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JOURNAL of Applied Economic Sciences

Journal of Applied Economic Sciences

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The Influence of Regional Revenue on Government Investment and Its Implication to the Regional Economic Growth

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Abstract:

The aim of this study is to identify the determinants of the influence of regional revenue (RR) on government investment and its implication to the regional economic growth. Economic growth in Bekasi, Indonesia, is always above national economic growth such investment preparation linked to the RR. This research is limited on RR and its impact on economic growth in Bekasi. Variables studied focused on RR, government investment, and economic growth, was modelled based on Path Analysis approach. Then, the effectiveness of RR management in achieving sustainable economic growth in Bekasi enable to be evaluated economically, through local government investment.

Key Words: regional revenue, government investmen, economic growth.

JEL Classification: E22, H71.

1. Introduction

In the year of 2013, the Indonesian Gross Domestic Product have reached Rp 2770.3 trillion (US$. 245,259.2 million/estimately) or about 5.78% increased than the previous year achiievement. The highest economic growth was contributed by the transport and communication sectors with 10.19%; growth while the lowest growth experienced by mining and quarrying sectors as 1.34% (CBS 2011). By GDP total analysis, Java is still the highest contributing zone to Indonesian economy growth, then raised relatively as 57.99% in 2023 as well. Followed by Sumatra as 23.81%; Borneo as 8.67%; Sulawesi as 4.82%; Bali and Nusa Tenggara as 2.53%, and the remaining 2.18% contributed by Maluku and Papua.

There are three provinces in Java with the largest contribution to economic growth such as Jakarta, East Java and West Java. On the expenditure side, the highest economic growth was contributed by goods and services exports amount of 5.30%. Then successively by 5.28% of household consumption component; 4.87% of government expenditure components, 4.71% of Gross Fixed Capital Formation component 4.71%, as well as 1.21% of imported components as a deduction aspect.

As one of the highest economic growth province in Indonesia, West Java has a unique position in the national economic growth. This successful is certainly influenced by the strong government role, which succeed to coordinate all of its resources, even though at the other side there are many problems that challenging. Those are related with the opinion of Millner, Ollivier and Simon (2014, 84) that said "Many of the most important public policy problems require democratic country face cumulative effort by successive Governments to be successfully managed". Relavance opinion comes from, Gelb A *et al* (1999) stated that Governments in developing countries should, and do, provide valuable goods and services which generate a derived demand for production factors. However, public sector differs from private sector in the extent to which it is subject to political pressures for employment.

Besides having the largest population in Indonesia, West Java province is also directly adjacent to the capital of the country, namely Jakarta. Among the 27 districts/ cities in West Java province, 6 areas were located in the *Jabodetabekjur* area namely: Bogor district, Bogor city, Depok city, Bekasi district, Bekasi city, and Cianjur district. Similarly, among 11 autonomous administrative regions located in *Jabodetabekjur* regions, West Java province contribution is relatively larger than Jakarta and Banten. Overall, those administrative autonomous regions, consisting of 3 Provincials Government (DKI Jakarta, West Java and Banten) and 8 Regencies/Cities Government (Bogor regency, Bogor city, Depok, Tangerang regency, Tangerang City, Bekasi regency, Bekasi city, and Cianjur Regency.

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Source: Google Map

Figure 1 - District of Bekasi, Province of West Java, Indonesia

In the year of 2013, West Java Province experienced economic growth of 6.06% over the previous year (Statistic Bureau Center/BPS of West Java Province 2011). This growth was relatively higher than the national economic growth. Growth occurred in all sectors, except mining and quarrying, which felt down by 0.66%. The highest growth occurred in the transport and communications sector, which amounted to 9.66%. On the expenditure side, the highest economic growth was contributed by goods and services exports, which amounted to 10.06%.

Then successively, followed by components of Gross Fixed Capital Formation 6.60%, 5.51% of government expenditure, 4.02% of household consumption; 0.61% of inventory change and imported components as a deduction instruments, grew by 12.65%. Relatively, its appears that the growth of government spending components in West Java Province is larger than the growth of the national component of government spending. Similarly, it appears that the growth of government spending components in West Java province is greater than the growth in household consumption component. This show that government contribution in West Java in promoting region economic growth is relatively higher than the contribution of other economic actors.

As the fourth largest city in Indonesia, Bekasi City has an important position in development cooperation in the *Jabodetakjur* as a dynamic region as well as the highest social and economic activity issues in Indonesia. The rapid development of Jakarta as the State Capital, causing spill-over city development into the surrounding area, so there was a wide range of over the designation function in cities around Jakarta, including Bekasi city. Recently, Economic growth in Bekasi which in 2012 amounted to 6.85% (Statistic Bureau/BPS, Bekasi 2013).

Growth occurred in all sectors, except mining and quarrying. Consecutive economic growth in sectors that experienced, growth in Bekasi are: the building sector, which amounted to 12.09%; financial, rent, and services sector companies 8.64%; electricity, gas and water 8.54%; trade, hotels and restaurants 8.11%; the industrial sector 6.25%; the services sector 6.23%; transport and communications 3.27%; and the agricultural sector 0.24%.

In the last period, year to year economic growth in Bekasi is always above the economic growth of West Java province and national economic growth. This is due to local governments' intervention to facilitate trade activities, proved to be the biggest growth in the service and trade sector. As Hornok and Koren (2015: S110) discloses that "They hope to increase of trade volumes without endangering government revenues by reducing inefficiencies", bring the authorities idea to develop trade sector to boost economic growth in Bekasi City.

In promoting economic growth, local governments have a very important role which is conditioned by how do local governments could be able to manage the region financial potentialily. Jhingan (2003, 67) argues that one of the factors that may affect economic growth is capital accumulation or investment, whether by government or society. If there is greater investment program, it will encourage an increasing production of goods/services activity then will stimulate national or regional production.

One of investment instrument is capital expenditure (Mankiw 2003, 453), government investment was sourced from revenues excess over government investment as government saving. Thus, government savings show the government investment capacity that potentially could be done. While government investment shows the investment amount that realized by the government.

The economy of our state and the related health and social processes have been extremely deeply impacted by the ongoing globalization and the global crisis, which exposed the so-called "unsustainability" of various concepts with elements of minimal state involvement (Gavurova and Grof 2016). Region economic growth strongly related with variety of factors, inter alia, an investment in the certain regions, in particularly local governments investment. Local government investment which is not well prepared neither implemented by consistently and effectively as well, will impact on unexpected economic growth. Based on the region financial potential outlook, investment preparation by local governments investment closely linked to the local income, particularly RR and the Government Investment

In order to stimulate RR, required an effective local financial potential management so that can increase RR and allocate it base on economic development plan priorities and expected targets economic growth There is no define how RR could be able to influence government investment as well as the effect of both variables on regional economic growth, particularly in Bekasi city.

This research is limited on RR and its impact on economic growth in Bekasi, directly or indirectly through government investment. Variables studied focused on RR, government investment, and economic growth. As for influence between variables was modelled based on the structural model approach through Path Analysis. By using Path Analysis, the effectiveness of RR management in achieving sustainable economic growth in Bekasi enable to be evaluated economically, through local government investment, either directly or indirectly.

2. Literatur review

2.1. Government finance

Goode (1984) said that in State administrations, there are three main actors in economic activity, namely government, companies and households. In government sector, those activities are directed by political decisions. Government revenues and expenditures are controlled through the process that set out in government budget. Essentially, state financial covering state revenues sector were descriptively available in the revenue budget. Similarly, state expenditure, which the details are quantitatively arranged in state spending items.

In another part, Goode (1984) described that almost all government policies require financial support programmed in government spending, with a variety of objectives that have been outlined. But it all (in the context of the Sate financial management) based on law and other various operational rules. In addition, temporarily mechanism inherent and has specific attention. Musgrave and Musgrave (1984) said that budgetary flexibility is limited and cannot be separated from the drafting process of political element. The role of the executive and legislative policy making has been started since the beginning, which later resulted in the decision as a result of the mechanisms that have been programmed.

2.2. Government revenue sources

As stated by Goode (1984). State revenue include: taxes; interest and Income Property; proceeds on sale of land and other capital wealth; assistance from other Governments and International Institutions; loans; issuing money. For that purposes, tax is a major contribution in the structure of state revenues, so that the proportion of RR receipts dominating element of state revenues. In another section, Goode (1984) also describes that the amount of local revenue is typically calculated by Gross National Product (GNP) or Gross Domestic Product (GDP) ratio. Potential taxation can assist the government in formulating policies relating to state finances management.

Rosen (2005) said that tax levied by the government such central tax and regional tax. According to the category of taxpayer, the tax may be personal income tax and corporation income tax. Generally, (particularly in developed countries) state revenues sources, is more dominant derived from taxes, especially direct taxes, which includes personal income and corporate income tax.

2.3. Government expenditures

Rosen (2005) said that essentially government expenditures include: national defence, the proportion tends to fall down from 47% in 1965 to 17.3%; social security, which tends to be large; health, including health

insurance system; welfare program; payment of interest on the debt. These elements constitute the general classification. Meanwhile, for each state, generally adjust to the conditions of the country concerned.

According to Goode (1984), expenditure includes: expenditure goods or services, or so-called unused spending; payments transfer or spending unused spending; loan, including procurement.

Purchases of goods and services are expected to support government activities for providing services to the public. In developing countries, transfer payments (non-cash) is done in the form of direct payments without remuneration.

2.4. Government budget (APBN)

Musgrave (1984, 210) said that budget preparation is intended to create efficiencies through various alternatives (as a product of the executive and legislative) in the context of the use of public funds. State revenues and expenditures basically reflect the government activities that measured quantitatively. Therefore, in the context of accountability to society, a budget revenue and expenditure preparation should be through a transparent mechanism and approved by the legislature.

Referring to above statements, it means that revenue and expenditure budget is essential instrument of government activities/guidelines to carry out the tasks of government activities. In national budget (APBN) will be described on the action plan for public services/development in order to improve society welfare.

According to macroeconomic concepts, schematically state budget can be formulated as follows:

Table 1 - National Budget Structure

Revenue	Expenditure
Tax	Government Expenditure
	Government Transfer

Noted: T*ax* means tY, where as: t = *tax rate* (*single tax rate*) and Y = *income*

Tax means personal income tax and a corporate income tax. Government Expenditure (G) and government transfers (Tr) is the exogenous variables (not depend on other variables). By the above structure, surplus or deficit of a state budget is:

$$\text{Surplus (defisit)} = T_x - (G + T_r) \quad (1)$$

Generally, in practicing the above structure is developed with more varied. As an example, shows that Indonesia current structure state budget (Statistic Center Bearue/ BPS: *Monthly Statistical Bulletin* Dec., 2003, p.33-34) is as follows:

- revenues and Grants, which are include: domestic revenue (revenue and non-tax revenues); the grant.
- expenditure, which include: the central government expenditure (recurrent expenditures and development expenditures); regional budget (equalization and special autonomy funds).

Based on composition of the government budget elements, the surplus/deficit of the government budget can be formulated as follows:

Surplus/Deficit = Revenues and Grants – Expenditure

In the concept of spending, according to Mankiw (2003; Q25) national income can be formulated as follows:

$$GDP = C + I + G + NX \quad (2)$$

Provided that G is the state budget (government expenditure).

Thus, the role of G cannot be ignored in GDP formation. Even in several developing countries, G role is still quite significant as the economy driving force of the certain country (including Indonesia). Therefore, it is understood that the growth of government expenditures affected the GDP growth in related countries. The budget deficit, in general, be addressed from overseas loans. There fore the bigger the deficit, can create a greater state dependence on the creditor countries (who joined in a specific institution*, e.g.* CGI).

Another cases in Brazilian, related not to ignore GDP formation, Anselin in Ricardo *et al* (1988) said that apart from this problem of adequately consider both the influence of human and physical capital on Brazilian regional GDP growth, the evidence about the impact of these factors obtained from growth regression barely considers the presence of spatial dependence of the variables, which makes the estimative potentially biased. Then Özyurt and Daumal in Ricardo *at al* (2013) stated in regional growth regression in Brazilian case and these

works confirm the importance of explicitly taking into account spatial dependence. None of these works for Brazilian regions, however, simultaneously use a spatial panel data and interpret adequately the estimated effects of the variables on regional per capita GDP or Income growth.

2.5. Government savings

According to Musgrave (1985, 786), the government saving equals with the surpulus thus defined in the current budget. So, that government saving is an surplus of savings over the routine expenditures. Thus it can be formulated as follows:

$$Sg = tY - aY \quad (3)$$

Referring to the above formulation, basically government savings influenced by:

- the amount of government revenue, particularly from taxes (tY). The larger of PAD (RR), provides government opportunity to increase government savings;
- while the budget (aY) precisely on the opposite effect. If the budget is getting larger, it will tend to reduce local government savings.

Implementation Formula:

$$S_G = tY - aY \quad (4)$$

So, that:

Government/regional revenue (RR), positively will affect government saving level (state /regional). On the other hand, the greater revenue, will encourage government saving. Implicitly, Hakim (2002, 170) formulated that government savings include budgetary savings (the largest share) which represents the surplus of total government revenue (taxes) for public consumption spending (G) and government enterprises saving. Thus, in general, government savings is government revenue minus government spending (public consumption).

Related to a state's economic development funds, government savings accumulation was most ideal funds sources because it will not be a pose a financial burden on the state. The use of government savings as a source of development fund will rise to two positive implications, as efficiency indicator of the domestic investment that leads to increase Gross Domestic Product (GDP).

2.6. Development fund source

Every economic development country cannot be separated from the influence factors to the development process. In accordance with Hakim (2002, 164), one important factor is capital accumulation which is essentially a number of funds required for the implementation of development process. According to the expenditure approach, national income can be formulated:

$$Y = C + I + G\,(X - M) \quad (5)$$

Under the condition of:

$Yd = Y + Tr - Tx$ = Disponsible Income;

where: Y = Gross National Product; G = Government Expenditure; X = Export; M = Import; I = Investment.

Whereas:

$S = Yd - C \longrightarrow C = Yd - S \qquad Y = Yd - Tr + Tx$

Then, it will have requisite balance:

$X + I + G + Tr = S + Tx + M \qquad I = S + \{M - X\} + \{Tx - (G + Tr)\}$

Thus, domestic investment is very dependent on public savings coupled with (M - X) as capital imports and government saving (Tx - G - Tr).

2.7. Regional finance

Davey (1988) said that, the common basic problem of regional finance is how the revenue sources excavated and distributed and who will decide it. Basically, regional finance includes the type of loan, equity participation, relief, tax-sharing, devolved taxes, local taxes, customs levies and operating profit. As set in Chapter VIII Section 78 s/d 86 of Law No. 32 of 2004 on Regional Autonomy, discuss about all details regional

financial which is covered by the regional budget (APBD). Thus, the scope of the regional financial area related to the regional income and expenses. In his statement, Davey (1988, 25) specifies that the regional government fund include: funding for the central government; taxation; levy; loans; company.

2.8. Regional revenue sources

In general, local government finance come from RR, the central government allocations, loans and other legitimate regional income. These components, are not the same between one area to another concerning the characteristics and potentialities of each region. According to the provisions of Law No. 32 In 2004, the following sources of RR, namely: revenue (local taxes, levies, regional companies and other local revenue legitimate results); the equality base funds; regional loans and d) other legitimate source revenues.

Davey (1988, 201) described that the central government budget allocations to local governments are often disclosed as government transfers, has a major role to the order of the local government. The allocation contains several goals. First: spending, whole or partly, services or programs expenses for national development concerned. Second: to encourage local governments efforts for development programs and services in accordance with national policy. Third: to stimulate regional economic growth, both in order to help the growth and as well as to reduce inequality between regions. Fourth: controlling spending and establish a regional standard of service or more equitable development. Fifth: to developed low capacity/fiscal potential region and to help the region in order to cope with emergencies. The type of central government allocation, essentially consisting of: allocation based on direct budget votes; allocation in the capitalization form.

2.9. Regional (Locally-generated) revenue (RR)

RR sources include local tax revenues, levies, regional companies, and other legitimate local revenues results.

- *Local tax*. As stated by Davey (1988, 39), local taxation can be interpreted as: First, tax levied by local governments with the setting of his own regional. Second, tax levied by national regulations, but the determination of the tariff that carried out by local governments. Third: Other legal taxes that levied by local governments.
- *Retribution*. Whereas levies as defined by Davey (1988, 132) were: First, a contribution to the direct remuneration that may be appointed, the levy may be imposed is greater than services cost rendered. The excess is characteristic for many levies to achieve the license fee. Second: a service may be only partially cost by the levy; the rest comes from a special subsidy from general local revenue.
- *Regional Enterprise Profit.* The involvement of local government in business activities such of two main objectives, means: Firstly, to present public service based on independent expenditures. Secondly, with the aim of to make profit by the excess of revenue or sales on all costs incurred. But practically, it is difficult to separate the two objectives, although enterprises do have public service, but for not to burden local governments but at the other side they have to make a profit in its operations.

Ownership of business entities which is become the government instrument in the provision of public services and in order to obtain profits can be shaped as region-owned enterprises, which is a wholly-owned by local government. While another type is a joint venture entity, but for the ownership will to involving private capital. It is attractive for private investors if the local government may provide land space, infrastructure, recommendations on plan and the bureaucracy.

2.10. Regional spending

According to Kunarjo (2002, 160), regional spending, principally shall be in accordance with the expenditure planning purposes. This is to ensure that any appropriateness concerning with limited funds allocations have considered, such as: First: requirement priority. Second, arising consequences (from the perspective of the overall economy). If the more detailed, the spending plan includes the following activities: needs identification; analysis and Forecasting; evaluation.

Barata and Hartanto (2004, 90) said that regional spending principle was all local government liabilities that recognized as a reduction of net worth. Regional spending is specified by: the organization which is adapted to the composition of the regional/engineering institutions; the functions of public services, security, environment, housing/public facilities, health, tourism, culture and so on, regional spending items such as employee, goods, capital, interest, subsidies, grants and social assistance budgets.

The elements of regional expenditure (BPS: Government Finance District statistic 2002) include:

- routine expenditure, which is includes of personnel expenditure, spending on goods, maintenance cost, on duty trip cost, other expenditures, instalment of financial loan and other expenses;
- development expenses, which principally includes of Local Government activities and booked in the Regional Budget and Expenditure (RAPBD).

2.11. Local government savings

Hakim (2002, 170), implicitly to formulating that government savings include budgetary savings (the largest share) which represents the excess of total government revenue (taxes/tax) for public consumption spending (G) and government enterprises saving. Thus, in general, government savings is government revenue minus government spending (public consumption) in line with that sense can be defined that the Local Government saving is revenues excess over Local Government expenditures. The greater Local Government income the more savings increase potentiality.

Kunarjo (2002, 102) indicated that taxes role in capital development in developing countries is relatively significant. With reference to above formulation that local government savings is:

- surplus of revenues over routine expenditures, then the increase in local government savings (can be done by) increase in revenues as local government funding source;
- improving the efficiency of routine expenditures. Such things should be local government concern as an effort to increase savings for a source of development fund sources.

2.12. Local government investment

Hakim (2002, 164) implicitly formulated that local government investment is a government allocation of savings (total excess revenues over expenditures of local government public consumption) to finance development spending. As the inclusion of local government in domestic investment, local government investment plays a role in encouraging the improvement of Gross Domestic Product. In accordance with the provisions of BPS (Central Bureau of Statistics), development expenditure includes: Industry (Industry); Agriculture and Forestry (Agriculture and Forest); Water Resources and Irrigation (Natural Water Resources and Irrigations); Power work (Manpower); Trade, Regional Business Development, Regional Finance and Cooperative (Trade, Unfolding Regional Initiative, Regional Financial and Trade, Unfolding Regional Initiative, Regional Financial and Cooperatives; Transportation; Mining and Enegry; Tourism and Regional Communications; Regional Development and Resettlement; Environment and Lay Out; Education, National Culture, Credentials, Youth and Sport; Demography and Family Welfare; Health, Social Welfare, Women Participation, Child and Adolescent, Dwelling and Residence; Religion; Science and Technology; Law (Law); Civil Servants and Control; Politics, Information, Communication and Mass Communication; Security and Public Order; Development subsidies to Lower Level Government.

2.13. Investment theory

According to Mankiw (2003, 453), there are three types of investment. Namely, Business fixed investment, including equipment and structures that purchased by the company for the production process. Residential investment, including new homes that bought by people for residential and purchased by landlord for rental business. And the last is Investment stock, covering goods stored in the warehouse, including materials and supplies, goods in process and finished goods.

2.14. Investment criteria in economic development

According to Jhingan (2002, 636), there is a relation between investment criteria in economic development, among others:

- *Capital Turn Over Criteria.* Polak J. J. and Buchanan N. S. (Jhingan 2002, 636) put forward the criteria which is based on the logic reason such capital stock in developing countries relatively rare, so chosen technique should be able to produce a maximum output per capital unit. Thus, the project is selected high capital turn over. Limitations in these criteria are, first: devotion element of time (short-term yields an initial low output). Second: devotion to the supplementary benefit that flows from investment projects. Third: specifically, the agricultural industry, the capital ratio to o low output, but if the working capital (eg fertilizer) entered into fixed capital, the ratio becomes higher. Fourth: the higher rotation, shrinkage could be higher, but the output is not higher. Fifth: work maximization argument that contained in this concept can be done for short term only. Sixth: capital intensive and efficient investment, making labor

productivity remains low without generating additional total output. Seventh: the implementation of labor-intensive techniques can actually reduce output, and often results in low standard products.

- *Social Marginal Productivity (SMP) Criteria. SMP criteria were firstly proposed by AE Kahn enhanced by* Chenery H. B. (Jhingan 2002, 638). The more capital is used in a project by combining with a number of other existing input, after a certain period, the marginal product will decline until the marginal capital productivity in the same variety using. The goal of this purpose is by allocating limited investment resources, but could be able to produce maximum national output (the capital must be used in a productive project sector). In these criteria, taking into account the overall contribution of net marginal unit of the national product and not just contributions portions of private investors. Thus, this criterion also can be applied to the economy atmospheres as a whole. In this connection Chenery (Jhingan 2002, 639), constructed a quantitative measurement formula SMP concept. By assuming that balance of payments on balance position, then:

$$SMP = \frac{X + E - L - M - O}{K} \quad (6)$$

The formula can be changed to:

$$SMP = \left(\frac{V - C}{K}\right) + \tau\left(\frac{aB_1 + B_2}{K}\right) \quad (7)$$

For simplicity, it can be changed to:

$$SMP = \frac{V - C}{K} + \frac{B\tau}{K}$$

If B < 0: import ; then B > 0: eksport.

Some limitations, among others:

- *First*: is not true that the marginal capital productivity must be the same at all consumption.
- *Second*: SMP criteria only consider to current result. In short-term, adjusted to the conditions of demand and supply conditions that exist, while the long term is influenced by current investment.
- *Third*: SMP criteria are uncertain (difficult to obtain correct judgments) in order to predict the benefits and cost of products currently as well as in the future. Fourth: This criterion is only concerned with investment impact in national income is just once time, regardless on the future impact.

2.15. National income

Sukirno (2000, .31) said that there are three ways that can be used to perform these calculations, that means spending, revenue and production approach.

- Expenditure approach. This approach is done by adding up the expenses/expenditures value made by the household, company (investors), government and foreign sectors. According to Mankiw (2003, 27), National Income on the expenditure side can be formulated as follows:

GNP = GDP + Payments factor from LN - Payments factors LN

Then (Mankiw 2003, .25):

$$GDP = C + I + G + NX \quad (8)$$

Thus, showing that the expenditure approach is clearly seems as a national income of such citizens:

- *Income Approach.* Basically, national income with income approach is the sum of productive income factors that include: salaries and wages, rent, interest and company profit. According to BPS (2002, .2), national income (GDP), based on income approach is “remuneration received by production factors which participate in the production process of the country in a certain period (usually one year)". Thus, mathematically can be formulated as follows:

$$Y = Y_r + Y_w + Y_i + Y_p \quad (9)$$

- *Net Production Method* or *Value Added Value Approach*. According to BPS (2002, 1), by production approach "GDP is total added value of the goods and services produced by various production units in given time period of a country territory.

In presenting the Indonesian National Revenue issued by BPS, there are nine sectors that calculated, namely (1) Agriculture, livestock, forestry and fisheries; (2) Mining and quarrying; (3) Processing industry; (4) Electricity, gas and water supply; (5) Building; (6) Trade, hotels and restaurants; (7) Transport and communications; (8) Finance, leasing and business services; (9) Services.

From the output aspect of, GDP can be formulated as follows:

$$Y = PDB = P_iQ_i \text{ or } Y = P_iQ_i = P_1Q_1 + P_2Q_2 +... + P_nQ_n \quad (10)$$

In principle, the calculation result by using 3 above methods will generate the same number (National Revenue) although it's done by adjustment process. According Partadiredja (1998, 18), the adjustment calculation was seen in the calculation of national income accounting.

ased on the the formula (Mankiw 2003, 25):

$$Y = C + I + G + NX \quad (11)$$

where: G = *Government Expenditure,* which is includes government investment. Then: I_G is one of the indpendent variables that influence Y (GDP) or (PRRB).

Thus, the greater the IG to boost GDP. Conversely, if the IG decreases, it can lead to the decline of GDP.

2.16. Economic growth

According Sukirno (2000, 56), basically, economic growth rate measures the increase in real national income, that calculated at constant prices.

Thus, for a given year can be measured by the formula:

$$gt = (Y_t - Y_{t-1}. 100\%)/ Y_{t-1} \quad (12)$$

With the provisions of g_t is economic growth rate in year t expressed in percent; Yt is real national income year t and yt-1 is previous year real national income. According to Schumpeter, Ursula Hicks and Madison A. (Hakim, 2002, 12), the term of economic growth is defined as economic growth in quantitative performance such as GNP, GND per capita etc,

The real economic growth of a country is:

$$G_t^* = g_t – P_t \quad (13)$$

where as:

$$gt = (PNR_t – PNR_{t-1}) / PNR_{t-1} \quad (14)$$

Description: gt = Growth National Income; PNR = National Income; Ppt = Population Growth.

2.17. Models of economic growth

As a reference, the following analysis will describe two kinds of economic growth models according to Harrod, Domar and Kaldor (Jhingan 2002, 229-251).

Model Harrod – Domar

Both Harrod and Domar interested in finding the required income level for the economic atmosphere running smoothly and not halting. Despite of their models differ in the details, but they are almost come at the same conclusion. Harrod and Domar give a key role to investment in economic growth process, particularly on the dual investment character owned. First: it creates revenue. Second: it enlarges the economic production capacity by increasing capital stock. The first can be referred to as "the impact of demand" and the second "the effects of supply" investment.

Domar Model

Domar build a model around the following question: Such of the investment on the one hand generate revenue and on the other hand raise the productive capacity, then at what level investment rate must be increased to make increasing revenue equal to the increasing capacity productive, so that full employment can be maintained.

The increase aggregate demand is needed. Demand side in Domar system explained the multiplier as Keynesian (Jhingan 2002, 231). Suppose the average increase revenue call by ΔY, increase in investment by ΔI

and the propensity to save with the α (alpha) (= ΔS/ΔY). Then the increase in revenue will be the same as the multiplicators (1/α) times the increase in investment.

$$\Delta Y = \frac{\Delta I 1}{d} \quad (15)$$

Equilibrium. To maintain the equilibrium level of income at full employment, aggregate demand must be equal to the aggregate supply. So, we come to the basic equation model as:

$$\Delta I = \frac{1}{\alpha} = I\sigma \quad (16)$$

By dividing both sides of the equation with **I** and multiplying it by **α**, then we will get:

$$\frac{\Delta I}{I} = \alpha\sigma'' \quad (17)$$

This equation shows that to maintain full autonomous investment growth rate of net (ΔI/I) should be equal to ασ (MPS times the productivity of capital). This is the speed limit investment pace needed to ensure the use of potential capacity in order to maintain steady economic growth rate at full employment. To maintain these are, income should rise ασ rate per year. This is an equilibrium rate of growth. Any differences from the "golden path" will lead to cyclical fluctuations. When ΔI/I is greater than ασ, the economic atmosphere will experience a "boom", then will be depressed if ΔI/I is less than ασ.

Harrod Model

Harrod (Jhingan 2002, 232) tried to show how steady growth model (*i.e.* equiibrium) may occur in the economy. Once a steady growth rate was interrupted and the economy fell into dis-equilibrium, cumulative forces tend to ignore these differences will lead to bias in long-term as well as long-term inflation. Harrod model is based on three kinds of growth rate. First: actual growth rate, represented by G, which is determined by the savings ratio and capital-output ratio. This rate indicates a short-term cyclical variation in growth rate. Second: guaranteed growth rate, expressed by Gw, which is a revenue growth rate of an at full capacity economy. Third: The natural growth rate, represented by Gn, which by Harrod considered "optimal welfare". It can also be referred to as a potential growth rate or full employment growth rate.

Actual Growth Rate.

In Harrod model, the first basic equation is:

GC = S (18)

where: G is the growth rate of output in a given time period and can be expressed as ΔY/Y; C is a net addition to the model which is defined as the ratio of investment to revenue growth, the I/ΔY; and S is the average propensity to save that S/Y.

By entering these ratios into the above equation, we get:

$$\frac{\Delta Y}{Y} x \frac{I}{\Delta Y} = \frac{S}{Y} \text{ or } \frac{I}{Y} = \frac{S}{Y} \text{ or I = S} \quad (19)$$

Secured Growth Rate. According to Harrod, secured growth rate is the growth rate "*where the producers were satisfied over what is done"*. It's a "equilibrium business" that if the progress achieved will satisfy the recipient's income such they have done something right. The equation for the secured growth rate is:

GwCr = s (20)

where Gw is "secured growth rate" or revenue growth in full capacity which fully will use capital stock that is being inflated so then to satisfy the employers on their investment. So, in this case, Gw is the value of ΔY/Y. Cr or the capital required, indicating the capital amount that required to maintain the secured growth rate, such as the output model ratio are required. D.K.C. Cr are a value of I/ΔY, or C; s is equal to **s** in the first equation, namely S/Y.

Natural Growth Rate. Natural growth rate "is progress rate, where growth population and technological experience slow improvements". This rate depends on macro variables, such as population, technology, natural resources and capital equipment. In other words, it's an output rate in full which is determined by the population growth rate and technological advances rate. The equation for the natural growth rate is:

Gn.Cr = or ≠ S (21)

where: Gn, what is called as full employment or natural growth rate?

Distribution Model According to Kaldor

Harrod-Domar model based on strict assumptions regarding with constant savings ratio revenue. Model Kaldor (Jhingan, 2002, 243) is an attempt to make capital savings ratio as a variable in the growth process. This model is based on "classical savings function" which states that the savings is equal to the ratio between profits and national income, in this case S = P/Y. With Sw indicated as overall savings set aside from the FMU, and Sp as the overall savings of the profit, then the formula obtained as:

Y = W + P (22)

but if: I = S and S = Sw + Sp.

Since the investment has given and by assuming that saving functions are a simple proportional, such as:

Sw = swW dan Sp = spP, then we will get

I = spP + swW = spP + sw(Y – P) karena W = Y – P = spP + swY – swP = (sp – sw)P + swY

With investment ratio to national income:

$$\frac{I}{Y} = \frac{(sp - sw)P + swY}{Y} \text{ or } \frac{I}{Y} = (sp - sw)\frac{P}{Y} + sw \quad (23)$$

but if: I = S and S = Sw + Sp and from equation (1), profits ration to national income, can be obtained in the following ways:

$$(sp - sw)\frac{P}{Y} = \frac{I}{Y} - sw$$

$$\frac{P}{Y} = \frac{1}{(sp - sw)} x \frac{1}{Y} - \frac{sw}{sp - sw} \quad (24)$$

So based on the marginal propensity to save, of all the wage earners and capital owners, the role of profits in national income depends on the ratio of investment to total output. If there is a rise in investment income ratio I/Y, the increase would raise profits role in national income P/Y, as long as sp> sw.

Further more, Kaldor (1966) in André Nassif, Carmem Feijó and Eliane Araújon (2013) also recognized that as soon as economic development reaches maturity – that is to say, the stage in which countries, by having already caught up, are able to exhibit high levels of income per capita and well being, a relatively significant loss of participation of the manufacturing industry in total real GDP is accompanied by a major participation of the service sector; and second, one could argue that, since a lot (but not the majority) of the new ideas, knowledge and dynamic economies of scale are now being generated in the tradable service sector, the effects of the microelectronic and telecommunication revolution (for most, the third industrial revolution) on the representative role of the manufacturing sector for economic development

2.18. Framework

Theoretically, the most influences of RR, such as government investment, and economic growth are based on government savings of Musgrave theory and government expenditure of Mankiw's theory in national income formation argues that government saving is the excess routine revenues over routine expenditures. Thus, the government savings are affected by the government's revenue, especially from tax (tY) and government spending (aY). The larger the RR, provides an opportunity for the government to increase government savings. Similarly, government spending affects by contrary, where were the government spending grew, it will tend to

reduce government savings. Further more, Arsyad (1999, 146) said that in general government savings almost entirely from the advantages of revenue (as a whole) on government investment expenditure. Then, according to Walter W. Heller as Kunarjo (2002, 102) said that in developing countries, taxation more positive role in the process of capital formation and technology development. It is caused by low people's incomes then capital formation is carried out by the government, while the said development funds come from taxation sector.

Mankiw (2003, 25) formulated that government expenditure was one important factor in the formation of national income. Government expenditure consists of government investment and public investment. Government investment is sourced from the excess of revenues over government investment that can be treated as government saving. Government consumption and investment increased contributed to economic growth that is indicated by the increasing in national income. Economically, government investment has a more decisive role than government investment, such government investment is able to increase production of goods/services activities and private investment trigger which will further increase further national or regional products

3. Research method

This research uses explanatory research design that aims to clarify the relationship between variables and test hypotheses (Singarimbun 1995, 4). Described of relationship between causal relationships variables (influence) of RR with government investment and RR with government investment to economic growth. The data used in this research is quantitative data in the form of secondary data that have been processed and presented from a variety of sources. Formation of data studied were time series data (time-series) between observation years.

Target population in this study are all local financial book period in Bekasi, since the enactment of Constitutio Act No. 22/1999 of Regional Administration on Local Government and regional autonomy in 2001. The research sample was taken by purposive sampling technique (sampling considerations) based on the completeness of the research data that can be obtained, Limited sampling period studied between 2001 to 2013 (13 years) corresponding period of regional autonomy since 2001.

Data collection techniques used were documentary study on the variables studied. Documentation studies conducted at the Central Bureau of Statistics (BPS) Center, West Java BPS, BPS Bekasi, and Bank Indonesia, as well as on other sources. The necessary documentation accessed directly at each office, and indirectly, through documents as well as internet neteork that have been published.

In relation with th explanation purposes, the analysis method used to test the influence between variables are Path Analysis (Path Analysis). Path analysis technique have chosen with towards consideration the discussion of the test influences aresults, both direct and indirect effect, and it's comparison in determining the dominant variable. Path analysis is a linear regression analyzes development that focus on parameter regression coefficients (standarized coefficient).

Under the influences of between variables that are relevant, linkages between RR, Government Investment and Economic Growth can be described as follows:

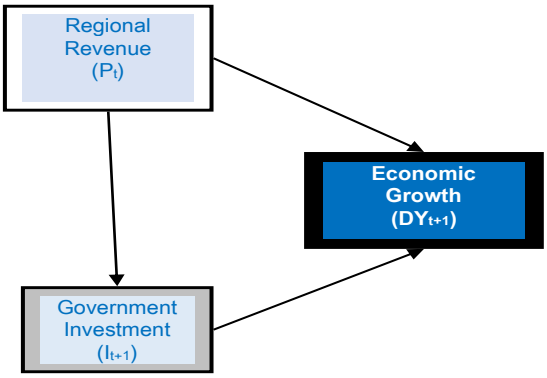


Figure 2 - Framework chart

In path analysis as linear regression analysis, there are assumptions regarding with residual or error term (disturbance term) that must be met. The assumptions that were tested include: normal distribution residue; no multi co-linierity that could destruct the model; no autocorrelation; there is no situation heteroskedastisitas

The formulation of the proposed analytical model is as follows:

$$I(t+1) = p11.Pt + e1t \quad (25)$$

$$DY(t+1) = p12.Pt + p22.I(t+1) + e2t \quad (26)$$

where: P = Regional Revenue; I = Governement Investment; DY = Economicc growth.

Structural equations in the above model was tested with a significance test path coefficients, either simultaneously or partially. The effect of simultaneously tested using F test. The result will significant if F count> F table (at significance level α = 0.05 and degrees of freedom db1 and db2 = k * = nk * -1; where: n = sample size and k * = number of causes variables) or if the statistical probability value (p-value) <α = 0.05. The effect of partially tested by using the t test. Significant if t count > t table (at significance level α = 0.05 1-sided test types and degrees of freedom db = nk * -1) or if the statistical probability value (p-value) <α = 0.05.

4. Results and discussion

4.1. The Influence of RR to the government investment

The following is equations model as path analysis results of t local revenue (Pt) model effect to the Government Investment (I (t + 1)) in Bekasi. The influences of local revenue to the government investment is assumed will occur in the next year.

$$I(t+1) = 0{,}948Pit + e1t \quad (27)$$

Pt
p11 0,948; t 9,373; p-value Sig./2 = 0,000/2 = 0,000

The results of revenue (Pt) influence test to the Government Investment (I (t-1)) are presented in the table below. Analysis results model have met required assumption, namely normal distribution and do not contain heteroskedasticity and autocorrelation that could destruct the models.

Table 2. - Test results effect of local revenue against the government investment

	R	R^2			
	0,948	0,898			
Partly Effect	p_{11}	t_{hitung}	p-value	Decision	Category
PAD (Pure Regional Revenue)	0,948	9,373	0,000	Sig.	Very Strong

Notes: p11 = Path coefficient; t table = 1,812.

The above table shows that revenue (Pt) has positive and significant effect on the Government Investment (I (t + 1). As seen that path coefficient value shows strong influence of local revenue for government investment amounted p11 = 0.948. Path coefficient value describes that local revenue influence degree to the government investment is very strong (p11 was between 0.90 to 1.00). The magnitude of local revenue effect for government investment amounted to 89.8%, as indicated by determination coefficient or R2 = 0.898.

The influence of external factors that not examined is 1-R 2 = 10.2%. While the strong influence of external factors amounted p1e1 = $\sqrt{}$ (1-R2) = $\sqrt{}$ 0.102 = 0.319 with a relatively weak effect (between 0.20 to 0.40). Comparing the strong-weak, and large-small influence of local revenue with external factors which were not studied on government investment, it appears that the original income have a dominant influence on government investment than external factors were not examined.

The influence trend of RR to the government investment is positive, as shown by coefficient path (standardized regression coefficient) p11, suggesting that the higher of the RR, such other factors condition did not differ, will impact the higher of at government investment the following year. Then, empirical influence trend consistent with theoretical predictions influence trend.

The results showed that local RR has become basis decision government ininvestment which indicates financial management strengthen, especially in Bekasi City Government. In other words, the Government Investment decisions are not budgeted from allocation of equalization funds from the Central Government. RR was supposed to be the main contributors in the structure of local government revenue and in local government investment decision making. The increasing of RR allowed the government to establish greater government savings to finance government investment in the local area.

4.2. Influence of regional income and government investment to government investment

The following equation model for path analysis result of the RR effect model (Pt) and Government Investment (I (t + 1)) for Economic Growth (DY (t + 1)) in Bekasi. The influnces of Local Revenue for Economic Growth is assumed will occur in the next year. While the influnces of Government Investment to Economic Growth is assumed occur instantly in the same year

$$DY_{(t+1)} = 0{,}413\ P_t + 0{,}042\ I_{(t+1)} + e_{2t} \quad (28)$$

	P_t	$I_{(t+1)}$
p_{2i}	0,413	0,042
t	0,444	0,045
p-value	Sig./2 = 0,668/2 = 0,334	0,965/2 = 0,4825

The influnces test results of local revenue (RR) and Government Investment (I (t + 1)) simultaneously and partially on the Growth Economy (DY (t + 1)) are presented in the table below. Analysis results model have met the required assumption, namely normal distribution and do not contain multicollinearity, heteroscedasticity, and autocorrelation which can destruct the model.

Table 3. - The effect Test Results of Local Revenue and the Government Investment to Economic Growth

Simultan Effect	R	R^2	F_{count}	p-value	Decision	
2 variabels	0,452	0,204	1,156	0,357	Non-sig.	
Partial Effect	**p_{2i}**		**t_{count}**	**p-value**	**Decision**	**Category**
PAD (RR) Revenue)	0,413		0,444	0,334	Non-sig.	Strong Enough
Government Investment	0,042		0,045	0,4825	Non-sig.	Very Weak

Notes: p_{2i} = Path Coefficient ; F_{table} = 4,256; t_{table} = 1,833

The above table shows the absence of simultaneous effect of RR (Pt) and Government Investment (I (t + 1) significantly towards Economic Growth (DY (t + 1). These results suggest that the RR and the Government Investment together have not been effective in encouraging economic growth in Bekasi. The integration of all factors were examined together evidently not contribute significantly to Economic Growth achievement.

Descriptively, the strong influence of RR and government investment simultaneously on Economic Growth was fairly strength, as indicated by the multiple correlation coefficient or R = 0,452 that lies between 0.40 to 0.70. While the influence of RR and government investment simultaneously on Economic Growth amounted to 20.4%, as indicated by determination coffecient or R2 = 0.205. The influence of external not exmined factors was 1-R2 = 79.5%. While the strong influence of external factors amounted p2e2 = $\sqrt{}$ (1-R2) = $\sqrt{}$ 0,795 = 0.892 with a relatively strong influence (between 0.70 to 0.90). These results indicate that an increase economic growth in Bekasi, is predominantly influenced by external factors apart from local revenue and government investment.

The above table also shows that partial, RR (Pt) did not significantly influence economic growth (DY (t + 1) As can be seen, the value of the path coefficient which shows the strong influence of local revenue for Economic Growth amounted p21 = 0.413. The path coefficient value describes the degree of influence of regional revenue for Economic Growth is strong enough (p21 lies between 0.40 to 0.70). However, the test results show that this effect is not significant, because the sample size is relatively small. Descriptively, the direction of local revenue influence for Economic Growth was positive, as shown by the path coefficient (standarized regression coefficient) p21, suggesting that the higher the RR (on the condition of other factors did not differ), the higher the economic growth next one year. The empirical influence trend is consistent with theoretical predictions influence trend.

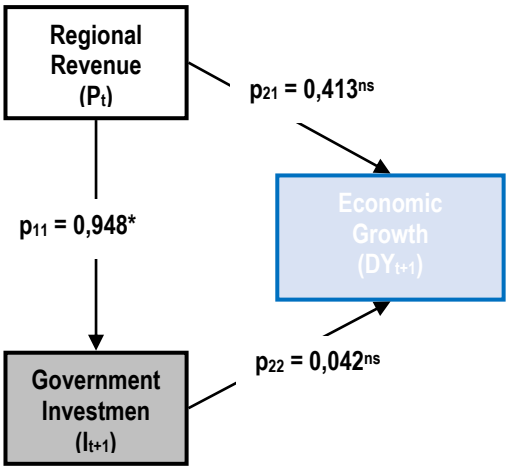
Nevertheless, the effect is still not adequate yet. These results indicate that the contribution of regional revenue to boost economic growth in Bekasi relatively ineffective. This indicates that government policies have not been fully conditioned to make economic growth as increasing local revenue target. Partially, the Government Investment (I (t + 1)) was also not significantly influence economic growth (DY (t + 1)). As can be seen, the value of the path coefficient which shows strong influence of Government Investment on Economic Growth amounted to P22 = 0.045. The path coefficient value describes the degree of influence of government investment to economic growth is very weak (P22 located less than 0.20). The test results also show that this effect is not significant. Descriptively, influence trend of government investment on economic growth is positive, as shown by the path coefficient (standarized regression coefficient) P22, which shows that the higher the government investment, (on the condition of other factors did not differ), the higher the economic growth.

The empirical influence trend is consistent with the trend of theoretical predictions influence. Nevertheless, the effect is still inadequate. These results indicate that the contribution of government investment in promoting economic growth in Bekasi relatively ineffective. This indicates that government investment has not focused entirely in an effort to boost economic growth in a sustainable manner.

These results indicate that the role of government through government revenues means the regional revenue and government expenditure, where the government investment is still very low. Increasing local revenue and government investment should contribute to boost economic growth in the region. Similarly, government investment should have more decisive role than local revenue. This is because the ability of government investment to increase production of goods/services activities and as private investment trigger which will further increase the national or regional products. Descriptively, the potential effect of government investment is weaker than the original income indicates that although inadequate, the role of RR in encouraging economic growth is relatively larger than government investment.

It also indicates inaccuracy investment objectives in moving the economic activity in the area. Hoetoro (2014, 276) said "facing the current global trend, there is a need to strengthen the entrepreneurial drive and competitive potential of small-scale firms by developing strategies that increase of economics of scale with respect to production, management, and marketing." Government investment priorities that should be required are the improvement and development of infrastructure to encourage economic activity and an increase in economic productivity in the region.

Overall, the path analysis results to regional revenue effect for government investment model and its impact on the Economic Growth Regional, in Bekasi, showed a significant effect of RR to the government investment, but no significant effect on RR and direct government investment to economic growth. Of the two effect models that analysed, obtain indirect influence path coefficient of the original income for Economic Growth through government investment, amounting p11.p22 = 0.948 x 0.042 = 0.040. Path coefficient value of 0.042 indicates that the indirect influence of the original income for Economic Growth through the Government Investment classified as very weak (<0.20). Indirect effect is not significant in the absence of a significant direct influence of the Government Investment to Economic Growth (P22 non-significant).



Notes: * = significant; ns = non-significant

Figure 3 - Path Analysis Results

By the two influence models analysed, its appears that in Bekasi, RR effective in increasing government investment, but its contribution is not sufficient to encourage economic growth, either directly or indirectly through government investment because of government investment role is still very weak.

Conclusion

- Regional Revenue (RR) is a determinant factor of the increasing government investment in Bekasi and has a positive influence on the direction of government investment. The higher RR will affect the higher Government Investment, then RR contribution influence are relatively very strong and significant.
- RR and the Government Investment are not determining growth factor in Bekasi. RR and Investment Government together as well as indiviually do not significantly influence economic growth. Contributions effect

of the two together is weak and insignificant. Individually, although the direction of the influence of both positive, *i.e* those the higher of regional revenue and government investment, economic growth, but the contribution effect is not significant.

- Overall, the high-low economic growth in Bekasi more influenced by external factors other than the Local Revenue and the Government Investment. The findings of this study indicate that RR and local government expenditure (government expenditure), the government investment, has not much role in encouraging economic growth in Bekasi. The role of government investment, potentially geting lower than local revenue.

Then, there are two suggestions be proposed, such as:

- It is recommended to the administrator of Bekasi to maintain their independence in empowering RR as government investment decisions base. The local government also advised to more intensively explore the potential of RR and increase government savings and investment through government consumption efficiency.
- It is recommended for local governments to improve the accuration of the investment objectives and autonomous investment that can drive economic growth in the region through infrastructure development priorities that facilitates regional economic activity. It also includes private investment in regional development and facilitated by developing a conducive investment climate through bureaucratic efficiency.

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*** Gross Domestic Regional Product, in 2013, Jakarta.

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