.1 are specified in equation 3.3:

$$\begin{aligned} Y_{3it} &= \ln \delta_0 + \delta_1 \ln X_{1it} + \delta_2 \ln X_{2it} + \delta_3 (\ln \alpha_0 + \alpha_1 \ln X_{1it} + \alpha_2 \ln X_{2it} + \mu_{1it}) + \delta_4 [(\ln \beta_0 + \ln \alpha_0 \beta_2) + (\beta_1 + \alpha_1 \beta_2) \\ &\quad \ln X_{1it} + (\alpha_2 \beta_2) \ln X_{2it} + \mu_{3it}] + \mu_{3it} \\ &= \ln \delta_0 + \delta_1 \ln X_{1it} + \delta_2 \ln X_{2it} + \ln \alpha_0 \delta_3 + \alpha_1 \delta_3 \ln X_{1it} + \alpha_2 \delta_3 \ln X_{2it} + \delta_3 \mu_{1it} + \ln \beta_0 \delta_4 + \ln \alpha_0 \beta_2 \delta_4 + \beta_1 \delta_4 \\ &\quad \ln X_{1it} + \alpha_2 \beta_2 \delta_4 \ln X_{2it} + \delta_4 \mu_{3it} + \mu_{3it} \dots\dots\dots (4.2) \end{aligned}$$

So that the estimation equation is obtained as follows:

$$Y_{3it} = \delta_0 + \epsilon_1 \ln X_{1it} + \epsilon_2 \ln X_{2it} + \mu_{4it}$$

Where:

- ϵ₁ = α₁ δ₃ + β₁ δ₄ + α₁ β₃ δ₄
- ϵ₂ = α₂ δ₃ + α₂ β₂ δ₄

To facilitate data analysis, this study uses analytical tools with the help *software Eviews*.

IV. RESEARCH RESULTS

The estimation results show that capital expenditure (X1) has a positive effect on economic growth (Y3) both directly and indirectly through investment (Y1) and labor (Y2). while regional original income (X2) has a negative effect on economic growth (Y3) both directly and indirectly through investment (Y1) and labor (Y2) at a 5 percent significance level.

Statistically the effect of capital expenditure on economic growth directly shows a probability value of 0.0112. This means that capital expenditure has an effect on economic growth at a 5% significance level. Furthermore, the results of the analysis statistically show an estimated coefficient of 4.9135. This means that capital expenditure has a positive effect on economic growth, so that any increase in capital expenditure by 1 percent will increase economic growth by 4.9135 percent. Likewise, on the contrary, every decrease in capital expenditure by 1 percent will reduce economic growth by 4.9135 percent.

Based on the results of the statistically the effect of regional original income on economic growth directly shows a probability value of 0.0301. This means that local revenue has an effect on economic growth at a 5% significance level. Furthermore, the results of the analysis statistically show an estimated coefficient of - 3.0351. This means that local revenue has a negative effect on economic growth, so that any increase in regional income by 1 percent will reduce economic growth by 3.0351 percent. Likewise, vice versa, every decrease in local revenue by 1 percent will increase economic growth by 3.0351 percent.

Statistically the effect of capital expenditure on economic growth indirectly through investment shows a probability value of 0.3419. This means that capital expenditure has no effect on economic growth through

investment at a 5 percent significance level. So that any changes to the increase or decrease in capital expenditure will not affect the increase or decrease in economic growth indirectly through investment.

Based on the results of the statistical analysis the effect of capital expenditure on economic growth indirectly through investment and labor shows a probability value of 0.0152. This means capital expenditure has an effect on economic growth through investment and labor at a 5 percent significance level. Furthermore, the results of the analysis statistically show an estimated coefficient of 0.0007. This means that capital expenditure has a positive effect on economic growth. So that every increase in capital expenditure by 1 percent will increase economic growth by 0.0007 percent through investment and labor, whereas every decrease in capital expenditure by 1 percent will reduce economic growth by 0.0007 percent through investment and labor.

Based on the results of the statistical analysis the effect of capital expenditure on economic growth indirectly through labor shows a probability value of 0.0009. This means capital expenditure has an effect on economic growth through labor at a 5% significance level. Furthermore, the results of the analysis statistically show an estimated coefficient of 0.0021. This means that capital expenditure has a positive effect on economic growth. So that every increase in capital expenditure by 1 percent will increase economic growth by 0.0021 percent through labor, whereas every decrease in capital expenditure by 1 percent will reduce economic growth by 0.0021 percent through labor.

Statistically the effect of regional original income on economic growth indirectly through investment shows a probability value of 0.3608. This means that local revenue does not affect economic growth through investment at a 5 percent significance level. So that any changes to the increase or decrease in local revenue will not affect the increase or decrease in economic growth indirectly through investment.

Based on the results of a statistical analysis the effect of regional original income on economic growth indirectly through investment and labor shows a probability value of 0.0341. This means that local revenue has an effect on economic growth through investment and labor at a 5 percent significance level. Furthermore, the results of the analysis statistically show an estimated coefficient of -0.0385. This means that local revenue has a negative effect on economic growth indirectly through investment and labor. So that each increase in local revenue by 1 percent will reduce economic growth by 0.0385 percent through investment and labor, on the contrary, any decrease in regional income by 1 percent will increase economic growth by 0.0385 percent through investment and labor.

V. DISCUSSION

4.1 Effect of Capital Expenditures on Economic Growth

Based on the results of data estimation statistically, capital expenditure has a positive effect on economic growth both directly and indirectly through investment and labor. This indicates that a change in the increase or decrease in capital expenditure will affect the increase or decrease in the economic growth of districts / cities in South Sulawesi.

This is in accordance with the initial hypothesis which states that capital expenditure has an effect on direct economic growth and in the previous discussion in chapter II part of the relationship between variables, the author connects capital expenditure can increase economic growth. This result is also in line with the findings of Avicenna (2017), James M (2017), Basri (2016) and Akhmad (2012) who found that capital expenditure has an effect on economic growth. Putu (2014) to stimulate economic growth required an increase in capital expenditure for the purchase / improvement of fixed assets such as infrastructure and facilities that can support economic activities to achieve better economic growth. However, this is not in line with the research conducted by Ahmad F (2016), Hendarmin (2012) and Kurniawan (2011) found that capital expenditure does not affect economic growth. This is also not in line with the findings of Ram, (1986) greater government spending tends to reduce economic growth.

Based on the results of the research obtained that capital expenditure affects economic growth directly, this is in line with thinking initiated by Keynesian economists where they underlie the idea that government variables (especially budgets) are considered as one of the driving variables of economic growth in a country. The government budget is expected to create a multiplier effect in other economic sectors. This multiplier effect of government spending will be even greater if the assumption that government spending is used for productive activities can be fulfilled. Keynesian economists assume that one way to trigger economic activity is through government spending because government spending is a constituent component of gross domestic product (GRDP on a regional scale), along with public consumption, investment, and net exports.

In addition, this result is also in accordance with Keynesian theory (1953), Barro (1990) and Solow (1956) which states that productive government expenditure can increase employment profitability and investment through a multiplier of aggregate demand demand which in turn can increase economic growth. The government budgeted capital expenditure can directly attract investors to invest, which in turn will expand employment opportunities and reduce unemployment so that it can increase people's income, which in turn will

increase public expenditure which in turn will increase output production which will have an impact on economic growth.

So that the larger portion of the productive capital expenditure budget will have a direct impact on the economy of a region, and of course the portion of the productive capital expenditure budget will increase economic growth. Thus an increase in capital expenditure in this case infrastructure improvements is expected to provide opportunities for local governments to increase greater economic growth.

The implications of the findings of this study indicate that capital expenditure can affect economic growth, so that with the right allocation of capital expenditure budget will encourage the level of investment and labor which in turn will increase economic growth. This shows that in the era of fiscal decentralization, each region is required to be able to carry out its functions effectively and efficiently in order to increase economic growth, an infrastructure improvement program is a policy step that is deemed effective to do if it is right on target. Transfer of funds from the central government and extensive authority to the regions to manage and optimize existing economic potentials will have a positive influence on regional economic growth.

4.2 The Influence of Local Original Income Economic Growth

Based on the results of data analysis statistically, local revenue has a negative effect on economic growth both directly and indirectly. This indicates that a change in the increase or decrease in local revenue will affect the increase or decrease in economic growth in South Sulawesi.

This is in accordance with the initial hypothesis which states that regional original income has an effect on economic growth and in the previous discussion in chapter II the relationship between variables, the authors relate local revenue to influence economic growth. This result is also in line with Avicenna's research, (2017) that local revenue influences the economic growth of the East Java province in 2010-2015 and Akhmad (2012) and Ahmad F (2016) that local revenue influences economic growth. However, this result is not in line with Gustiana's (2014) research, Komang, (2015) that local revenue does not affect economic growth.

This research is also in line with the new growth theory saying that capital accumulation is the main source of economic growth and Keynes's general theory says that to help a country's economic system, people must be willing to abandon the laissez faire ideology contained in classical thought. The government must do more active intervention in controlling the national economy. Keynes argues that the production and ownership of factors of production are still entrusted to the private sector but now the government is obliged to carry out active policies to influence the movement of the economy.

Based on Keynes's theory, the management of the economy of a region can be done by the intervention of the local government in managing the regional finances. This means that the existence of government intervention in terms of exploring the potential of regional revenue sources such as increasing regional original income will increase economic growth. However, this is difficult to materialize because local revenues actually reduce economic growth because one of the revenue posts from regional original income is taxes, where taxes can reduce consumption which will result in a decrease in production levels so that revenues will also decrease and eventually economic growth also decreases .

This research is also in line with Keynes's theory, saying that local revenue has an influence on economic growth through tax collection which has a two-way impact on a country's economic growth. On the other hand, high tax revenues can spur a country to increase government expenditures that can spur the economy so that it can lead to an increase in the level of economic growth. But on the other hand, the tax rate set too high by the government will have a direct impact on the decline in public consumption, and vice versa. The direct impact of tax collection is on the disposable income of the community, where disposable income is a amount of income that can be spent on public consumption. When the tax rate is increased, disposable income will decrease, because people need to pay taxes higher than they should. With this decline in disposable income, people's consumption will automatically decline as well. The decline in aggregate consumption of society will have an impact on the production of goods and services which in turn will cause a decline in economic growth. Likewise, if the tax collection is lowered, then relative consumption will increase. The increase in this component will be able to increase gross domestic income assuming *ceteris paribus*.

The challenge to increase local revenue on the one hand, will have an impact on increasing production costs which can lead to a high cost economy, which in turn impacts on production, and disrupts the business climate. The impact can further reduce private investment, employment and economic growth.

VI. CONCLUSIONS AND RECOMMENDATIONS

Based on the results of research and analysis that have been carried out, it can be concluded that capital expenditure has a positive effect on economic growth both directly and indirectly through investment and labor. This shows that a change in the increase or decrease in capital expenditure will affect the increase or decrease in economic growth both directly and indirectly through investment and labor. This means that changes in the increase or decrease in capital expenditure, especially infrastructure improvements will affect the amount of investment and employment, which in turn will affect the increase and decrease in economic growth. So that capital expenditure can be used as one of the fiscal policy instruments that can affect the increase in economic growth both directly and indirectly through investment and labor in South Sulawesi. Local revenue has a negative effect on economic growth both directly and indirectly through investment and labor in South Sulawesi. This shows that there is a change in the increase or decrease in local revenue, it will affect the increase or decrease in economic growth both directly and indirectly through investment and labor. This indicates that an increase in local revenue will reduce investment and labor capacity so that in turn it will also affect the decline in economic growth and vice versa, a decrease in local original income will increase investment and labor capacity so that in turn it will also affect the increase in growth economy.

So that the advice that can be given is that it is expected that the regional government will focus more on increasing the capital expenditure budget in the APBD to add fixed assets such as equipment, buildings, infrastructure and other fixed assets that can directly attract investors to invest so that employment opportunities in the area increase which in turn will affect the increase of economic growth in South Sulawesi rather than the regional government to explore the potential of local revenue sources such as local revenues. Where an increase in local original income will actually reduce investment and labor so that it is not able to distort economic growth. In addition, local governments in South Sulawesi also need to take policy steps in allocating regional government budgets to programs that are in direct contact with increasing economic growth. This needs to be supported by adequate financial resources. Therefore, the local government is expected to be able to increase its fiscal capacity, through developing economic activities and intensifying and extending the local revenue and for future researchers with the same research topic, it is recommended to use a relatively long time series and use time lag in data processing.

REFERENCES

- [1]. Ahmad F, (2016). Pengaruh Belanja Modal Terhadap Pertumbuhan Ekonomi Propinsi-provinsi di Sumatera. e-Jurnal Perspektif Ekonomi dan Pembangunan Daerah Vol. 5. No.1, Januari–April 2016
- [2]. Akhmad, (2012). Dampak Kebijakan Fiskal terhadap Perekonomian Kabupaten dan Kota di Provinsi Sulawesi Selatan. Disertasi Pada Program Studi Ilmu Ekonomi Pertanian Sekolah Pascasarjana Institut Pertanian Bogor.
- [3]. Avicenna, (2017). Analysis of the Influence of Government Expenditures, Labor, and Local Revenue on the Growth of the East Java Regional Economy in 2010-2015. Journal of Economic Development Vol. 15, No.1 June 2017
- [4]. Barro, RJ, 1990. Economic Growth and Convergence across United States. National Bureau of Economic Research Working Paper 3419.
- [5]. Bashir, Yusuf (2014). Impact of Government Expenditure on Economic Growth in Nigeria. The paper of the Department of Local Government and Development Studies, Faculty of Administration Ahmadu Bello University, Zaria, Nigeria.
- [6]. Basri, B. (2016). Analisis Belanja Modal, Investasi, dan Tenaga Kerja Terhadap Pertumbuhan Ekonomi Sulawesi Selatan. Jurnal Ilmiah Econosains. Vol. 14 No. 2 Agustus 2016.
- [7]. Blakley, Edward, J. (1994). Local Economic Development Planning. Theory and Practice, Second Edition, USA, Sage Publikation, Inc, California.
- [8]. Dina, Rudy. (2010). Analysis of the Relationship Between Capital Expenditures, Regional Original Revenues, Regional Independence and Regional Economic Growth (Case Studies in Se-Java-Bali Districts and Cities). Journal of Accounting and Investment. Vol. 11 No. 1 p. 68-79 January.
- [9]. Dornbusch, R., Fischer, S., Startz, R. 2001. Macroeconomics. Global Media Education. Jakarta.
- [10]. James, M. (2017). The Impact of Government Expenditure on Economic Growth in Kenya: 1963-2008. Journal of Advances in Economics and Business 5 (12): 635-662, 2017
- [11]. Kaufman, Bruce E and Julie R Hotchkiss. 1999. The Economic Labor Markets. USA: Georgia State University.
- [12]. Komang, (2015). Effect of PAD and DAU on Economic Growth through Capital Expenditures in Bali Province. E-Journal of the Unud EP, Vol. 4, No. 4, : 258-271, April 2015.
- [13]. Kurniawan, (2011). Influence of capital expenditure on the economic growth of regencies / cities in West Java.
- [14]. Musgrave, Richard. (1993). State Finance in Theory and Practice. Erlangga Publisher, Jakarta
- [15]. Ram, R. (1986). Government Size and Economic Growth: A New Framework and Some Evidence from Cross-Section and Time-Series Data. Journal of the American Economic Review, 76.191-203.
- [16]. Suwandika. (2015). Effect of Regional Original Revenue and Investment on Economic Growth and Unemployment Rate in Bali Province. Journal of Development Economics, 4 (7): 794-810.

Attachment:

Table 1. The Results of Analysis of the Effect of Capital Expenditures and Original Regional Revenues on Direct and Indirect Economic Growth through Investment in Regency/City in South Sulawesi

			Coefficient Estimate	Prob.	Label
Y1	<---	X1	4.9135	0.0112	S
Y1	<---	X2	-3.0351	0.0301	S
Y2	<---	X1	0.1723	0.0000	S
Y2	<---	Y1	0.0127	0.0031	S
Y3	<---	X1	0.0054	0.0103	S
Y3	<---	X2	-0.0058	0.0102	S
Y3	<---	Y1	0.0004	0.3307	NS
Y3	<---	Y2	0.0127	0.0009	S

Source: Eviews (data processed)

Ket: S = Significant at a 5 % significance level

NS = Non Significant

Table 2. Results of Estimates of Direct and Indirect Influences of Capital Expenditures and Regional Original Revenues on Economic Growth through investment and Labor

Capital Expenditures and Regional Original Revenues → Economic Growth	Direct	Indirect		
		Investment(Y ₁)	Investment (Y ₁) & Labor (Y ₂)	Labor (Y ₂)
X₁→Y₃	0.0054 ^S	0.0019 ^{NS}	0.0007 ^S	0.0021 ^S
X₂→Y₃	-0.0058 ^S	-0.0012 ^{NS}	-0.0385 ^S	-

Source: Eviews (data processed)

Ket : S = Significant at a 5 % significance level

NS = Non Significant