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ECONOMIC GROWTH BASED ON THE KEYNES THEORY

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ABSTRACT

This study aims to understand economic growth in the view of Keynes's theory. The grand theory used in this research is Keynes' theory. The method used is literature review. The results showed that Keynes explained that the government must intervene in controlling the national economy with active policies that affect the movement of the economy. Keynesian views are constantly being updated and developed by his supporters, both from the Neo-Keynesian and Post-Keynesian groups. The successors of Keynes' teachings contributed a lot in developing theories related to efforts to maintain economic stability. These theories explain and anticipate economic fluctuations (business cycle) and theories related to growth and income. It is necessary to note, the magnitude of Keynes's influence gave birth to a school called Keynesian, which is an integrated set of economic theories and policies originating from Keynes.

Keywords:

I. INTRODUCTION

Economic growth is the development of economic activity from time to time which causes national income to grow. With the existence of economic growth that occurs continuously, it is possible that the welfare of the community will increase, Sukirno (2012). Gross Regional Domestic Product (GDP) is an indicator in assessing an economic development from year to year, both on the basis of current prices and on the basis of constant prices. The success of economic growth will not

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be seen without tangible results in the form of something built by the government in the economic field, and vice versa without economic growth, the development of a country will not go well.

The success of economic growth is expected to coincide with increasing public satisfaction with public services provided by local governments through the use of the General Allocation Fund (DAU). DAU is an allocation of APBN funds that aims to strengthen regional fiscal conditions and reduce inequality between regions (horizontal imbalance) in order to finance their expenditure needs. In fact, each region has various fiscal potentials, resulting in diverse economic growth. The allocation of APBN funds to local governments is expected to be used effectively and efficiently by local governments to improve their services to the community.

To improve its services to the community, local governments carry out development in the service sector to the public in the form of improving basic services, education, providing health service facilities, social facilities and proper public facilities. The development in the service sector to the public is expected to stimulate the community to be more active and passionate about work. The development is allocated in capital expenditures, according to Government Regulation Number 71 of 2010 capital expenditures are government expenditures whose benefits exceed one budget year and will increase regional wealth or assets.

The whole research process will produce a conclusion as an answer to the problem under study. These conclusions will later be used as material for evaluating decision making. The series will produce a thesis concept. This concept provides a new finding that can be used and contributes to new theories or the development of science in research.

II. LITERATURE REVIEW

*Grand theory*used in this research is Keynesian Theory (1936). Government spending, according to Keynes, will make people work, public spending will increase the demand for goods, which in turn creates high profits that will encourage owners of money to invest easily. Unemployment will disappear, and the economy will improve. Keynes became a very influential economist in the West from the 1930s to the 1970s. In General Theory, Keynes (1936) demands government policies that will greatly increase the availability of capital, that it will only bring minimal profit, and will even create "the euthanasia of rentier". National income is a function of total employment in a country. The greater the national income,

John Maynard Keynes was the intellectual Godfather of postwar welfare capitalism in the depression, Keynes offered a series of critiques of government policies on laissez-faire, culminating in The General Theory of Employment, Interest, and Money (1936). Aiming at the conception of the economy as an entity of early regulation, which is Smith's legacy, Keynes interprets depression as a product of the erroneous assumption that the market will generate sufficient employment on its own.

Keynes followers suggest, to fight depression and economic recession, should be done by increasing government spending or reducing taxes which can increase private consumption spending. Followers of Keynes also suggested that monetary authorities increase the supply of money to lower interest rates in the hope that the policy will be able to support investment. To deal with inflation caused by excessive overall demand, the government should reduce spending, increase taxes to reduce private sector consumption spending, or reduce the supply of money to increase interest rates, which will reduce excessive investment spending (Sastradipoera, 2007: 247).

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This theory states that macroeconomic trends can influence individual microeconomic behavior. In contrast to the classical economist theory which states that the economic process is based on the development of potential output, Keynes emphasized the importance of aggregate demand as the main driving factor for the economy, especially in a sluggish economy. He argues that government policies can be used to increase demand at the macro level, to reduce unemployment and deflation. If the government increases its spending, the money circulating in the community will increase so that people will be encouraged to shop and increase their demand (so that aggregate demand will increase). In addition, savings will also increase so that it can be used as investment capital.

III. METHOD

This research is a review of several literatures with a Keynesian approach to the concept of Economic Growth. How Keynesian economic growth for the cycle of money flows, which refers to the idea that an increase in spending (consumption) in an economy will increase income which in turn will encourage more spending and income. The way to measure the occurrence of economic growth in a country is by calculating the Gross Domestic Product (GDP). At the regional level, it is known as Gross Regional Domestic Product (GRDP) which is the amount of goods or services produced by an economy within a year and is expressed in market prices (Supartoyo and Tatuh, 2013). According to Imamul Arifin (2007) Gross Regional Domestic Product (GRDP) is the value of final goods and services produced by the community in an area (region), both at the provincial and district/city levels. There are two methods that can be used to calculate Gross Regional Domestic Product (GRDP), namely direct method and indirect method.

IV. RESULTS AND DISCUSSION

Economic growth is the development of economic activity that occurs from time to time and causes real national income to grow. Economic growth is also oriented towards increasing real income, usually carried out by developing countries with the aim of solving various problems that occur in developing countries such as unemployment and poverty.

With the existence of economic growth that occurs continuously, it is possible that the welfare of the community will increase (Sukirno, 2012). Economic growth describes the economic development of a country or region, showing the size of the economy in each year. Economic growth in an area is created seen from the very influential role of the government, this is because the role of the private sector has not been sufficiently influential in terms of economic growth. The role of the government in terms of economic growth can be seen from the Gross National Product (GNP).

Gross Regional Domestic Product (GRDP) is the amount of added value generated by all business units in a certain area. GRDP is an indicator in assessing an economic development from year to year, both on the basis of current prices and on the basis of constant prices.

GRDP at current prices is seen from the added value of goods and services which is

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calculated using prices in the current period, and GRDP at constant prices is used to determine the ability of resources to encourage real economic growth from year to year or economic growth that is not affected. by the price factor. In GDP there are 9 sectors, namely the agricultural sector, the mining and quarrying sector, the manufacturing industry sector, the electricity, gas and clean water sector, the building sector, the trade sector, hotels and restaurants, the transportation and communication sector, the financial sector, rental and corporate services, and the services sector.

In development planning, all existing sectors have short-term, medium-term and long-term plans. All of them have the aim of allocating funds according to a particular sector, determining costs and measuring success and implementation. To calculate the value of all production produced by an economy in a given year, several methods can be used, including:

1. Production Approach. The production approach is a calculation of the added value of goods and services produced by an economic activity or sector by subtracting intermediate costs from the total gross production value of the sector or subsector. So, estimating the added value of sectors or activities whose production is in the form of physical or goods, such as agriculture, mining, and other industries can be calculated through a production approach. The added value is the difference between the production value and the cost value between the raw or auxiliary materials from outside that are used in the production process.
2. Revenue Approach. The income approach is the added value of each economic activity which is estimated by adding up all the remuneration received by the factors of production, namely wages and salaries and business surplus, depreciation, and net indirect taxes. In the government and business sectors which are not looking for profit, the business surplus is not taken into account.
3. Expenditure Approach. The expenditure approach is to add up the final use value of domestically produced goods and services. In terms of use, the total supply or production of goods and services is used for:
   a. Government consumption
   b. Consumption of non-profit private institutions
   c. Household consumption
   d. Fixed capital formation (investment)
   e. Stock change
   f. Net exports

Economic growth is defined as a quantitative measure that describes the development of an economy in a certain year when compared to the previous year (Sukirno, 2006: 9). Sukirno (2014) mentions economic growth as a measure that describes the development of an economy in a certain year when compared to the previous year.

Economic growth is defined as an increase in GDP or GNP regardless of whether the increase is greater or less than the population growth rate, and whether there is a change in the economic structure or an improvement in the institutional system or not (Arsyad, 2015: 12). Economic growth is a significant increase in national income (with an increase in per capita income) in a certain calculation period (Putong, 2013: 411).

GDP is often considered the best measure of economic performance. The purpose of GDP is to summarize economic activity in terms of a certain amount of money over a certain period of time. There are two approaches to looking at the size of GDP, the first is to look at GDP as the total income of everyone in the economy. Another way of looking at GDP is as the total expenditure on the economy's output of goods and services, (Safari, 2016).

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From the various views mentioned above, it can be concluded that economic growth is a process that describes an increase in the output per capita of a region in the long term.

A. Influencing FactorsGrowthEconomy

Good economic growth is influenced by various factors. In general, the main sources for economic growth are investments that are able to improve the quality of capital or human and physical resources, which in turn are successful in increasing the quantity of productive resources and which can increase the productivity of all resources through new discoveries, innovations and developments. technological advances (Choi andMeek, 2010). Investment activities enable a community to continuously improve economic activities and job opportunities, increase national income and increase the level of community prosperity. This role stems from three important functions of investment activities, namely:

1. Investment is one component of aggregate expenditure, so that an increase in investment will increase aggregate demand, national income and employment opportunities;
2. The increase in capital goods as a result of investment will increase production capacity;
3. Investment is always followed by technological developments (Sukirno, 2000).

Another factor that can affect economic growth is government spending. Government spending is a government action to regulate the course of the economy by determining the amount of government revenues and expenditures each year which is reflected in the APBN or APBD documents. In making decisions, the government has many considerations to regulate spending. The government not only achieves the ultimate goal of each spending policy, but also has to take into account the targets between those who will enjoy or be affected by the policy (Sukirno, 2000).

According to Ariefiantoro and Saddewisasi (2011), the factor that affects economic growth is population growth because an increasing population will increase the number of workers and this addition will allow an area to increase production. Based on research conducted by Supartoyo, Tatuh, and Sendouw (2013), the factor that affects economic growth is the growth of the labor force. The growth of the labor force is a factor of production that drives the regional economy. Exports can also affect economic growth, because if exports increase, the production of goods and services will also increase because increased exports indicate that the demand for goods and services abroad is greater than the demand for foreign goods at home.

B. Economic Growth Theory

1. Classical Economic Growth Theory

According to classical economists, there are four factors that influence economic growth, namely: population, total stock of capital goods, land area and natural wealth, and the level of technology used. According to Adam Smith's view, the development of property rights, specialization and division of labor are interwoven factors in the historical process of economic growth (Arsyad: 2016). Smith, divides the history of human civilization into four stages, namely the stage of hunting, the stage of raising livestock, the stage of agriculture, and the stage of trade. Smith also added that along with the pace of economic growth, society will move from the

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traditional stage of society to the stage of modern society. Meanwhile, according to Lincolin Arsyad (2016), the process of economic growth can be divided into two main aspects,

2. Harrod-Domar Teori theory

This theory is a theory that shows the demand side. This theory says that the existing economic growth will only take effect when aggregate expenditure, through increased investment increases continuously at a predetermined growth rate. Harrod-Domar explained that there are several conditions so that economic growth can be achieved, namely:

a. Capital goods have reached full capacity
b. Savings are proportional to national income
c. The capital-production ratio is fixed
d. The economy consists of two sectors

In their analysis, they show that although in a certain year capital goods have reached full capacity, aggregate spending will cause the capacity of capital goods to be higher in the following period. Or in other words, the existing investment in that year will increase the capacity of capital goods in the following year.

3. Keynes' Growth Theory

In Keynesian economic growth, the cycle of money flows, which refers to the idea that an increase in spending (consumption) in an economy will increase income which in turn will encourage more spending and income. According to (Mankiw, 2006) in Keynes' Theory, consumption made by one person in the economy will become income for other people in the same economy. So when a person spends his money, he helps increase the income of others.

Keynes's growth theory developed a macroeconomic model, namely:

$$\mathbf{Y = C + I + G + X - M}$$

Where :
Y = Economic growth
C = Consumption
I = Investment
G=Government spending
X = Export
M = Import

The model explains that an increase in consumption, investment, government spending, net exports will cause an increase in the production of goods and services. An increase in the production of goods and services will lead to an increase in Gross Domestic Product (GDP), on

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the other hand, if a decrease in the production of goods and services will cause a decrease in GDP. The impact of a declining GDP will also lead to a decline in economic growth.

C. How to Measure Economic Growth

The way to measure the occurrence of economic growth in a country is by calculating the Gross Domestic Product (GDP). At the regional level, it is known as Gross Regional Domestic Product (GRDP) which is the amount of goods or services produced by an economy within a year and is expressed in market prices (Supartoyo and Tatuh, 2013).

According to Imamul Arifin (2007) Gross Regional Domestic Product (GRDP) is the value of final goods and services produced by the community in an area (region), both at the provincial and district/city levels. There are two methods that can be used to calculate Gross Regional Domestic Product (GRDP), namely:

a. The direct method, can be used three kinds of approaches as follows:

1) Production Approach. GRDP is the amount of Gross Added Value (NTB) or the final value of goods and services produced by production units in an area within a certain period, usually one year. Meanwhile, Gross Value Added (NTB) is the Gross Production Value (NPB/output) of these goods and services minus all intermediate costs used in the production process.
2) Revenue Approach. Gross Regional Domestic Product (GDP) is the total amount of remuneration received by the factors of production that participate in the production process in an area within a certain period, usually one year. Based on this understanding, the Gross Added Value (NTB) is the sum of wages and salaries, land rent, capital interest and profits; all before deducting income tax and other direct taxes. In this sense also includes components of depreciation and indirect taxes.
3) Expenditure Approach. GRDP is the sum of all expenditures made for household consumption and private non-profit institutions, government consumption, gross domestic fixed capital formation, changes in stock and net exports, within a region/region within a certain period, usually one year. Calculation of Gross Value Added (NTB) is based on the final use of goods and services produced.

   Economic Growth Formula (Using GRDP), (Purwanto Fiona, 2013)

   PE = (GRDPt–GDPt-1)/(GRDPt-1)x100%

   Information:
   PE = Economic Growth
   DRBt = Gross Regional Domestic Product for the current year
   GRDP-1 = Gross Regional Domestic Product of the previous year

b. Allocation Method (Indirect Method)

1) Calculation Based on Applicable Prices. Gross Regional Domestic Product (GRDP) at current prices is the total value of Gross Added Value (NTB) or the value of final goods and services produced by production units in a certain period, usually one year, which is valued at the price in the year concerned. . NTB on the basis of current prices obtained from the reduction of Gross Production Value (NPB/output) with each cost being assessed on the basis of current

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prices. NTB describes changes in the volume/quantum of production produced and the level of price changes of each activity, sub-sector and sector.

2) Calculation on the basis of constant prices. The calculation on the basis of constant prices has the same meaning as the calculation on the basis of current prices, but the valuation is carried out at the price of a certain base year. Gross Value Added (NTB) at constant prices describes changes in production volume/quantum only. The effect of price changes has been eliminated by valuing the price of a certain base year. Calculations based on constant prices are useful for seeing overall or sectoral economic growth and for seeing changes in the economic structure of a region from year to year.

Keynes offered an economic rationale for the government to actively fight unemployment by increasing the level of government spending. At a level when investment and private consumption are very weak, the government will stimulate economic activity. Government spending, according to Keynes, will make people work, public spending will increase the demand for goods, which in turn creates high profits that will encourage owners of money to invest easily. Unemployment will disappear, and the economy will improve.

Keynes became a very influential economist in the West from the 1930s to the 1970s. In General Theory, Keynes (1936) demands government policies that will greatly increase the availability of capital, that it will only bring minimal profit, and will even create "the euthanasia of rentier". Keynes maintained that the role of government was broadened "only as a practical tool to prevent the destruction of the economic forms present in their entirety and as a prerequisite for the successful functioning of individual initiatives." General Theory is an attack—not as much as what Smith wrote about his reduction of laissez faire dogma.

National income is a function of total employment in a country. The greater the national income, the greater the volume of work produced, and vice versa. The volume of work depends on the effective demand. Effective demand determines the level of balance of work and income. Effective demand consists of consumption demand and investment demand. Now investment can be increased by increasing the marginal efficiency of capital or decreasing interest rates. Although an increase in investment usually leads to an increase in employment, this may not happen if at the same time the tendency to consume falls and vice versa. An increase in investment causes an increase in income, and as income increases, there is a greater demand for consumer goods, which in turn leads to subsequent increases in income and employment. This process tends to be cumulative. As a result, a certain increase in investment leads to a multiplier increase in income through the tendency of consumption. This relationship between the increase in investment and income by Keynes is called the Keynes multiplier.

In Keynes's theory (1936), consumption made by one person in the economy will become income for other people in the same economy. So when a person spends his money, he helps increase the income of others. This cycle continues and allows the economy to run normally. However, if the situation in society reacts by holding back spending and tends to hoard money, this based on Keynes's theory will result in the cessation of the money circulation cycle and subsequently paralyze the economy.

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V. CONCLUSIONS AND SUGGESTIONS

In essence, the concept of Keynes' theory can be viewed as a theory of income and employment. The main core in Keynes's system of thought and concept consists of three important factors, namely:

1) The desire to consume (propensity to consume). Total aggregate income is equal to aggregate total consumption plus aggregate total investment. The level of consumption depends on a person's desire to consume, which is a function of income. Likewise with savings, because savings are the remaining part of income that is not used for consumption.
2) The interest rate which is related to the liquidity preference. The interest rate according to Keynes is not a reflection of the supply of savings and the demand for investment, but the interest rate is an independent variable from these two things. The saving rate is a monetary phenomenon that depends on people's desire to hold their savings in the form of liquidity funds. So the interest rate depends on the liquidity preference.
3) Marginal efficiency of capital investment (marginal efficiency of capital). The level of investment is determined by the marginal efficiency of capital investment, which is influenced by investors' expectations of future profits from the capital investment concerned. It is clear that these expectations are positive and profitable for investors.

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