

CHAPTER I

INTRODUCTION

1.1 Background

Economic development is the process of a nation in improving the economic, political, and social well-being of the people. This term has been used often by economists, politicians, and others in the 20th and 21st centuries. Besides, the development paradigm is economic growth measured by human development that is seen with the level of quality of human life in every country (Mirza, 2012). Meier and Stiglitz in Kuncoro (2010) argue that in the second generation, development theories emphasize the accumulation of human capital by creating more productive development agents through knowledge, health, better nutrition, and skill enhancement.

The development of a country has been associated with different concepts, but generally encompasses economic growth through higher productivity, political systems that represent as accurately as possible the preferences of its citizens, the extension of rights to all social groups and the opportunities to get them and the proper functionality of institutions and organizations that are able to attend more technically and logistically complex tasks (i.e. raise taxes and deliver public services). These processes describe the State's capabilities to manage its economy, polity, society and public administration. Generally, economic development policies attempt to solve issues in these topics. The development of human resources includes

building basic capacity inhabitant of which will then enlarge a chance to get to participate in the development process. According to Todaro (2006), the basic capacity that also the three principal values economic development successes are sufficiency (sustenance), identity (self-esteem), and freedom. This sufficiency means the ability to meet immediate needs basic such as food, clothing, board, health, and security.

The new growth theory proposed by Romer (2001) has included elements of human capital and technology as a determinant of economic growth. This new growth theory emphasizes the importance of the government's role, especially in increasing human capital development and improving the quality of human resources. It can be shown by the increase of knowledge and skills in human. Through the increase of knowledge and expertise, it will be able to encourage increased work productivity so it will be able to help in reducing poverty.

The basic function of economic activities is to provide as much as possible primary needs, on the basis of that is requirements the best economic success is the improving the quality of life all members of the community (Ginting, 2008). Central government as protector the state of Indonesia certainly has to be responsible for this, in which the development is triggered of economic growth across, but of course also if was done equitably in all regions in Indonesia.

There are some problems that happen in Indonesia. One of them is the low level of human development, this is very important in creating an equitable economic development or all Indonesians. Low human development can be seen from the

human development index (ranking) construction issued by the United Nations Development Program (UNDP). Human development in a country includes three dimensions are longevity and health, knowledge and a decent life be described in human development index (HDI). Human development is one of the indicators for the progress of nations where development in a country cannot be successful when just saw from gross domestic income than increasing human development.

One common gauge used in looking at the quality of human life is the human development index. In 1990 the United Nations Development Program (UNDP) introduced the "Human Development Index (HDI)" or Human Development Index (HDI). HDI can describe the results of human development, implementation according to the three components of a very basic ability indicator: health, quality of education and access to economic resources in the form of equal distribution of purchasing power.

There are three main roles that must be implemented properly in the economy by the Indonesian government, according to Guritno (2001), namely:

1) Role of Stabilization

In modern government today, almost all countries give their economy to the private sector/company. The government is more of a role as a stabilizer, to keep the economy running normally. Keeping the problems that occur in one sector of the economy does not spread to other sectors.

2) Role of Distribution

The government should make policies to allocate economic resources efficiently so that the wealth of a country can be well distributed in the community.

3) Role of Allocation

Basically, a country's resources are limited. The government must determine how much of its resources will be used to produce public goods, and how much will be used to produce individual goods. The government must determine the public goods its citizens need, how much the government should provide, and how much can be provided by the household.

Along with the increasing government activities in order to run the three roles that exist, then of course also required a large fund as a form of expenditure of all government activities related to the three roles. These government expenditures are a consequence of the various policies adopted and implemented through these three roles.

Government spending can be used as a reflection of policies taken by the government in a region. Government policy in each purchase of goods and services for the implementation of a program reflects the number of costs that will be issued by the government to implement the program. Government expenditures are used to finance important public sectors, among all the public sectors currently the government's priority in achieving the development of human resource quality in terms of human development index is an investment in education and health sector is expected Investment in this sector will affect on improving the quality of human

resources and reduce poverty. The development of health and education should be viewed as an investment to improve the quality of human resources, which is measured by the Human Development Index (HDI). In HDI measurement, health and education are one of the main components besides income. Health and education are also investments to support economic development and have an important role in poverty reduction efforts.

The government as the executor of development requires quality human beings as the basic capital for development. Human in its role is a subject and object of development which means human besides as perpetrator of development also a target of development. In this case, it takes a variety of facilities and infrastructure to encourage human role in, development. Therefore, investment is needed to create productive human resource formation.

Investment in human capital is expected to have a positive effect on economic performance, one of which can be observed from the aspects of education, health and poverty levels. This human capital investment covering human resource development requires the right target government policy in encouraging the improvement of the quality of human resources. According to Mankiw (2008), human resource development can be done by improving the quality of human capital.

Table 1.1 Value and Rank of HDI in ASEAN Countries in 2016

Country	HDI	
	2016	Rank
Singapore	0.925	5
Brunei Darussalam	0.865	30
Malaysia	0.788	60
Thailand	0.740	87
Philippines	0.682	116
Indonesia	0.689	113
Vietnam	0.683	115
Cambodia	0.563	143
Leo People's Democratic Republic	0.586	138
Myanmar	0.556	145

Source : UNDP, Human Development Report, 2017

Education and health are fundamental development goals in the area. According to Meier and Rauch (Gunadi, 2002) education, or more broadly is the human capital, can contribute to the development. This is because of education are basically forms of savings, causing accumulation of human capital and growth output aggregate if human capital being input in a production function aggregate. Health is the point of welfare, and education is the principal thing to achieve a decent life. Education has an important role in shaping the ability of a developing country to absorb modern technology and to develop capacity in order to create the growth and sustainable development (Todaro, 2006).

In terms of growth and development, of households have an important role to play in human development, where household expenditure has contributed to human

development index. Household expenditure determined by income. Based on the income of poor will spend earnings for daily food and cannot be to save for education and health. Here the need for government interference helps the poor.

Poverty will hinder individuals to consume nutrition, get better education quality and enjoy the environment support for healthy living. It will produce human resources lacking in quality or can be said to have low levels of productivity. It also has an income of limited wages/they can get. So to progress, this will influence the level human development in an area.

Besides poverty is one important issue facing the government affect human development in Indonesia. According to BPS 2014, the percentage of poor people in Indonesia increasing about 0.26%. Increasing levels of poverty make the individuals have no funds in compliance with their basic needs, one of which relationship with the process of human development. The problem of poverty is crucial that need to be addressed by Indonesia governments.

Based on the above background interesting to discuss human development in Indonesia. Also in this study will also be seen how the influence of government spending on education and health and the influence of the number of poor people on human development in Indonesia in the period 2010-2016.

1.2 Research Problem

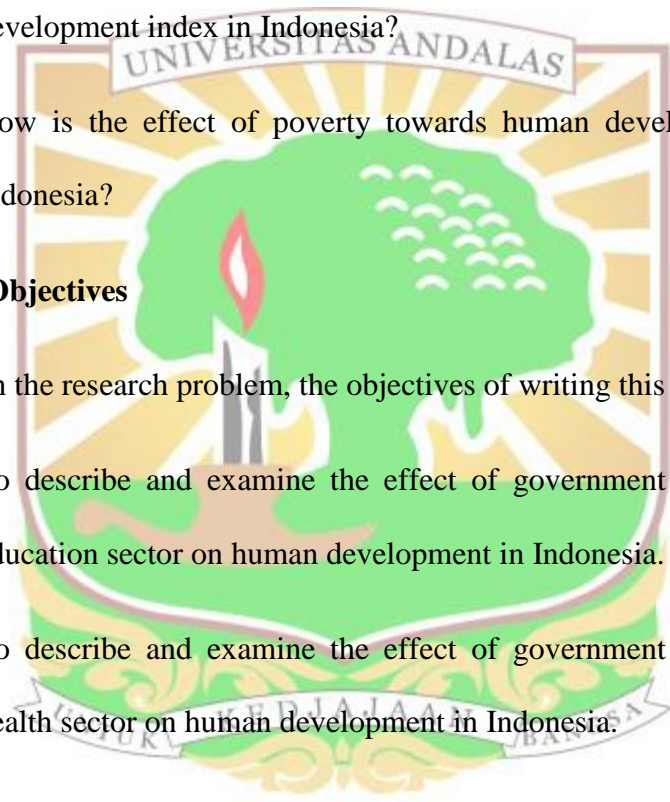
This study aims to answer the following question:

- 1) How is the effect of government spending on the education towards human development index in Indonesia?
- 2) How is the effect of government spending on health towards human development index in Indonesia?
- 3) How is the effect of poverty towards human development index in Indonesia?

1.3 Research Objectives

Based on the research problem, the objectives of writing this thesis are:

- 1) To describe and examine the effect of government spending on the education sector on human development in Indonesia.
- 2) To describe and examine the effect of government spending on the health sector on human development in Indonesia.
- 3) To describe and examine the effect of the number of poor people on human development in Indonesia.



1.4 Research Advantages

This study hopefully expected to be useful for the writer and the other interest parties. There are some advantages of this research:

- 1) As a study material and additional science for student faculty of Economics in general and students majoring in Science Economic Development Studies in particular.
- 2) Can be used as input for other researchers with similar type of research.

1.5 Systematic Writing

This thesis is prepared using the following systematic systematic:

CHAPTER I : INTRODUCTION

Contains background and formulation of the problem, the objectives to be achieved, the benefits of the research, and writing the systematic thesis is used.

CHAPTER II: THEORITICAL FRAMEWORK AND LITERATURE REVIEW

Contains theories include previous research, understanding about Money Supply, Interest Rate, Government Expenditure and the factor that influence the Inflation in reference supporting and related issues presented, review past research and the research hypothesis.

CHAPTER III : RESEARCH METHOD

This chapter consists of a frame of mind, several sub-chapters that include data and data sources, identification of variables, methods of data analysis and technique of data collection, and data analysis techniques used.

CHAPTER IV : OVERVIEW RESEARCH VARIABLES

This chapter describes about the trend that happened in each variable include money supply, interest rate, government expenditure and inflation.

CHAPTER V : RESULT OF TESTING MODEL AND DISCUSSION

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

CHAPTER VI : CONCLUSION AND RECOMMENDATION

The last chapter is a cover consisting of conclusions and recommendations based on research and analysis of the results obtained from the data processing.

