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Financial Sector and Social Sector Models as Activator of Economic Growth in Indonesia

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Abstract: This study focuses on financial problems and social problems related to economic growth in developing countries. Research variables include the creative industry, education level, foreign direct investment, population growth, wages and economic growth. Economic growth is an economic problem in the long run, because changes in economic growth determine the progress or development of the economy in a country. Economic growth is the process of changing the economic condition of a country that continuously leads to a better condition in a certain period. The analysis method used is multiple regression with available time series data. The results of the study, simultaneously, from the financial variables and social variables mentioned above, affect economic growth. However, there are 2 (two) insignificant partial by variables, namely the creative industry and foreign direct investment. Thus the level of education, population growth and wages are significant to economic growth, these three factors require special attention from policy makers, especially the issue of education level, population growth and wages, so that economic growth continues to increase as expected.

Keywords: Creative Industries, Education Level, Foreign direct investment, Population Growth, Wages and Economic Growth

1. Introduction

Economic growth is one of the indicators to measure the success of a country's development. The development of a country aims to improve welfare and realize social justice for all levels of society. For this reason, development requires the right approach, in order to produce economic growth accompanied by equality. In the implementation of economic development, high economic growth is the main goal for developing countries. This is intended to improve people's welfare, the higher the level of economic growth, the higher the ability of a country to meet the needs and welfare of the people. (Ratnasih, 2018)

Today, the world can be distributed into such categories as developed, developing and underdeveloped countries. The division is based on the level of economic growth achieved by each country. Factors of production are very important for increasing the rate of economic growth. These are labor, natural resources and capital goods,(Mankiw, 2003) In most developed countries, goods are produced at minimum cost and the most efficient means of production. The development of social overhead capital means a systematic and planned activity for human capital to learn the skills necessary to meet the demands of current and future jobs. In addition, in 1965 and 1997 the Indonesian economy grew at an average percentage per year of almost seven percent. This achievement allows the Indonesian economy to grow from the ranking of low-income countries into the category of lower middle income countries. However, the Asian Financial Crisis that erupted in the late 1990s resulted in a very negative impact on the Indonesian economy, causing a contraction in gross domestic product (GDP) of 13.6 percent in 1998 and very limited growth (+0.3 percent) in 1999. The crisis shook Indonesia's economic and political foundations, and became the beginning of a new era full of challenges and opportunities.

After the Asian Financial Crisis in the period 2000-2004, Indonesia's economic recovery occurred with an average GDP growth of 4.6 percent per year. After that, the GDP growth had accelerated. The impressive period of recovery and acceleration of economic growth between 2000 and 2011 was mainly due to the interrelated issues of the financial and social sectors.

Increasing household consumption there is a strong correlation between changes in commodity prices and changes in the trend of household consumption in Indonesia, when commodity prices are high, household consumption rises. However, when commodity prices are structurally low, consumption is stagnated. Under (Mankiw, 2003) this condition, household consumption is able to contribute around 55-58 percent to Indonesia's total economic growth, so fluctuations in commodity prices have a direct and significant impact on Indonesia's GDP.

Figure 1. **Indonesia's GDP Growth Rate 1961-2019**

Source: www.macrotrends/net/countries/IDN/Indonesia/gdp-growth-rate

What is interesting about the chart above is that Indonesia's GDP growth showed high volatility between 1960 and 1990, but the volatility seemed to disappear after 1990 when the growth of PDB became much more consistent with the exception: The Asian financial crisis in the period 1997-1999. What is actually seen here is the emergence of the middle class as a very large consumer power and which makes Indonesia's GDP growth much more consistent after 1990. Therefore, the Indonesian economy is less dependent on volatile changes in commodity prices in the international market. However, even though volatility decreases from year to year, commodity prices still affect the long-term trend of Indonesia's GDP, so we can see an increasing trend between 2000-2011 but slowdown, moderate acceleration, and stagnation in the 2011-2020 period.

Although Indonesia has experienced strong macroeconomic growth since the 2000s and Indonesia has recovered from monetary crisis, this informal sector - both in cities and in villages - still plays a major role in the Indonesian economy. Although it is rather difficult to determine the exact number, it is estimated that around 55 to 65 percent of jobs in Indonesia are informal jobs. Currently about 80 percent of those informal jobs are concentrated in rural areas, mainly in the construction and agricultural sectors. Being employed in the informal sector implies certain risks because informal sector workers usually have lower and unstable incomes. Meanwhile, the flow of money in the informal sector is not taxed and informal activities cannot be included in the calculation of gross national product or gross domestic product.

This strong macroeconomic growth for more than a decade has gradually been able to reduce the unemployment rate in Indonesia. However, with approximately two million Indonesians entering the workforce each year, it is a huge challenge for the Indonesian government to stimulate the creation of new job land so that the job market can absorb the increasing number of job seekers every year, (Ratnasih, 2017) unemployed mostly those who have just graduated from college is one of the main concerns and needs rapid action. With a total population of about 260 million people, Indonesia is the fourth most populous country in the after China, India and the United States. Furthermore, the country also has a young population because about half of Indonesia's total population is under the age of 30. If the two factors are combined, the indication is that Indonesia is a country that has a large labor force, which will develop to be even greater in the future, thus emphasizing the importance of job creation in southeast Asia's largest economy. (Rosyadi & Ratnasih, 2021)

The increase in national income will increase aggregate demand, there by encouraging an even greater increase in output. The increase in output will encourage an increase in labor demand so that employment increases. Increasing the absorption of labor will reduce unemployment and increase people's household income so that economic growth increases. Mobility can be a stepping stone for workers to be able to get out of poverty can have a positive impact on encouraging or negatively hindering the mobility of workers between sectors. Where Human Resources is one thing that cannot be separated from the level of the business world and work and especially now that there is a lot of competition in the business world. The role of motivation, environment and work experience which will later become one important role of work encouragement for the employee himself.(Zulher & Ratnasih, 2021)

2. Theory

The economic movement of a region is basically determined by 2 (two) factors namely capital) and labor. These two factors are the main drivers of an economy that convert inputs into outputs, namely in the form of goods and services. Empirical studies show that Gross Fixed Capital Formation (Ratnasih, 2017) Gross Fixed Capital Formation (investment) and inventories are important factors in driving economic development and growth. Therefore, as an effort to find out the contribution of Gross Fixed Capital Formation (investment) and changes in inventory to economic growth, it is necessary to find a relationship between the amount of Gross Fixed Capital Formation (investment) and inventory with the development or economic growth of a region. However, to find out information about investment and the provisions carried out by a region from year to year.

Gross Fixed Capital Formation and inventory changes are formed as a result of investment activities, where part of the investment is spent on purchasing capital goods and inventory to be used in production activities or production processes. Therefore, investment is an important part of an economy because investment has a direct relationship with economic activities in the present and future. By making investments, it means that production capacity will also increase which in turn will increase output and will ultimately increase people's income. The availability of data on capital and inventory can be statistically seen from two measurement approaches, namely as flow and stock. The current indicates a change in addition or subtraction whereas the more stock indicates to the position of the state at a time. Flow and stock are two principles of recording transactions that support each other in recording changes to available assets

Indonesia's GDP can provide an overview of economic conditions in Indonesia. Although he often hears it in various economic dialogues in various media, perhaps not all of them understand that what is meant by Gross Domestic Product is the value of all goods and services produced by a country in a certain period, and is one of the methods for calculating national income and economic growth of a canyon. In the international world, the higher the GDP rate, the better the economic condition of a country. On the other hand, if the unemployment rate is low and wages are rising, a country's economic condition is generally considered healthy, because the business sector needs more workers to keep up with economic growth. However, if GDP growth is too fast, the central bank will raise interest rates to offset the pace of inflation which means rising prices of goods and services, interest on vehicle loans and housing. Finally, the business sector will feel the impact in the form of an increase in the cost of capital loans and workers' wages.

On the contrary, if GDP slows down, it will trigger fears of a recession that could result in an increase in the number of layoffs and a decrease in business income, as well as public spending. In the world of foreign exchange investment (Foreign Exchange), the GDP data of developed countries such as the United States, the United Kingdom and the European Union region has always been the focus of investor attention, because the increase in the GDP figures of those countries indicates a strengthening the value of their currency, thus becoming a foreign exchange that investors consider potential to open long positions. In addition, foreign investors monitor a country's GDP growth to assess whether its economic growth is rapidly increasing or not, as a basis for consideration for the decision to place their investment assets. Foreign investors always choose to buy companies or invest in a country whose economy is developing. If a country has the arrival of many foreign investors who want to invest in it, it means that the country's economic prospects in the future are considered good. Conversely, slowing growth and deteriorating economies usually result in declining profits for entrepreneurs, which can negatively impact the value of their company's stocks. (Ratnasih, 2017)

A good country with its economic strength will be seen and depended on the number of its population of inhabitants, (Garza-Rodriguez *et al*., 2016). The main objective of economic development in the developing country is to improve the welfare of the people. The success of achieving such welfare can be measured by how a country can solve the various problems that are being faced. One of the problems faced by almost all regions in Indonesia is the high unemployment rate, (Franita, 2016). Employment is also inseparable from the role of the government as well as a drafter of policies that support the creation of a good investment climate, income receipt standards for labor welfare, and strategies carried out in order to achieve a high level of economic growth. The government's policy of setting a regional minimum wage is also often a reason for employers to prefer capital-intensive industries. The Creative Economy Agency is an institution formed by the president to facilitate and become a forum for managing creativity that can be managed into ideas that can be developed. Its existence encourages community creativity in order to continue to produce ideas that can become the work of the community.

The existence of this institution can realize economic growth in Indonesia for the better by creating fresher ideas. Thus, the creative economy agency becomes one forum to channel the country's economic growth based on the ideas it has. People's creativity must always be regulated and supported by the government, so that the economic growth of this industry does not occur internal disputes or conflicts between one business actor and another business actor. Copyright protection is also one of the supports of government policies. Thus, reactivity is an important economic commodity and can be traded. For this reason, there is a need for regulation and support for economic actors so that creativity continues to grow in the midst of society. Considering that this economic commodity has an intangible form. Therefore, a copyright and intellectual rights protection law was established to regulate this.

3. Method

Research method is basically a scientific way to obtain data with a specific purpose and usefulness. Based on this, there are four keywords that need to be considered, namely scientific method, data, purpose and use. The scientific way means that the research activity is based on rational, empirical, and systematic scientific features. Based on these (Gujarati, 2014) scientific characteristics, it can be bestated that the research method is a scientific which is used to obtain data in accordance with scientific research studies with certain objectives and uses. Therefore, in this study, multiple regressions were used with several independent variables that looked at their effect on dependent variables, the data used by time series data. Multiple regression using time series data is typically used for forecasting. The validity of this forecasting will largely depend on the stationary of the time series data used.

Feasibility tests of the model were carried out to measure the accuracy of multiple regression functions, in assessing the actual feasibility value statistically. The goodness of fit model can be measured from the statistical value of F which shows whether all the independent variables entered in the model have a joint influence on the dependent variables. Some financial time series data, sometimes following the phenomenon of random walks. This means that the best prediction for a time series variable for the next time is the value of that variable today plus the error term / random shock. The causality granger test must be stationary, therefore before performing this causality test the time series data used must be stationary. That in the stationary of time series data is very important. For this reason, the Cobb-Douglas Model is very practical if used as an empirical model, by transforming Q, K, and L data, namely inputting these data into natural log form. The model is formulated as a linear function with the Cobb-Douglas function approach as follows:

$$\mathbf{Y = \alpha\ x1^{b}2x2^{c}}$$

The research model used is as follows:

$$\mathbf{Y = \alpha + \beta 1x1 + \beta 2x2 + \beta 3x3 + \beta 4x4 + \beta 5x5 + \varepsilon}$$

Model transformation by using natural logs (ln)

$$\mathbf{\ln Y = \alpha + \beta 1\ln x1 + \beta 2\ln x2 + \beta 3\ln x3 + \beta 4\ln x4 + \beta 5\ln x5 + \varepsilon}$$

Information:

Y = Economic growth

lnX1= Creative industries

lnX2=Level of education

lnX3= Foreign direct investment

lnX4= Population Growth

lnX5= Wages

4. Result and Discussion

Descriptive statistics are statistics that provide an overview or description of a data seen from the average value, standard deviation, maximum, minimum, sum, range, curtosis and skewness (distribution density). Descriptive statistics describe the data into a clearer and easier-to-understand information and it is known that the variable X_1 Creative Industry gets a minimum value of 11190391 a maximum value of 28173571 and an average value of 19799875. Variable X2 Education Level obtained a minimum value of 78904.00 maximum value 981203.0 and an average value of 452408.0. Variable X_3 FDI obtained a minimum value of -1,313,000 maximum value of 7.820000 and an average value of 4.509310. X_4 Population Growth obtained a minimum value of 1.310000 maximum value of 1.980000 and an average value of 1.450690. X_5 Wages are obtained minimum value 2672371 maximum value 18200.00 and average value (mean) 947416.0

After testing classical assumptions, multiple regression analysis was carried out. In this study, multiple linear regression analysis was used to determine the simultaneous influence between variables. The results of the regression equation model in this study are as follows:

$$Y = \alpha + \beta_1 \ln X_1 + \beta_2 \ln X_2 + \beta_3 \ln X_3 + \beta_4 \ln X_4 + \beta_5 \ln X_5 + \varepsilon$$

$$Y = 18.02680 - 0.001817 + 0.107863 - 0.004771 - 0.914198 + 0.032668 + e$$

$$(-0.027039)\ (5.270771)\ (-0.806550)\ (-9.627588)\ (3.120203)$$

From the table above, an F-statistic value of 411.7094 is obtained, a prob value of 0.000 is obtained, so there is a simultaneous influence. From the table above, an adjusted r square value of 0.988951 is obtained. Can be concluded that the independent effect on dependents is 9 8.0 %. The remaining 2.0% is affected by other variables. The discussion of the results of the analysis test can be seen as follows:

The creative industry is a differentiator from the many similar products found in the business world. The reason is, the products it produces are the result of creativity giving birth to uniqueness, as well as product innovation, which can be a pioneer The growth of innovation and creativity that is widely created from this industry, making this industry deserve special attention by the government. The government must always provide capital assistance so that this industry continues to grow. Aware of the great potential to support economic growth, as is the case in developed countries, which have grown the industry for better economic activity. The research of the creative industry variable is not significant which signals that the growing creative industry still needs further review.

The stages of education are established based on the level of development of the learners, the goals to be achieved and the willpower developed. The level of education affects the change in attitudes and healthy living behaviors,(Ichwanto *et al*., 2021) . A higher level of education will make it easier for a person or society to absorb information and implement it in daily behaviors and lifestyles, especially in terms of health. Formal education forms a value for a person especially in adopting new things Level is a rank, position, layer or class of an arrangement. Where the level of education is very important in this position which indicates that there is a difference in the high and low of a position. (Bloom *et al*., 2014) . In this study, the level of education is significant to economic growth, which can signal that education is an important variable in a country of all levels.

FDI discussion is a type of investment that comes from abroad or foreign, and is usually carried out by investors from a country outside Indonesia who have an interest in developing a business in this country through the provision of capital The capital given or invested can come from individuals or companies abroad. A joint venture is a company owned by two or more countries together. FDI is also a tool or media (Belloumi, 2014)in the global economic system as a form of cooperation or investment from foreign parties, therefore FDI is foreign investment that brings quite a lot of benefits both to the state or party who is an investor and the country given to be the recipient of investment, but from the results of research here it is not significant which can be caused by various factors.

Population changes can be arbitrary, and can be counted as changes in the number of individuals. The term population growth refers to all species, but it always refers to humans, and is often used informally for demographic designations of population growth value, and is used to refer to the growth of the world's population. Many theories put forward their opinions and thoughts about population growth. This is because population growth is important in the state order. Each country certainly has different needs and capacities for this population growth. Briefly, economic growth can be interpreted as the process of increasing per capita output in the long term. In that sense, there are three aspects that need to be underlined, namely process, per capita output, and long-term. Economic growth is related to per capita output, meaning that it must pay attention to two things, namely total output (GDP) and total population, because per capita output is the total output divided by the number of inhabitants.

The long-term aspect, implies that (Ogunleye *et al*., 2018; Peter & Bakari, 2018; the increase in per capita output must be seen over a long enough period of time (10, 20 or 50 years, it can even be longer). The number of inhabitants, which is increasing every year, will have a positive or negative impact, depending on their role as a population. The high population cannot be said to be a driver of economic growth, it could be the other way around. Because, the high population does not match the expertise they have with the demand for their labor from the employer or business. (Lupu *et al*., 2022; Screwdriver, 2015) As per the results of the study that population growth is significant to economic growth, therefore population development needs to be a serious concern.

It is explained that Wages are the payment of work for the short term. Wages are paid to workers who are engaged in the production process either directly or indirectly. The determination of the level of wages is most important for the organization because wages are often the only cost of the largest enterprise. The cost of wages is included in the calculation of the cost of production of goods (cost of goods sold). It is also important for the employee because wages are used to fulfill his life by determining status in society. Wages are given as a form of fair and decent repayment of services given to the workers for their services in achieving the goals of the organization (Schober & Winter-Ebmer, 2011), (Faithful *et al*., 2020) (Screwdriver, 2015). Wages are paid to workers based on working hours, the amount of goods produced or the amount of services provided by humans as labor (in terms of demand). In Economics any human activity to produce goods or services that can meet a need of society is called work. The human being who carries out the work is labor, whether as an employee or entrepreneur, employee, farmer, merchant and others, and obtaining appropriate wages, therefore significant wages to economic growth, are an important macro variable and require attention from entrepreneurs and rulers.

5. Conclussion

a) Simultaneously, the five variables consisting of the Creative Industry, Education Level, Foreign direct investment, Population Growth, Wages have been obtained research results affecting economic growth. However, there are 2 (two) insignificant partial variables, namely the creative industry and foreign direct investment.

b) Variable X_2 is the level of education is significant to economic growth, the level of education as a social factor that needs to be considered for its existence, so that it can have a significant effect on economic growth. If the level of education has increased and is good, it is expected that economic growth will soon rise in line with the level of insight into higher education.

c) Population growth as X_4, contributes to the influence on economic growth, given the growth of the population as a human resource and as a consumer who will be able to contribute to population growth, then population growth is very important to pay attention to.

d) The level of wages as X_5, is a factor that can determine economic growth, therefore it needs special attention from the authorities in contributing to the determination of wages in Indonesia. In particular, the determination of the wage, which is commonly referred to as the regional minimum wage, needs attention to improve people's welfare.

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