



Government Spending in Indonesia 2005-2013 from Islamic Economic Perspective

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ABSTRACT

This research is aimed to analyze government spending in Indonesia based on its types and functions according to Islamic economic perspective. Data used in this research are government spending classified based on type and function which were secondary one collected from financial note of government and national budget and spending or Anggaran Pendapatan dan Belanja Negara in Bahasa of Republic of Indonesia, 2005-2013. Theoretical framework used in this research includes modern approach to government spending from Islamic perspective which rely only to realistic issue for current practices. The results suggest that government spending in Indonesia generally has been in line with spending proposed by Islamic economic perspectives. Government spending in Indonesia has been aimed to meet the functions suggested by Islamic teachings originally mentioned in Holy Koran or Hadith as well as derived from the two sources by contemporary ijthad or based on what people in Indonesia ask to the government according to political and democratic mechanism adopted. However, government spending in Indonesia needs always improvement and control to ensure its capacity in achieving national purposes especially in terms of social welfare and education.

Keywords: Government Spending, Islamic Economics, Fiscal Policy, Local Autonomy

JEL Classifications: H5, H7, P4

1. INTRODUCTION

Studies on Islamic fiscal policy as part of Islamic economics are viewed by many scholars very limited (Muqorobin, 2008) and in need of more attention especially in how government spending is conducted in an interest-free economy (Ahmed, 1989). Deficit as common policy by government is another issue Islamic economics should deal with (Pryor, 1985). This study was aimed to analyze government spending in Islamic economic perspectives as early work to implement Islamic value and teaching in macroeconomic policy. Indonesia was chosen as a case study for it is a country with largest Muslim population which imply the very hope that Islamic values and teaching can be embodied in society.

This study will benefit not only for Indonesia but other countries since issues in government spending were also faced by many economies. Greek economy is among the most discussed in

recently debate about the failure of government in dealing debt, trade deficit, public services, taxes, live standards and others. Considering these issues emerged in the aftermath of 2008 global financial crisis, Greek problem has no longer been investors' trust but also an international interest for its consequence in capital outflow (Manolopoulos, 2011. p. xi; Krugman and Wells, 2013. p. 718-9). Greek economy has been part European zone problem since stability pact for its member is not easy to be fulfilled. And Greece was not alone since other countries such as Portugal, Ireland, Italy, and Spain, also deal with deficit and debt which make some investors in doubt for these economies (Mankiw, 2013. p. 356, 357; Krugman and Wells, 2013. p. 825, 826).

U.S.' fiscal cliff (U.S. News, 2012) which in January 2013 turn the economy into government shutdown also reflects the important of fiscal management in Islamic perspective to take an action as problem solver for this issue. Considering Islamic practices

in banking industry have proven its stability and resilience in time of crises (Sudarsono, 2009; Faiz, 2010), such practices in governmental economic activities are worth trying. Islamic contribution in this case can be in form of balancing spending and revenue as well as prioritizing spending for wider benefit of society. For this reason this paper analyze the way Indonesian government spend its budget as reflected in national account from 2005 to 2013. The analysis is carried to analyze the relevance of government spending to Islamic values in economy.

The structure of this paper is as follow. This section deals with introduction to problem of study and then followed by discussion about theoretical framework used in the study. The next section explains methods employed in the study and followed by result and discussion of the findings. The last section concluded the study and its recommendation and reflects some further direction in the topic.

2. THEORETICAL FRAMEWORK

Many previous works in Islamic fiscal policy rely mostly on how spending is governed in regard to a country's source of income. These works still include sources of income from warfare revenue such as Kharaj (Muhammad, 2002. p. 198-9; Abdulla, 1995. p. 18-9) Fai' and Ghanimah (Abdulla, 1995. p. 21; Siddiqi, 1982. p. 94; Khan, 2003. p. 110) which in case of modern Indonesia is no longer realistic (Rahmawati, 2008). For this reason this paper will focus its theoretical framework on Siddiqi's (1996) book, *Role of the State in the Economy: An Islamic Perspective*.

Government spending according to Siddiqi (1996. p. 46) can be classified into three functions, i.e.: Functions obliged by sharia, functions derived from *ijtihad* based on contemporary condition, and functions obliged by society based on *Syura* or consultation in different times. These three functions have tight relation with government spending in Islamic perspective. The first function is obliged by Holy Quran and Sunnah as well as approved by Muslim scholars. The absence if this function means society will no able to practice Islamic teachings. This function then generate some types of government spending in terms of (a) Defence; (b) law and order; (c) justice; (d) basic need fulfillment; (e) Dakwah; (f) *Amr Ma'ruf Nahy Munkar*; (g) civil administration; and (h) fulfillment of social obligation that private sector failed to provide (Siddiqi, 1996. p. 47).

The second function is derived from Islamic teachings in Holy Quran and Sunna through logical tools such as *Qiyas* and with consideration to society's benefits. The function is very important but many Muslim scholars haven't discovered its importance or necessity yet at their time. Some spending can be embodied to fulfill this government function such as (a) Environmental protection; (b) providing necessary public goods uncovered by first function; (c) scientific research; (d) capital accumulation and economic growth; (e) subsidy for prioritized private activities; and (f) stabilization policy (Siddiqi, 1996. p. 53).

The third function emerges as consequences of people will as expressed in modern democratic system or other type of consultation. As society grow, their need may expand and then they

ask their government to provide them with such tools to fulfill the need. However, what a society need in a country could be relatively different with other one for many reasons. This implies different type of spending based on what society view as best option for their existence (Siddiqi, 1996. p. 56, 57). The implementation of this function in the form of government spending will be based on economic benefit and its cost as well as reliable study and discussion government can deal with (Siddiqi, 1996. p. 57).

3. RESEARCH METHOD

This paper was based on qualitative research in which researchers try to explore and understand individual data to analyze social problem in the data. Researchers then conduct inductive analysis from specific to more general data and furthermore conclude the research to describe the meaning of collected data (Creswell, 2009. p. 4). Based on its method, the research can be categorized as descriptive in which researchers collect data to answer questions regarding recent state of the subject (Kuncoro, 2003. p. 8). Researchers collect government spending data and then analyze it based on Islamic economic theoretical framework to determine whether current practice has been in line with Islamic teaching or not.

The study utilizes normative-empirical integration approach in which researchers analyze main sources of Islamic teaching and empirical sources simultaneously (Minhaji, 2009. p. 45-6, 59). Research object of this study is national budget and spending or *Anggaran Pendapatan dan Belanja Negara* (abbreviated APBN in Bahasa) of Republic of Indonesia, 2005-2013. The data analyzed was government spending from type of usages based on functions. The data during these years are chosen for its neutrality from severe economic crisis hit Indonesia. The more stable data is expected to give better understanding on government spending in research time line.

4. RESULTS

4.1. Government Spending by Type in Indonesia

Government spending in Indonesia can be categorized in eight types, i.e.: (1) Personnel expenditure; (2) goods and services expenditure; (3) capital expenditure; (4) interest payment for both domestic and foreign debts; (5) subsidy for energy and other; (6) grant expenditure; (7) social aid for natural disaster reliefs and supports via ministry and institutions; and (8) other expenditures. Figure 1 depicts government spending based on type in Indonesia from 2005 to 2013.

Largest part of government spending in the last 9 years goes to subsidy. The amount of subsidy increases sharply from Rp120.76 trillion in 2005 up to Rp317.22 trillion in 2013. During the time of research, on average 28.97% of government spending was allocated for subsidy. Second largest part in government spending is personnel expenditure which in average for 9 years counted for 18.67% of total spending. Other largest spending are debt interest payment, capital expenditures, and goods and services expenditure. The three expenditures contribute 13.73%, 12.69%, and 12.35% to government spending in the research years

on average respectively. Other part of spending goes to social aid, other expenditures, and grant expenditure which contribute 8.71%, 4.83%, and 0.06% of national spending during research period.

This result indicates that government spending by type in Indonesia during research timeline has been in line with Islamic economic principles as described in theoretical framework. Personnel expenditure, goods and services expenditures, and capital expenditures are in line with government spending as obliged by sharia in form of civil administration. Expenditures on goods, services, and capital are also in accordance with function derived from sharia based on contemporary ijthad i.e. providing public goods, capital accumulation and economic growth.

Subsidy can be categorized as spending on functions derived from contemporary ijthad, i.e. priority sector private initiative failed to provide, as well as on functions obliged by sharia since its usage was aimed to provide basic needs of society. Grants expenditure has clear indication for its relevance with functions obliged by sharia as well as derived from it. It can be allocated to accommodate public needs that private entities cannot supply it, for environmental purposes as well as providing public goods. At some point, the relevance can also take place in functions obliged by society since this expenditure can also be transformed to foreign aid as part of humanity relief. Social aid along with other expenditure are relevant with civil administration and social duties in type of functions obliged by sharia. These expenditures' effect on providing public goods and stabilization policy can also be categorized as spending on functions derived from sharia.

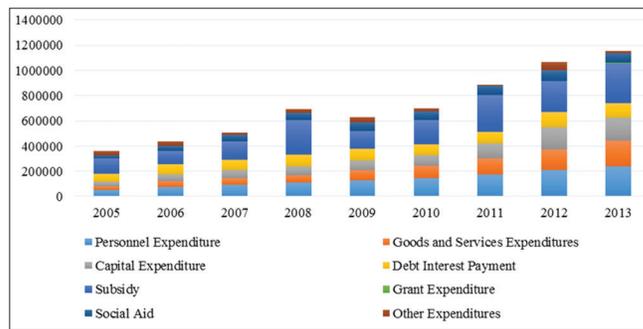
Payment of debt interest is required to stabilize economy which is in line with functions derived from sharia. Considering the process was made through parliament as people's representative, this expenditure is also another form of function obliged by people within democratic state. However, it noteworthy that scholars have to opinion regarding foreign debt from Islamic economic perspectives. First opinion allow this type of debt as long as it complies Islamic law while other opinion against it since riba and its impact on national autonomy (Mitawakal, 2013).

Debt in Islam should also be viewed as last choice among other alternatives. When government finally decided to take debt as source of income it also has to assure that the amount will not be above its capacity to repay it in the future. It is important for national credibility in front of both creditors as well as international investors. For this reason, paying debt along with its interest is logical consequence of taking debt in the first place. Many Indonesians argue that there is no need to pay foreign debt and its interest since the benefits for society seem to be very small compared to creditors (Beik, 2009). However, as discussed above paying debt and its interest is part of government obligation.

4.2. Government Spending by Function in Indonesia

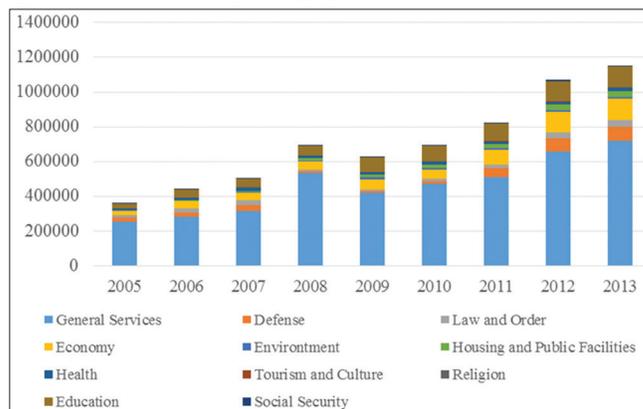
Based on its function, government spending in Indonesia can be categorized in eleven functions: General services, defence, law and order, economy, environment, housing and public facilities, health, tourism and culture, religion, education, social security, and other functions. Each function has many sub functions to support

Figure 1: Government spending by type in Indonesia, 2005-2013



Source: Departemen Keuangan RI (2010. p. 4-5), Kementerian Keuangan RI (2013. p. 4). Figure was generated by authors

Figure 2: Government spending by function in Indonesia, 2005-2013



Source: Departemen Keuangan RI (2010. p. 6-8), Kementerian Keuangan RI (2013. p. 5-7). Figure was generated by authors

each other and main function of spending. Figure 2 depicts trends in government spending by function since 2005-2013.

Government spending on general services was main expenditures in the 9 years of research data. In 2005 the amount of this expenditure was Rp255.6 trillion and it increase significantly to Rp720.06 trillion in 2013. On average about 65.62% of government expenditure was spent on general services. Second largest allocation was on education for about 10.56% of total expenditure on average and then followed by economy by 8.83%. Next allocation of spending was on defense and law and order with each expenditure counts for 4.8% and 3.14% on average annually respectively.

Spending on health function reached only about 2.15% of annually average total expenditure, followed by housing and public facilities with 2.14%. Other functions was funded by less than 1% of national budget annually such as environment and social security with 0.94% and 0.8% respectively and tourism and culture and religion with only 0.25% on average.

Government spending on general services is relevant with civil administration as function obliged by sharia and also with providing of public goods as function derived from sharia according to contemporary ijthad. General services was also provided for local government which for Indonesia case was part

of autonomy. Considering local autonomy was one of successfully demanded people voice in the beginning of reformation, this function can be categorized as what obliged by people.

Expenditure on defense is closely related with functions obliged by sharia for defence, law and order, justice and also fulfillment of basic needs. Law and order expenditure as its name also fulfill the function obliged by sharia in maintaining law and order as well as in justice, Amr Ma'ruf Nahy Munkar and civil administration. Expenditure for economic function play important role in relation to functions obliged by sharia as well as to function derived from it. Civil administration and social duties private entities neglect it are two functions obliged by sharia that were fulfilled by spending for economic functions. While economic spending on providing public goods, capital accumulation and economic growth, subsidy for prioritized sector, and stabilization policy are examples of functions derived from sharia.

Government spending on environment along with its sub functions reflects function derived from sharia based on contemporary ijthad. As people demand greener policy such function can also meet criteria for function obliged by people through democratic process. Next spending in housing and public facilities are aimed for basic needs fulfillment and social duties. These two functions are among that was obliged by sharia. Spending on health also has many relevance related to functions obliged by sharia i.e., basic needs, social duties. It is also relevant to contemporary ijthad that emphasized public goods and subsidy for prioritized sector.

Tourism and culture expenditures by government reflects functions in providing public goods and capital accumulation and economic growth which are derived from sharia. At some point, people can also demand facilities such as information for public which lead to functions obliged by people through representatives. Religion expenditure can be categorized as part of Dakwah and Amr Ma'ruf Nahy Munkar spending which are obliged by sharia. It can also function well in maintaining justice and social order in society.

Spending on education can be viewed as relevant to functions obliged by sharia i.e., fulfillment of basis needs and social duties as well as function derived from sharia i.e. subsidy for prioritized sector. Last function in government spending is social security which is relevant with functions obliged by sharia i.e., social duties private entities cannot perform it. This function also reflect what people demand to government in relation to security needs not only from physical harm, but also mentally and environmentally damages.

5. DISCUSSION

Main finding of this paper is that government spending in Indonesia has been relevant with Islamic perspective on functions of government in economic activities according to Siddiqi's (1996) work. The result expanded previous finding by Nurohman (2007) that highlight purpose of fiscal policy in Indonesia according to Islam to be limited to capital accumulation which then allocated to services and social needs fulfillment. Social needs meant by

Nurohman (2007) covers both social needs during difficulties in aftermath of natural disasters, warfare, and hunger and basic social needs such as food, clothing and shelter.

Although it has been met the relevance and suitability of Islamic perspective on economic role of government, government spending in Indonesia leaves some notes to be discussed further. Government spending is part of fiscal policy adopted by government to meet national visions of a country. In case of Indonesia, the national visions are reflected in the 1945 Constitution of the Republic of Indonesia. The constitution clearly states that the formation of a government in Indonesia was aimed to be main actor that:

- "...Shall protect all the people of Indonesia and all the independence and the land that has been struggled for, and to improve public welfare, to educate the life of the people and to participate toward the establishment of a world order based on freedom, perpetual peace and social justice."

Recent developments however indicate the lack in national vision achievements since in many aspect of welfare and education Indonesia was left behind its regional counterparts. United Nations Development Programme's (2014) Human Development Report places Indonesia in rank 108 of 187 countries, left behind Thailand (89), Malaysia (62), Brunei Darussalam (30), and Singapore (9). Other indicators also imply relatively close result such as OECD's (2012) PISA 2012 Results for student achievements.

Low achievements in welfare and education were accompanied by a more intriguing fact about corruptions in the country. Based on Transparency International's (2014) Corruption Perceptions Index, Indonesia was ranked 107 of 175 countries in the world. Such index implies country's inability to make government spending work the way it should in terms of national visions' fulfillment. Some also argue recent fiscal decentralization contribute in increasing corruption in Indonesia (Meythi, 2004; Saputra, 2012; Silaen and Sasana, 2013).

Compliment with Islamic perspective but implying limited achievement in society's welfare along with increasing corruption trends can describe how complexity in government spending in Indonesia. This complexity also reveals another important role Islamic economics should contribute in fiscal policy. Islamic economists should address more attention on how to make Islamic teachings in good governance for nation level work despites huge literatures on its historical aspects. A more grounded works on practices in other countries as viewed from Islamic perspective could also be conducted to enhance academic and practical policy for fostering Islamic economics.

6. CONCLUSION

This paper analyze government spending in Indonesia from Islamic perspective with special reference to its relevance with functions of government in economic activities according to Siddiqi's (1996) work. The result of study on 2005-2013 data of national budget and expenditure implies that in general government spending in Indonesia has been in line with Islamic principles and guidance on

how government manage its public finance. However this paper also indicates some important findings in the lack of nation vision's achievement which in the same time also go along with corruption.

As an effort to understand Islamic perspective on government spending practically, this paper contributes in expanding Islamic fiscal studies' frontier. However, since theoretical framework and previous works on the field is limited, this paper bears many limitations. Such limitations can be viewed from data selection which reflects general not individual pictures of spending; data coverage which was limited to 9 years available data; theoretical framework's untested assumption; and many other limitations. For the reason above, further directions in the study can aim wider coverage of data along with other countries experience to ensure that Islamic perspective on governmental economic policy can be implemented.

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