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The Effect Of Government Expenditure On Islamic Human Development Index

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Abstract

This research aims to determine the effect of government spending and unemployment on IHDI in Indonesia in 2010-2013. The method of analysis used in this research is regression analysis of fixed effect model (FEM) panel data. The result of t-test in this research indicates that government expenditure has a significant positive effect on IHDI and unemployment has a negative effect not significant on IHDI. In conclusion, the two variables have a significant effect on IHDI in Indonesia in 2010-2013.

Keyword: Islamic, Human, Development, Index, Unemployment**.**

El Efecto Del Gasto Público En El Índice De Desarrollo Humano Islámico

Resumen

Esta investigación tiene como objetivo determinar el efecto del gasto público y el desempleo en el IHDI en Indonesia en 2010-2013. El método de análisis utilizado en esta investigación es el análisis de regresión de los datos del panel del modelo de efectos fijos (FEM). El resultado de la prueba t en esta investigación indica que el gasto público tiene un efecto positivo significativo en el IHDI y que el desempleo tiene un efecto negativo no significativo en el IHDI. En conclusión, las dos variables tienen un efecto significativo sobre el IHDI en Indonesia en 2010-2013.

Palabra clave: Islámico, Humano, Desarrollo, Indice, Desempleo.

1. INTRODUCTION

One of the long-term goals of national development is to improve the quality of human resources. The criteria used so far to assess the quality of human resources in a country is to use the Human Development Index (HDI) which was first published by the United Nation Development Program (UNDP) in 1990. The concept of HDI calculation is an indicator often used to measure levels of human development. HDI combines three basic dimensions, namely longevity & healthy life, knowledge, and decent living standards. The HDI concept is not fully compatible and sufficient to measure human

development according to the Islamic perspective, this is because the underlying theory in calculating the HDI concept in developing humans is not based on Islamic law. In order to get measurements and results that better represent human development based on sharia, then Islamic economics experts then develop new calculation concepts, namely the Islamic Human Development Index or commonly abbreviated as IHDI. IHDI is considered more complete and precise in measuring human development compared to HDI calculations in countries with a majority Muslim population, this is because IHDI calculations not only measure human quality materially but also based on its spiritual side.

IHDI will measure the achievement of the level of human welfare by fulfilling five basic human needs in order to achieve prosperity in life in the world and the hereafter (falah). Imam Al-Syatibi explained that there are five dimensions of the maintenance of basic human needs commonly referred to as maqashid sharia, which consist of the maintenance of religion (hifdzu Ad-Dien), maintenance of the soul (hifdzu An-Nafs), maintenance of reason (hifdzu Al- Aql), maintenance of offspring (hifdzu An-Nasl), and maintenance of property (hifdzu Al-Maal). Islam provides a complete teaching of life as a guide to all human activities, both worship, aqeedah, and muamalah which include economic activities. Humans as caliphs (leaders) on earth are obliged to manage and utilize available natural resources to carry out development on the face of the earth. The government as the executor of development certainly requires quality human capital. To produce quality human beings, efforts are needed to

improve the quality of human resources. Baeti (2013) explains that the government carries out expenditures or investments aimed at the development of human resources. Baeti (2013) concluded that the level of education and health of individual residents is the dominant factor that needs to be given top priority in improving the quality of human resources.

The socio-economic conditions of the people that can affect aspects of human development are unemployment. Baeti (2013) explains that unemployment causes income to decrease, so that people's purchasing power decreases. This causes the fulfillment of basic needs in terms of education and health cannot be fulfilled. Based on the explanation described earlier, this study intends to see whether there is a partial and simultaneous influence of variable government spending (especially in the fields of education & health) and unemployment on the Islamic Human Development Index (IHDI) in Indonesia in 2010-2013.

2. LITERATURE REVIEW

2.1 Islamic Human Development Index (IHDI)

Human resources are the most decisive factor in the accelerated movement of the country's social and economic development. Todaro (2000) reveals that human resources are the basic capital of the strength of a nation. Islam has a broader concept of development compared to secular concepts. Mannan (1997) explains that the concept of development in Islam is more multidimensional, that is, it

has several aspects of dimensions consisting of moral, spiritual, social, political and economic dimensions. The well-being desired by every human being is essential welfare and not false welfare. P3EI (2008) explains that the ultimate goal of Islamic economics is to achieve prosperity in the world and the hereafter (falah) through a good and respectful life order. Life welfare in the world and the hereafter can be realized if the fulfillment of human life needs is balanced and has an impact called mashlahah. According to Al-Syatibi the main goal of Islamic law is to achieve human welfare which lies in the protection of the five mashlahah which is commonly referred to as Maqashid Syariah.

The Human Development Index (HDI) concept is used to measure the quality of human resources since 1990 introduced by UNDP, but HDI is considered insufficient and compatible to measure human development according to the Islamic economic perspective. For this reason, the measurement of the quality of human resources in accordance with Islamic law was created, which not only measured humanity in terms of material but also from the spiritual side, which became known as the Islamic Human Development Index (IHDI). IHDI measures the achievement of the level of human well-being in an Islamic perspective based on maqashid sharia so that people live in prosperity in the world and the hereafter so that falah is achieved. The concept of maqashid sharia consists of five basic dimensions of human needs, namely protection of religion (hifdzu Ad-Dien), protection of the soul (hifdzu An-Nafs), protection of reason (hifdzu Al-Aql), protection of offspring (hifdzu An-Nasl), and protection of property

(hifdzu Al-Maal). Based on research from Anto (2009) each dimension of maqashid sharia will be represented by each indicator of its dimensions. The religious dimension index (ad-dien) is represented by indicators of crime rates, mental dimensions (an-nafs) with indicators of life expectancy, sense index (al-aql) with school enrollment indicators and literacy rates, hereditary indices (an-nasl) calculated based on infant birth rates and infant mortality, and wealth index (al-maal) based on the calculation of adjusted income per capita real indicators, gini index, and depth of poverty. The way to calculate IHDI is first, calculate the index from each indicator first with the formula;

Indicator index = (minimum actual-value value) / (minimum maximum-value value)

For indicators that are negative, they need to be normalized first by calculation;

$$nAK - I = 1 - Ak - I$$

The second step is to calculate the dimension index value from the calculation of the previous indicator index value. Finally, that is combining each component of the five Maqashid Islamic indices that have been calculated using the formula:

$$IHDI = \frac{1}{2}(IAD + IANf + IAA + IANs + IAM)$$

2.2 Government Expenditure

According to Stephen (2004) cited by Baeti (2013) government expenditure is the value of spending made by the government that is

used for the purpose and interests of the community. Government expenditure is realized through government policies and programs. Government expenditure has an effect on people's welfare. The existence of government spending on social goods, such as subsidies intended for education and health insurance for the poor, can expand human choices, and the greater the government expenditure, the wider opportunities will be given to improving the quality of life of the community. In order to achieve the goal of improving the quality of human resources, the government carries out various types of investment, including education and health (Blanchard, 2006; Stephen, 2004; Umpawan, 2018).

According to the United Nations quoted by Todaro (2000) education is very fundamental in improving the quality of human life and ensuring social and economic development in a country, this is because there is a huge difference between the wages of educated and uneducated labor. So, one way to improve people's living standards is through improving the quality of education. The education sector is one of the government expenditure sectors with a high amount of budget. From 2010 to 2013 the ratio of government expenditure to education compared to total state expenditure reached more than 20%. Not only improving the quality of education, but improving health quality standards is also needed in improving human development. Health insurance is a form of social protection to ensure the fulfillment of basic living needs that are appropriate for all Indonesian people. It is contained in Article 28H of the 1945 Constitution which states that every person has the right to live in physical and spiritual prosperity,

has the right to get a good, healthy environment and obtain health services. Improving public health is very important because the level of public health helps the development process by increasing the productivity and efficiency of workers (Ranis, 2004; Ghelishli et al., 2014).

2.3 Unemployment

Unemployment is people who do not work or try to get a job. Unemployment referred to in this study is open unemployment, which is the population included in the workforce who are able and are looking for good work for the first time or who have worked before but currently do not get jobs. Unemployment occurs because the number of labor offers is not balanced or higher than the demand for labor. According to Sukirno (2006) so the bad effect of unemployment is to reduce people's income which ultimately reduces the level of prosperity and prosperity that has been achieved. Decreasing people's welfare due to unemployment will certainly increase the opportunities for low human quality standards. Unemployment will reduce individual income so that purchasing power decreases, when purchasing power decreases, the unemployed individual has the possibility of not being able to fulfill their basic needs which are factors of increasing human development (Badan, 2002).

3.   METHODOLOGY

3.1 Research Approach

The approach used in this research is quantitative which is intended to determine the effect of the variable significance of government expenditure and unemployment on IHDI.

Operational definition

1. Government Expenditures (X1)

Government expenditure is a budget issued by the government which aims to fulfill the needs of the people contained in the State Budget (APBN).

2. Unemployment (X2)

Open Unemployment is an individual belonging to the workforce who does not have a job but is currently or still trying to get a job.

3. Islamic Human Development Index (IHDI)

IHDI is a human development index according to Islam which is a composite index of non-material and material indicators consisting of crime rates, literacy rates, school enrollment rates, life expectancy, total birth rates, infant mortality, average expenditure adjusted per capita, gini index, and poverty depth index (Todaro, 2000).

3.2 Types and Data Sources

The type of data used in this study is panel data, which is a combination of time series and cross-section. Secondary data used came from the Central Statistics Agency (BPS) and the Directorate

General of Fiscal Balance (DGT) of the Ministry of Finance (Amin, 2015).

3.3 Procedure for collecting data

The procedure of data collection conducted by researchers is collecting research data sourced from secondary data (BPS and DJPK Ministry of Finance), as well as library studies conducted by collecting and studying various literature, scientific journals, articles, and other sources that can be used to understand problems and get alternative solutions to existing problems (Simanjuntak, 1998).

3.4 Analysis Techniques

The analysis technique used in this study is the analysis of Fixed Effect Model (FEM).

Analysis Model

$Y_{it} = \beta_1 + \beta_2 X_1 it + \beta_3 X_2 it + \varepsilon it$

Information:

Y = Islamic Human Development Index (IHDI)

X1 = government expenditure

X2 = unemployment

β_1 = independent variable regression coefficient

β_2, β_3 = independent variable regression coefficient

ε = error term / disturbing variable

i = Indications of cross section data, 33 provinces in Indonesia

t = Time series data indication, period 2010-2013

4. RESULTS AND DISCUSSION

The selection of panel data regression methods can be done by doing several tests, namely F test, Hausman test, and Lagrange Multiplier test. The first test to find out which method is between Pooled Least Square (PLS) and Fixed Effect Model (FEM) to be used, then the F Test is performed. If the PLS model is selected, then the Hausman test is not necessary if the chosen The FEM method requires a Hausman test to choose between the FEM and REM methods to be used. The Lagrange Multiplier test is used to choose the Pooled Least Square (PLS) or Random Effect Model (REM) method which is better used.

4.1 F Test

Table1. F Test Result

Variabel	Coefisien	P>t	Prob >
Lnx1	.036579	0.001	F
X2	-0.3665027	0.197	0.0000

Based on the F test with Stata 13 the results of the Prob> F obtained from the FEM regression output are smaller than the value of the significance degree (α) of 10%, because the probability value is

smaller than the degree of significance, the better model is the Fixed Effect Model (FEM).

4.2   *Hausman Test*

Table 2. Hausman Test Result

Variabel	Coefisien	Prob>chi2
Lnx1	.036579	= 0.0001
X2	-0.3665027	

Based on the F test with Stata 13 the results of the prob> F are obtained from the FEM regression, the output is smaller than the value of 10%, because the probability is smaller than the degree of significance. Better model is the Fixed Effect Model (FEM).

4.3   *Multikolineritas Test*

Multicollinearity test is used to measure the relationship or influence between dependent variables.

Table 3. Multicolinerity Test Results

Variable	VIF	1/VIF
Lnx1	7.02	0.142382
X2	7.02	0.142382
Mean VIF	7.02	

Berdasarkan tabel diatas menunjukkan bahwa nilai mean VIF sebesar 7.02 kurang dari 10 sehingga pada regresi penelitian ini tidak terdapat masalah multikolineritas.

4.4 *Heteroscedasticity Test*

Heteroscedasticity test aims to test whether in the regression model there is an inequality of variance from one observation to another.

Table 4. Heteroscedasticity Test Results

Breusch-Pagan test for heteroskedastisitas
Prob>chi2 = 0.0000

Based on the Breusch-Pagan test that has been done, the probability results obtained are 0.000 which means that it is smaller than the significance level (α) of 10%, then the estimation results indicate a problem of heteroscedasticity. Because there is a problem with heteroscedasticity, healing is carried out in this study.

4.5   Autocorrelation Test

Autocorrelation test aims to determine whether there is a relationship between independent variables.

Table 5. Autocorrelation Test Results with Woolridge Test

Woolridge Test for autocorrelation in panel data
H0 : no first order autocorrelation
F (1 , 32)   = 0.130
Prob > F   = 0.7205

$IHDIit = 0.0835192 + 0.036579 (X_1it) - 0.3665027 (X_2it) + eit$

The results of the Woolridge Test in table 5 show that the probability value is 0.7205 which means that it is greater than the degree of significance (α) of 10%, so the estimation results do not have the problem of autocorrelation.

4.6   Determination Coefficient Test

In the Fixed Effect Model (FEM) adjusted R2 model of 0.2968 which means that the independent variable can explain the dependent variable is 29.68% and the remainder is explained by other independent variables other than the estimated variables.

4.7   Test T

Proof of the influence of independent variables on the dependent variable is done using Test T. The results of the t test are used to see the role of each variable by comparing the value of partial probabilities (P-value) with a significance level determined (α) 10%. T Test Results in the Fixed Effect Model (FEM) table 1 shows that government expenditure variables have a probability value of 0.001 which means that the probability value is smaller than the significance level (α) of 10%, so that from the regression results government spending variables have a significant effect on Islamic Human Development Index (IHDI). The t-test results for the unemployment variable have a probability value of 0.197 which means the probability value is greater than the significance level (α) of 10%, so that from the regression results the unemployment variable is not significant to the Islamic Human Development Index (IHDI).

4.8   Test F

The F-statistic test aims to find out how much all the independent variables affect the dependent variable by comparing the probability (p-value) F-statistic with a significance level (α) of 10%. The regression results of this study are Prob> F value of 0.0000 which means the probability value is smaller than the significance level (α) of 10%, therefore the independent variables, namely government expenditure in the health and education fields and unemployment together influence Islamic dependent variable Human Development Index (IHDI). Based on the tests that have been done, the best model

obtained is the Fixed Effect Model (FEM) model. The estimation model using the Fixed Effect Model is as follows.

5. DISCUSSION

Variables of government expenditure in education and health have a significant positive influence on the Islamic Human Development Index (IHDI) in Indonesia in 2010-2013. The positive sign on the coefficient shows a unidirectional relationship between government spending in education and health on the Islamic Human Development Index (IHDI) in Indonesia, meaning that when government spending in education and health increases by one unit, it will cause the IHDI value to increase by 0.036579 unit, assuming that the other independent variables do not change. This significant positive result is in accordance with the researcher's hypothesis and the research conducted by Baeti (2013) which states that the variable government expenditure in the education and health sector has a significant positive effect on human development. The existence of this positive relationship shows that any increase in the level of government spending in the education and health sector will improve the quality of human development and is followed by the increase of the Islamic Human Development Index (IHDI). Government expenditure is one of the important factors that determine the development of the level of human development in Indonesia. Christy in Baeti (2013) states that the government must increasingly maximize

the basic services of the community, therefore, the allocation of government expenditures in education and health plays an important role in improving the service of basic needs of the community. In line with the improvement of education and health services, it is expected to improve the quality of human development in Indonesia.

The results of the T test for the unemployment variable are having a non-significant negative influence on the Islamic Human Development Index (IHDI) in Indonesia in 2010-2013. This is evidenced by the value of Pvalue of 0.197 which is greater than the level of significance (α) 0.1 and the regression coefficient of -0.3665027 so that unemployment has a non-significant negative influence on the Islamic Human Development Index (IHDI) in Indonesia in 2010-2013. Negative results indicate that rising unemployment will lead to a decline in the level of human development so that the Islamic Human Development Index (IHDI) falls. The researchers' hypothesis is that there is a significant negative effect on the Islamic Human Development Index (IHDI), the results of this study indicate that the effect of unemployment on IHDI is negatively insignificant, so it can be concluded that the hypothesis proposed by researchers is not accepted and the unemployment variable cannot explain the influence unemployment to the Islamic Human Development Index (IHDI) in Indonesia in 2010-2013, this is because unemployment causes individuals to lack income so that material fulfillment of needs becomes less fulfilled optimally, while IHDI does not only count fulfillment of human needs materially but also spiritually'.

6. CONCLUSION

This study uses STATA 13 software by using the Fixed Effect Model (FEM) data regression model. Based on the results of research and discussion in chapter four, the conclusions are as follows:

1. Variables of government expenditure (education and health) partially have a significant positive effect, while unemployment partially has a negative effect not significantly on the Islamic Human Development Index (IHDI) in Indonesia in 2010-2013.

2. Variables of government expenditure (education and health) and unemployment simultaneously (together) proved to have a significant effect on the Islamic Human Development Index (IHDI) in Indonesia in 2010-2013.

7. SUGGESTION

1. The government is expected to be able to increase and optimize government expenditure budgets, especially in the fields of education and health in order to improve the quality of welfare of human resources both materially and non-materially, such as providing school scholarships and education or health subsidies.

2. In order to reduce unemployment in the community, the government is expected to increase employment opportunities, so that many workers will be absorbed and can increase people's income.

3. Further research is expected to be able to describe and explain the influence of other variables, in addition to the variables in this estimate, against the Islamic Human Development Index (IHDI).

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