

# Public Finance on Economic Growth in Terms of Financial Literacy and Human Capital

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## Abstract

The purpose of this study is to find out more about the role of public finances on economic growth in terms of financial literacy and human resources shown by the development of education and health infrastructure. We use data for the period 1995 to 2020 with annual data from the OJK and the world bank with adjusted calculations. Where monthly data from OJK related to financial literacy and budget infrastructure is one year and annual data from the world bank covering education development, GDP, and health infrastructure are used as the data we get. We use the ARDL model to understand the causal relationship of each variable. We find that the Indonesian government's infrastructure (IB) budget has a substantial beneficial relationship with GDP in both the short and long term. Development Education in the short term has a substantial beneficial effect on economic development but has a large beneficial impact on GDP in the long run. The same is true for health infrastructure, which has an insignificant positive effect on GDP temporarily but has a sizeable long-term beneficial impact. Financial literacy has a measurable beneficial impact both in the short and long term. Budget and financial literacy are closely related to public finances which have an impact on various sectors of people's lives and ultimately have an impact on economic growth and national economic development in Indonesia.

**Keywords:** ITC, Infrastructure Development, Public-Private Partnership, Indonesia

**JEL Classification Code :** C10,G10,G18,G23

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## Introduction

Public finances are managed to improve people's welfare and managed wisely to increase the fulfillment of public needs for public goods. Public financial management also has implications for the environment, society, and the financial sector that operates in people's lives (Tița, Oțetea, & Banu, 2014). The use of public budgets in building infrastructure will certainly have an impact on environmental sustainability, increase energy consumption from an increase in the number of vehicles and increase economic activity (Hidayanti & Prabowo, 2021). In addition to the environment, human capital factors are also affected as a derivative impact of environmental impacts, especially the impact on environmental pollution which has an impact on public health. Health is one of the main pillars of human capital (Puspaningtyas & Harnani, 2021).

The impact of public finances certainly results in the use of public budgets which directly or indirectly have an impact on the community, starting from the health, education and social sectors. Public finances have an indirect impact on the development of human capital (Sulisnaningrum, 2021). Human capital development has an impact on increasing economic activity supported by the financial sector. The financial sector responds to economic improvement and then the financial sector can grow and develop (Widarni & Bawono, 2021).

Infrastructure development as a manifestation of the absorption of the public budget which is part of public finance has a direct or indirect impact on the financial sector. With the improvement of infrastructure in the technology sector related to finance, it will be followed by the development of financial services that apply to the community (Musaiyaroh & Bawono, 2018). The improvement in the financial system has an impact on financial access and financial literacy in the community which encourages production from access to capital and encourages consumption from access to consumption credit. Of course, the increase in production must also be balanced by an increase in consumption so that the economic cycle runs and the economy continues to develop (Bawono, 2021).

Economic developments have an impact on the absorption of labor where the quality of labor is influenced by the development of human capital so that human capital needs to be developed. In the development of human capital, it is necessary to develop infrastructure which is financed by the public budget which is part of the public finance section (Damayanti & Rusminingsih, 2021).

## Research Method

We use data for the period 1995 to 2020 with annual data from the OJK and the world bank with adjusted calculations. Where monthly data from OJK related to financial literacy and budget infrastructure is totaled to one year and annual data from the world bank covering education development, GDP, and health infrastructure are used as the data we get. We use the ARDL model to understand the causal relationship of each variable with the following econometric model:

$$GDP_t = \beta_0 + \beta_1 IB_t + \beta_2 ED_t + \beta_3 HI_t + \beta_4 FL_t + e_t$$

GDP is economic development indicated by gross domestic product. IB is the Indonesian government infrastructure budget. ED is education development in Indonesia. HI is health infrastructure in Indonesia. FL is financial literacy.

## Result and Discussion

The following are the results of the ARDL test to understand the causal relationship of each variable :

Regressor	Dependent Variable GDP			
	Coef.	SE	t-Ratio	Prob
Long Run Estimation				
IB	0.1461	0.0681	2.2231	0.0004
ED	0.1852	0.0724	0.2134	0.0006
HI	0.1312	0.0781	0.1217	0.0007
FL	0.1451	0.0727	1.5571	0.0007
Short Run Estimation				
IB	0.1234	0.0427	0.1328	0.0003
ED	0.1852	0.0813	0.1123	0.0005
HI	0.1425	0.0914	0.1273	0.0608
FL	0.1427	0.0872	1.7324	0.0001

Based on the estimated outcomes, It is clear that the Indonesian infrastructure budget (IB) has a significant positive relationship with GDP both in the short and long run. Education Development in the short term has a beneficial impact on economic development but has a substantial beneficial impact on GDP both short-term and long-term. The same applies to health infrastructure, which has a positive impact on GDP in the near future but has a strong long-term favourable impact. Financial literacy has a substantial beneficial impact both in the long term and in the near run. Budget and financial literacy are closely related to public finances which have an impact on various sectors of people's lives and ultimately have an impact on economic growth and national economic development in Indonesia.

## Conclusion

The Indonesian government's infrastructure (IB) budget has a substantial beneficial relationship with GDP in both the short and long term. Development Education in the short term has a substantial beneficial effect on economic development but has a large beneficial impact on GDP in the long run. The same is true for health infrastructure, which has an insignificant positive effect on GDP temporarily but has a sizeable long-term beneficial impact. Financial literacy has a measurable beneficial impact both in the short and long term. Budget and financial literacy are closely related to public finances which have an impact on various sectors of people's lives and ultimately have an impact on economic growth and national economic development in Indonesia.

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