

Economic Growth In The Stability Of The Nation With Taxes And The Important Role Of Foreign Direct Investment

Budi Sasongko¹

¹STIE Jaya Negara Tamansiswa Malang, Indonesia

Abstract

This study investigates economic growth, taxes and foreign direct investment. This study investigates data from the 2000 to 2020 starting point to generate “autoregressive vectors” that can be used to determine relationships between variables. This model is used to analyze foreign direct investment, economic growth and taxes in Indonesia using secondary data from the World Bank. We find that The role of taxes in improving economic stability in Indonesia is very important and has a fairly high interrelationship, It is also stated that Economic Growth has an important relationship with Taxes, when Economic Growth increases, Taxes will also increase, not only Taxes, Foreign Direct Investment also increases when Economic Growth grows, therefore Indonesia needs to pay attention to economic growth because economic growth itself has many important roles, including increasing FDI or Foreign Direct Investment and Taxes which are useful for economic stability.

Keywords: Economic Growth, Taxes, Foreign direct investment

JEL Classification: H30 , L60 , P10.

Received: November 6,2021 Accepted: Desember 1,2021
DOI : 10.54204/TMJ/Vol412022005

Background

Public debt can also have an impact on economic growth. Researchers all across the world are debating this. Many empirical research on the link between government debt and wealth creation have an emphasis on the transitory and transitory repercussions of economic expansion. Regardless of how the connection essentials are oriented. Furthermore, the potential influence of government borrowing on economic development has been established. It is predicated on the assumption that when the government borrows and distributes funds to boost the economy, such as through public investment, the economy develops more quickly (Armstrong, 2018).

The situation is analogous to the Keynesian hypothesis of government borrowing. When private investment is inadequate to ensure success, full employment, government borrowing, and expenditure all contribute to an increase in government spending, which compensates for the lack of private growth investment (Brown-Collier and Collier, 1995). Furthermore, an increase in the budget deficit (particularly while the economy is in decline) boosts aggregate demand via the wealth effect, resulting in higher output and economic development (Hansen, 1959).

According to another point of view, public debt has no effect on economic development. This viewpoint is supported by the Ricardian idea of government borrowing. Several ideas were developed on the basis of the assumption since government borrowing looks to be a tax deferral because the government would levy more taxes there at this time, which might repay the loan. As a consequence, individuals do not increase their spending as a result of government borrowing; rather, it raises money that may be utilized to pay existing taxes. Furthermore, since macroeconomic indicators such as consumption are not affected by increases in government

debt, economic growth is also unaffected (Barro, 1974, 1989). The effect of foreign payments on economic growth is equally beneficial as in the short run, but turns out to be negative in the long run due to the density of capital development. According to this idea, the short-term beneficial impact is sensitive to a reduction in taxes, thereby exacerbating the deficit. This, in turn, increases disposable income, stimulating consumer spending with economic expansion. In addition, in the near term, rigid pricing and wages make increases in aggregate demand less relevant. This allows the effects of extortion to show a poor relationship between government borrowing and economic development (Ferreira, 2014).

Tax increases are another conduit of the long-term adverse impact of government borrowing on economic growth (Ferreira, 2014; Esteve & Tamarit, 2018). The country's capacity to increase economic growth depends on the financial resources available to support its spending, and the country depends on the creation of internal funding sources in the digital economy sector. In the digital economy sector itself or commonly referred to as the digital economy, it has been able to survive and record positive growth in several sectors. One of the things that can improve the digital economy or digital economy is the increasing number of internet users. This also has an impact on the occurrence of digital acceleration of new internet users who continue to use digital services (Musaiyarah & Bawono, 2018).

Taxes have many goals, especially to achieve tax equity in the distribution of income and wealth among citizens, economic goals in financing the state budget and contributing to the process of economic development, and politics represented in state sovereignty through the rule of law, so we will discuss its role in economic balance and in redistributing income. The capacity of the state to spend publicly and promote economic growth depends on the financial resources available to support its spending, and the state depends on the creation of internal funding sources on the one hand, and the utilization of external funding sources on the other. It emphasizes the function and importance of taxes in growing the internal funding and financial resources necessary for growth. An internal source of funding, the essential tax, is created through the mobilization of national resources needed for development in order to generate additional income from taxes (Wilantari, 2021).

The tax system's objective is to promote economic growth by diverting resources into investment channels that promote development, improve production capacity, redistribute income and wealth, and preserve economic stability. Tax policy objectives are aligned with general economic policy objectives, so changes to the established economic policy line have a clear impact on fiscal and tax policy actions. As a result, the taxation system often adapts to changes in the economy, and the state has adequate power to examine the present tax structure and what constitutes taxable parts and rates, particularly if the public budget is in deficit when accomplishing tax objectives. budgetary policy of the nation (Opriyanti & Wilantari, 2017). Achieving a balance between country specificity and the nature of tax formation is the result of tax policies that interact with the stage of development and provide the necessary conditions for growth and the necessary elements, particularly the element of capital, which are required for the process of economic development and help reduce the savings-investment gap by mobilizing financial resources to finance productive investments. The relevance of the tax system in eliminating distortions and instability that interfere with economic operations demonstrates the system's success in achieving economic balance. (Sasongko, Bawono, Prabowo, 2021).

Because tax policy is vital in establishing economic balance and stability, as well as limiting the amount of government expenditure, taxes are used to keep the country in balance and protect economic activity from instability and economic crises. Taxation has become one of the most

essential instruments in the country's arsenal for attaining various economic and social goals due to the aims of public finance and its diverse techniques. The contribution of taxes to national redistribution is one of them. Expenses, on the other hand, work to alter the primary distribution of income. The function of taxes in redistribution is largely concerned with their influence on cash and real income (Alim, Setiyantono, Zakiah, 2021). In improving the economy, there is also Foreign Investment or foreign direct investment which tends to be carried out in countries that do not have restrictions and have the potential for economic growth. FDI is needed to close the gap between investment and saving in developing countries. When compared to other forms of capital, FDI is a long-term capital flow that is not easy to make the economy volatile (Musibau, Yusuf, & Gold, 2019).

Foreign investment is a capital flow that originates in another country and transfers to the private sector, either directly or indirectly. Some commentators believe that foreign direct investment is more profitable than portfolio investment (Mensah & Mensah, 2021). This is due to the significant effect of direct foreign investment, including the transfer of knowledge, cash, and technology. In contrast to portfolio or indirect foreign investment, which is known as bad cholesterol since it is fickle, subject to economic turbulence, and has little effect on real-world progress (Magazzino & Mele, 2022). Foreign Direct Investment contributes to the country's steady national growth. According to (Anetor, 2020), foreign investment has greater advantages in promoting a country's economic growth because it does not result in foreign debt or payback commitments. Foreign direct investment has the potential to improve economic growth and development.

Research methods

In a 21-year data analysis spanning 2000 to 2020, "autoregressive vectors" were used to express variable-to-variable causal relationships. World Data for this study. We examine Taxes , Economic Growth and Foreign Direct Investment in Indonesia . To study the causal relationship, a multivariate regression model is used between the variables Economic Growth , Taxes and Foreign Direct Investment in Indonesia :

$$\begin{aligned}
 EH_t &= \beta_0 + \beta_1 XS_t + \beta_2 FCT_t + e_t && \text{eai 1} \\
 XS_t &= \beta_0 + \beta_1 EH_t + \beta_2 FCT_t + e_t && \text{eai 2} \\
 FCT_t &= \beta_0 + \beta_1 EH_t + \beta_2 XS_t + e_t && \text{eai 3}
 \end{aligned}$$

Information :

EH: Economic Growth

ET : Taxes

DN : Foreign Direct Investment

e : erroneous title

t : time sequence

β : degree in terms of causation influence

eai: formula

This research employs vector computations, in which every regression connection is combined so that every variable simultaneously becomes both the independent and the dependent variables. The concept of zero from Dickey-Fuller, derived by PP analyze, with $p=1$ and $\Delta y_t = (\rho - 1)y_{t-1} + u_t$ are formula, while Δ – This is the very first try, various operations were utilize. For the "unit root test," the following equation was employed in this study:

$$\Delta Y_t = \alpha_0 + \beta_0 T + \beta_1 Y_{t-1} + \sum_{i=1}^q \alpha_i \Delta Y_{t-i} + e_t$$

Caption:

Y the check of unit root variables.

T "linear pattern" variable represented, and "different in lag" are Y_{t-1} , 0 are displayed as "single equation," also with "t" being a "time trends" indication. The null hypothesis (H_0) and the following are some alternate unit root test hypotheses:

$H_0 : \alpha=0$

$H_1 : \alpha \neq 0$

Results and Discussion

This test can be used to assess whether the data is stationary or not. Error term analysis is used to determine whether the series is stationary, which includes the possibility of autocorrelation if the series is not. After trying on the following unit test root: findings obtained:

Table 1. ADF Unit Root Test On EH, XS, And FCT Data In Indonesia

Variable	Unit Root	Include in the examination Equation	Statistics for the ADF Test	5% Critical Value	Description
Economic Growth (EH)	Level	Intercept	-0.527808	0.8660	
	First Diff	Intercept	-1.929268	0.3129	
	Second Diff	Intercept	-3.319458	0.0293	Stationer
Taxes (XS)	Level	Intercept	-3.540671	0.0175	Stationer
Foreign Direct Investment (FCT)	Level	Intercept	-3.417829	0.0226	Stationer

EH data are stationary on the second difference, while the XS and the FCT variable is stationary on the original Level. This is demonstrated by Augmented Dickey-Fuller with results like, running the test -3.540671 and probability 0.0175 , since the probability is less than 5% , in this situation, the difference of the two IN data indicates that it is stationary.

Both VAR and causationry must be tested for sensitivity before starting a VAR investigation, there must be a selection of an acceptable optimal time lag. These are the following results:

Table 2. Optimum Lag Test At Lag 0 To 4 EH, XS, And FCT Data In Indonesia

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-75.25024	NA*	1.999080*	9.205910	9.352948*	9.220526
1	-69.97571	8.066930	3.182045	9.644201	10.23235	9.702664
2	-65.76841	4.949756	6.361318	10.20805	11.23731	10.31036
3	-58.74276	5.785829	11.55436	10.44033	11.91070	10.58648
4	-34.05859	11.61608	4.655133	8.595128*	10.50662	8.785134*

The results of the study can be seen in Table 2. And the results of the variations in the length of the EH, XS, and FCT lags are in LR, FPE, and SC at position number 1. The results of the three components conclude that lag 4 is different, so lag 4 will be chosen.

Table 3. VAR . Model Analysis

	XS	FCT	EH
XS	-0.225895 (0.27648) [-0.81703]	-0.224630 (0.26762) [-0.83936]	-0.395327 (0.56641) [-0.69796]
FCT	-0.222639 (0.21328) [-1.04389]	0.451502 (0.20644) [2.18707]	-0.362967 (0.43693) [-0.83073]
EH	1.446278 (0.59359) [2.43649]	0.417726 (0.57456) [0.72703]	1.579516 (1.21604) [1.29890]
C	-6.243669 (2.71793) [-2.29722]	-1.047670 (2.63081) [-0.39823]	-2.541593 (5.56802) [-0.45646]
R-squared	0.394179	0.551475	0.110594
Adj. R-squared	0.280588	0.467376	-0.056170
Sum sq. resids	12.70585	11.90440	53.32490
S.E. equation	0.891132	0.862569	1.825597
F-statistic	3.470147	6.557482	0.663176
Log likelihood	-23.84207	-23.19053	-38.18548
Akaike AIC	2.784207	2.719053	4.218548
Schwarz SC	2.983354	2.918199	4.417695
Mean dependent	0.856005	1.498619	4.911251
S.D. dependent	1.050638	1.181907	1.776389

The relationship between XS and FCT, very negative, has a coefficient of -0.224630 with a t-statistic of -0.83936. The relationship between EH and XS is very positive, having a coefficient of 1.446278 with 2.43649, meaning that the more EH the more XS. The relationship between FCT and FCT itself is very positive, with a coefficient of 0.451502 and a t-statistic of 2.18707. This shows that Economic Growth has an important relationship with Taxes, when Economic Growth increases then Taxes will also increase, not only Taxes, Foreign Direct Investment also increases when Economic Growth grows.

Table 4. Granger Causality Test

Null Hypothesis:	Obs	F-Statistic	Prob.
FCT does not Granger Cause XS	20	1.36498	0.2588
XS does not Granger Cause FCT		0.19645	0.6632
EH does not Granger Cause XS	20	6.57345	0.0201

XS does not Granger Cause EH		0.05929	0.8105
EH does not Granger Cause FCT	20	0.01532	0.9030
FCT does not Granger Cause EH		0.26930	0.6105

The results of the Granger causality test in Indonesia are shown in Table 4. The causal relationship between a single variable and a variable is between the FCT variable for XS, EH for XS, and EH for FCT. This can be seen from the probability that is lower than five percent.

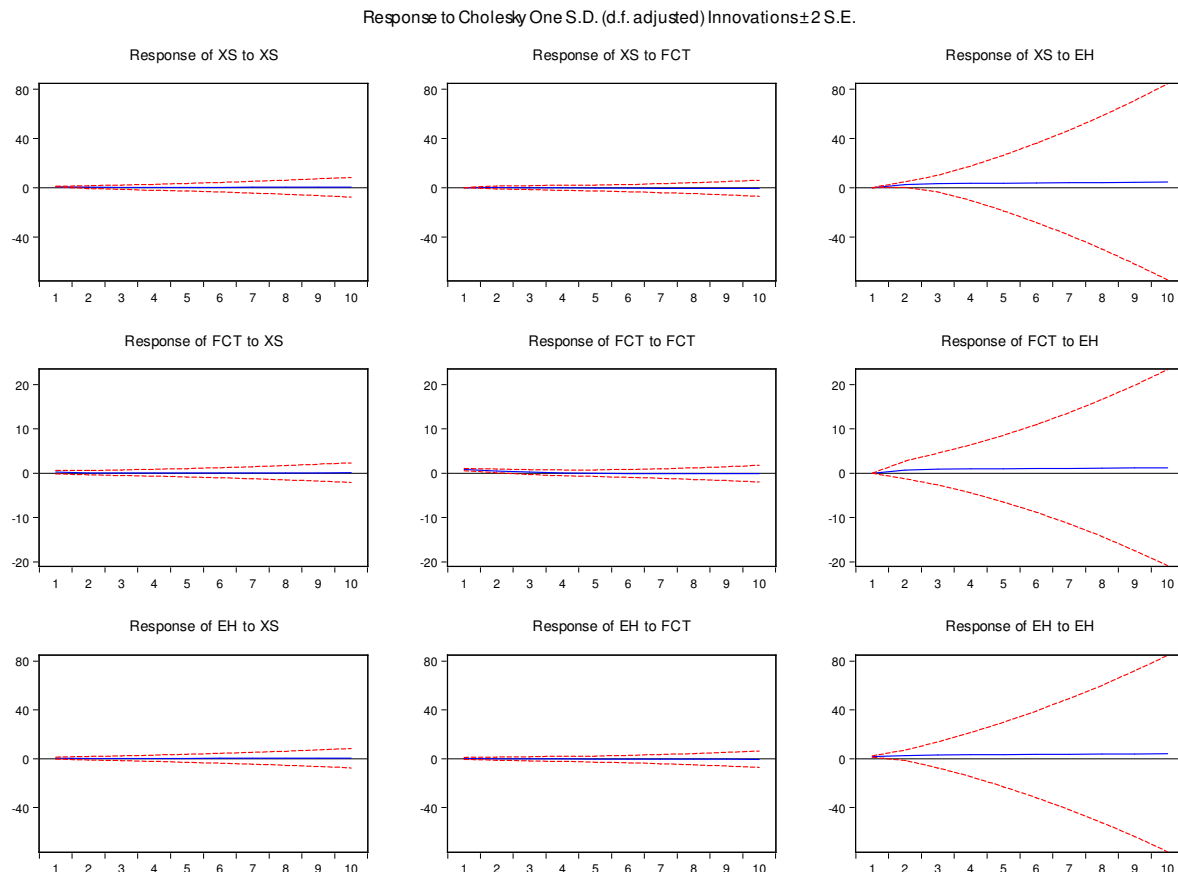


Figure 1. Impulse Response Function USA

The response movement of the XS and XS variables itself is quite normal with the waves contained in the 4th period and the waves increase again in the 6th to 7th periods, then there is another shock wave in the 9th to 10th periods, then the response to the XS variable with FCT is waves in periods 3 to 6, then a shock wave reappears in periods 6 to 8, after that there is also a short wave that we can see in periods 8 to 9, and finally on the relationship between XS and FCT variables, we can see if it increases from period 9 to 10, this means that the response of Taxes to Foreign Direct Investment has a fairly normal response with only a few waves of increase and decrease, the response of the XS variable to EH has a high enough shock wave or a response a fairly high increase, this can be seen in the 2nd period it continues to increase until it hits the peak in the 10th period, this shows that Taxes have a fairly high impact and impact on Economic Growth, with an increase in Taxes in Indonesia, there will be an increase in Economic Growth, Then the response between the FCT variable and the FCT Variable itself can be seen that there is

a small wave in periods 1 to 3, then followed by an increase in periods 4 to 7, then 8 and 9 and finally there is a small wave in periods 9 to 10, the FCT variable response to EH also has a fairly strong wave, namely we can see that in the first period there was a shock wave that continued to increase until the 2nd period then this wave continued to increase again until the 5th period in this period there was a slight decrease in the wave before increasing again and touching the peak until the 10th period, we can see that in the increase in Foreign Direct Inv In the estment, there is Economic Growth that also grows and they have a fairly high response to each other, in the EH and EH variables themselves there is a fairly high increase and is getting stronger in each period, we can see that in the first period there was a spike up to the second period. 4, then there is a slight decline and then rises again to touch the peak in the 10th period, it can be concluded that economic growth is important in increasing economic growth itself, they have a very strong relationship.

Conclusion

The role of taxes in improving economic stability in Indonesia is very important and has a fairly high interrelationship, It is also stated that Economic Growth has an important relationship with Taxes, when Economic Growth increases, Taxes will also increase, not only Taxes, Foreign Direct Investment also increases when Economic Growth grows, therefore Indonesia needs to pay attention to economic growth because economic growth itself has many important roles, including increasing FDI or Foreign Direct Investment and Taxes which are useful for economic stability.

Reference

- Alim, MB, Setiyantono, AP, & Zakiah, SN (2021). Analysis of the Relationship between Tax Revenue and Government Expenditure in Indonesia. In *Journal of International Conference Proceedings (JICP)*, 4(3), 62-68.
- Anetor, F. (2020). Human capital threshold, foreign direct investment and economic growth: evidence from sub-Saharan Africa. *International Journal of Development Issues*, 19 (3), 323-337.
- Armstrong, P. (2018). Keynes' views on deficits and functional finance: perspectives of modern monetary theory. *International Review of Applied Economics*, Routledge, 2171(1), 1-13, doi:10.1080/02692171.2018.1475139.
- Barro, RJ (1974). What are net worth government bonds?. *Journal of Political Economy*, 82(6), 1095-1117, doi:10.1086/260266.
- Brown-Collier, EK, Collier, BE (1995). What Keynes really said about deficit spending. *Journal of Post Keynesian Economics*. 17(3), 341-355.
- Ferreira, C. (2009). Public debt and economic growth: a Granger causality panel data approach. LSEG, Working Paper.
- Ferreira, C. (2014). Debt and economic growth in the European Union: what causes what? ", LSEG Working Paper No WP08/2014, LSEG.
- Hansen, AH (1959). Public debt reconsidered: review article. *Economic and Statistical Review*, 41(4), 370-378.
- Magazzino, C., & Mele, M. (2022). Can changes in FDI accelerate GDP growth? Time series evidence and ANN in Malta. *Journal of Economic Asymmetry*, 25 (1), 1-9. <https://doi.org/10.1016/j.jeca.2022.e00243>.

- Mensah, I., & Mensah, E. (2021). Impact of inward FDI on output growth volatility: Country sector analysis. *Research in Globalization*, 3 (1) , 1-9. <https://doi.org/10.1016/j.resglo.2021.100063>.
- Musaiyaroh, A., Bawono, S. (2018). Impact of Infrastructure on Strategic Sector Expenditure for Poverty: The Case in Asean 4. *UNEJ e-Proceeding*, 222-228.
- Musibau, H., Yusuf, A., & Gold, K. (2019). Specifications of endogenous foreign capital inflows, human capital development and economic growth A pool average group study. *International Journal of Social Economics*, 46(3) , 454-472.
- Opriyanti, R., Wilantari, RN (2017). Analysis of the Effectiveness of Monetary Policy and Fiscal Policy in Overcoming Inflation in Indonesia. *Media Trends*, 12(2), 184-198.
- Sasongko, B., Bawono, S., Prabowo, BH (2021). China's Economic Performance in the Trade War: Case Studies of Three Global Economic Crisis 1997–2020. In *Environmental, Social, and Governance Perspectives on Economic Development in Asia*. Limited Emerald Publishing.
- Wilantari, RN (2021). *Indonesian Taxation*. Singapore: Triple Nine Communication Press.