

CHAPTER I

INTRODUCTION

I.1. Background

Economic growth is a very significant indicator that determines the development of a country. Economic growth also considered as one of the fundamental factor for sustainable development. When viewed from the trend, economic growth of Indonesia experiences fluctuations and tends to be unstable.

A country must have a government that serves as a silencer of economic and political turmoil both from within and outside the country. Silencer turmoil in the sense of being able to stabilize the situation becomes more conducive through various policies. Government has played a very important role in the economy of a country. An economic activity will be optimal if it exists government activities therein. The government can become the agent of economic activity which stimulate production and consumption. Private parties usually allocate resources power marketed through market mechanisms, if the market system is really efficient at in allocating resources, the role of government is limited, in case when there is a failure in the *private market* (Samuelson and Nordhaus, 2004). The government will internalised and solve the problem of failure market if private parties and individuals are not willing to improve the situation and pay the costs.

The government can perform two types of policies, namely monetary policy and fiscal policy. Monetary policy is an internal government policy affecting interest rates and money supply. Fiscal policy is government policy through government expenditure. Government expenditure has a very strategic

position in increasing the rate of growth economy. Government through policy instruments can save the situation when the economy slumped due to the economic recession.

According to Samuelson and Nordhaus (2004) there are four factors as sources economic growth. These factors are (1) human resources, (2) natural resources, (3) capital formation, and (4) technology. Government expenditure plays a role in capital formation through government expenditure at various fields such as facilities and infrastructure. Capital formation in the field of facilities and this infrastructure generally be *Social Overhead Capital (SOC)* very important in economic growth. SOC is very important because the private sector will not want to provide public facilities, but without this public facilities then the private sector is not interested to invest. The existence of various public facilities will be boosted to increase income and economic growth.

According to Mankiw (2003) the development of human resources can be carried out by improving the quality of human capital. Human capital can refer to on education, but can also be used to explain the type of investment other human being that is investment that push toward healthy population that is health. Education and health are fundamental development goals in a region. Health is at the core of prosperity, and education is essential to achieving a decent life. Education has an important role in shaping the ability of a developing country to absorb modern technology and to develop capacity to create growth and sustainable development. Government expenditure on education and health at essentially an investment towards economic growth. Effect development in both

sectors can not have a direct impact but rather takes several periods to feel the impact.

The effect of human capital development on economic growth in recent times is emphasized on the growth theory (Romer, 1986; Lucas, 1988). Mechanically, advanced human capital and a growing knowledge base appear to be part of this wellspring growth. An implication of Lucas' hypothesis on human capital is thus associated with investment in man and his development as creative and productive resources (Harbison, 1962). Human capital is the staple of competencies, knowledge, social and personality attributes, including creativity, cognitive abilities, embodied in the ability to perform labour so as to produce economic value (Adelakun, 2011).

Smith (1776) in Prida (2011) states that human beings are a major component which determine the wealth of nations. The reason, nature (land) does not mean if there are no human resources that are capable to process so it will be useful. In other words, human capital constitutes as a factor that determines the raising in economic growth. In the lack of qualified human capital, the physical capital would be meaningless. Improving the quality of human capital can be done through two sectors, which are education and health.

To raise the quality of life of its growing population without economic growth it is usually difficult for a country, especially for a developing country. This latter aspect of evolution is particularly attained by the addition and reconstruction of infrastructures, the development of health and education services, and the encouragement of external foreign and local investments among others (Saad and Kalakech, 2009). Hence, sustained and properly the economic growth is

distinctly a superiority purpose of policy expenditure in public. There are excessively of public programs that specifically target at promoting sustained and properly the economic growth. Expenditures in public can and have played a significant role in human capital formation and physical for all overtime. Appropriate expenditure in public can also be effective in boosting economic growth, even in the short run, when the limits to infrastructure or skilled manpower become an effective constraint to an increase in production (Stephen, Onyekachi and Samuel, 2016).

Government expenditure is a kind of policy that can be done by government as one of the steps to prosper the society and toward economic growth. Government expenditure on the education sector and health is part of government expenditure spur people's welfare and ultimately affect economic growth.

Based on the explanation above, this research is desire to analyzing how the relationship between the development in human resources investment that proxies by health expenditure and education expenditure to economic growth in Indonesia whether the impact is significant or not, which is why the author gave a report entitled:

“ANALYSIS OF THE RELATIONSHIP BETWEEN HUMAN RESOURCES INVESTMENT AND ECONOMIC GROWTH IN INDONESIA”

I.2 Research Problem

Government expenditure has a strong relationship with economic growth, especially the type of government expenditure that concerns to achieve public

welfare. The expenditure is the expenditure on education and health. Both sectors are very important sectors for the development process. The effect of government expenditure on education and health on economic growth can not immediately felt in the short term but will only be felt in the long term.

Previous studies have produced many different conclusions on government expenditure relationships in education and health to economic growth. Government expenditure relations with no consistent economic growth, can be positive or negative. Results and evidence are vary from country to region. The nature of the impact of the government expenditure will depend on country conditions. The condition of Indonesia as a developing country will certainly be different from developed countries. The development expenditure in many developing countries is allocated for fundamental development sectors such as education and health. Previous research has not been observed the influence of government expenditure on education and health on economic growth especially in developing countries such as Indonesia.

Based on the description above, then in this study can be drawn some questions as follows:

1. What is the relationship between human resources investment and economic growth in Indonesia?
2. How does expenditure on education affect economic growth in Indonesia?
3. How does expenditure on health affect economic growth in Indonesia?

I.3 Research Objectives

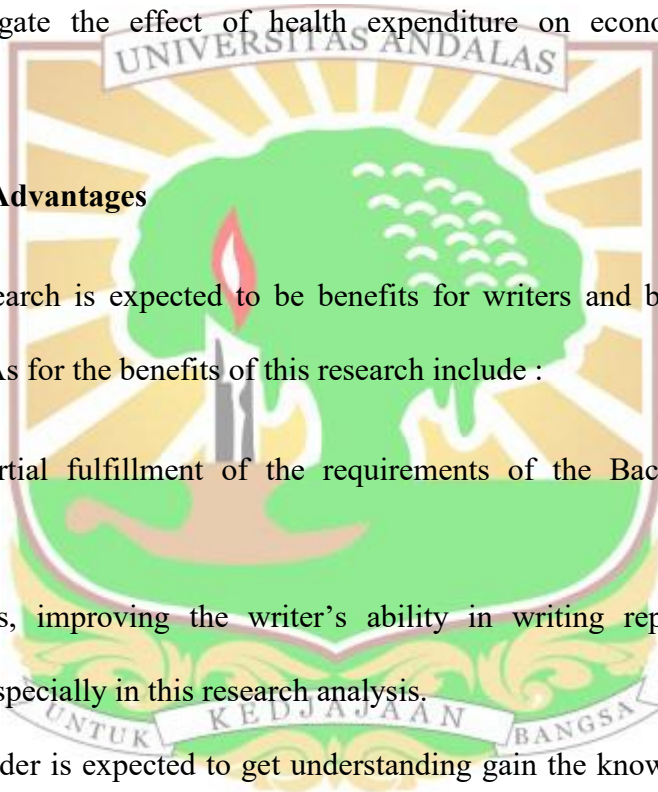
Based on the research problem the basic objective of this study are:

1. To determine the relationship that exists between the human resources investment and economic growth in Indonesia.
2. To investigate the effect of education expenditure on economic growth in Indonesia.
3. To investigate the effect of health expenditure on economic growth in Indonesia.

I.4 Research Advantages

This research is expected to be benefits for writers and be concerned for other parties. As for the benefits of this research include :

1. As the partial fulfillment of the requirements of the Bachelor degree in economics.
2. For writers, improving the writer's ability in writing reports and doing research, especially in this research analysis.
3. For the reader is expected to get understanding gain the knowledge regarding the economic analysis about the context of the analysis of the relationship between human resources investment and economic growth in Indonesia.
4. For a researcher in the field of economics and finance is expected this study can be a reference for next research.
5. For government will be recommended to take better policy about how to reach a better economic growth.



1.5 Limitation of Study

This research will be focused to analyse the analysis of the relationship between the human resources investment in and economic growth in Indonesia. The data for this analysis is annually data from 1995-2015 and sourced by the World Bank and also previous research journals, etc.

1.6 Writing Systematic

The study consists of 6 chapters from introduction to the conclusion and recommendation. The complete lists of this research as follows:

Chapter 1: Introduction

In this chapter includes background of the research why choose this topic, research problem, research objective, research advantage, limitation of study in this study.

Chapter 2: Theoretical Framework and Review Literature

This chapter includes the answer of hypothesis with reference and review that connect with independent and dependent variable theory.

Chapter 3: Research Method

This chapter explains about research methods, operational definition of the variables study, collect all data, source of data, method and data analysis method.

Chapter 4: General Overview

This chapter describes about the trend that happened in each variable include Economic Growth (GDP), Government Expenditure on Education and Government Expenditure on Health.

Chapter 5: Empirical Result and Analysis

This chapter endwise of the outline result, discussion of description in object research, data analysis and description.

Chapter 6: Conclusion and Recommendation

This chapter consists of conclusion of the analysis carried out, suggestion, and implication arising from the conclusion of the problem.

