ABSTRACT

The relationship between government spending and economic growth is a never-ending issue to be discussed and debated within the scope of a country's economy. This relationship can be studied through two views. Wagner's Law views that government spending is the impact of economic development, while the Keynesian Hypothesis argues that government spending is a tool of fiscal policy to boost the economy. This study uses the ARDL test to examine long-term relationships, as well as the Error Correction Model to analyze short-term relationships.

The results showed that (i) the direct expenditure variable (BL) had a positive effect on the economic growth variable (PE) in the short term and had a negative effect in the long term in the Special Region of Yogyakarta. (ii) The indirect expenditure variable (BTL) has a negative and significant effect on the economic growth variable (PE) in the short term and has a positive effect in the long term in the Special Region of Yogyakarta. (iii) The variable gross fixed capital formation (PMTB) has a positive effect on the variable economic growth (PE) in the Special Region of Yogyakarta in the short term and in the long term. (iv) the labor variable (TK) has a positive and significant effect on the economic growth variable (PE) in the short term and has a long negative effect in the Special Region of Yogyakarta. (v) Based on data analysis, it shows that there is a one-way causal relationship between direct spending (BL) and indirect spending (BTL) on economic growth (PE), so this study supports Keynes' theory.

Keywords: Government expenditure, Economic Growth, ARDL, ECM