

GOVERNMENT AND HOUSEHOLD CONSUMPTION PATTERNS IN SURABAYA

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ABSTRACT

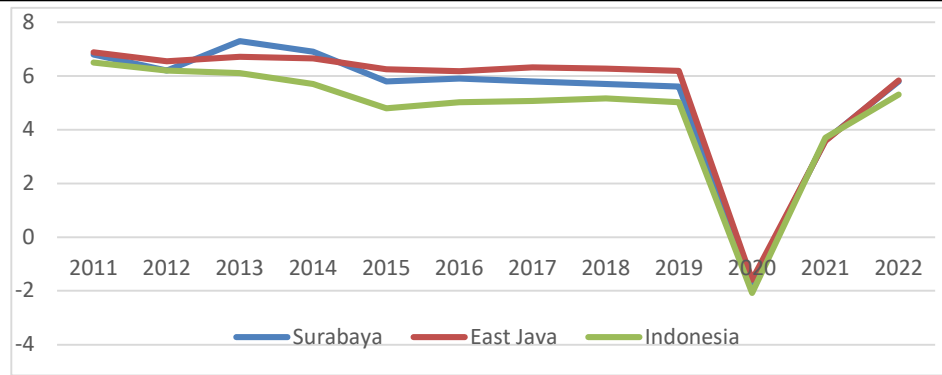
The level of household, LNPRT, and government consumption is generally seen as a measure of economic development. This reverse relationship, however, has never been studied. The purpose of this research is to analyze how the subsequent year's household and government spending will be influenced by the rate of economic growth. Using secondary data from BPS, this study quantitatively examines the municipal government of Surabaya from 2011 to 2022. The results showed that both household and government spending in Surabaya rose as the city's economy grew.

Keywords: Economic Growth; Household Consumption; Government Consumption, Minimum Wage

INTRODUCTION

The city of Surabaya in Indonesia is an important economic, cultural, and political hub in the region. Known as the "Gateway to the East," Surabaya is the economic hub of Indonesia's eastern provinces. The port of Tanjung Perak in Surabaya serves as the main entry and exit point for cargo traveling to and from the eastern part of Java (Oxford Business Group, n.d.). Given its position as a link between the East and the West, Surabaya is a major hub for international trade.

The Services Sector, which encompasses the productive retail, manufacturing, and accommodation and food service sectors, is the key generator of economic growth in Surabaya (ESCAP, n.d; InCorp Editorial Team, 2023). Surabaya's historic trading port history has led in the creation of a robust financial infrastructure, including banks, insurance businesses, and import-export companies. The strategic position of the city, as well as the presence of the Tanjung Perak port, contributed to a rapidly increasing trade and commerce sector (Ostojic et al., 2013). Foreign investment has also contributed to the city's economic development and expansion (Ostojic et al., 2013). Surabaya has had tremendous property development, which has contributed to the city's economic prosperity. The rise of the service and trade sectors, as well as property development, are major drivers of economic growth in cities (Martha, 2014).



Source: BPS, 2023

Figure 1. GDP Of Surabaya, East Java and Indonesia in 2011-2022

Surabaya's economic growth has been relatively stable in recent years, with Surabaya's average growth rate being 6.1%. The only exception occurred in 2020, when the COVID-19 epidemic caused the GDP to decline by 1.7%. However, the economy grew by 3.6% and 5.8% in 2021 and 2022, respectively.

As a big city, Surabaya faces the same challenges as any other major metropolis; the city serves as an economic and cultural hub for the surrounding areas, including Sidoarjo, Gresik, Lamongan, Mojokerto, etc. Plenty of people migrate to Surabaya, permanently or temporarily, in search of higher wages and better employment opportunities. The administration of Surabaya has the responsibility to ensure the welfare of both migrants and its local citizens. Unfortunately, these migrants are not contributing enough taxes in Surabaya to justify the services they receive from the city's administration. They tend to spend their earnings locally. Positively, the money flowing out of Surabaya may be helpful for the economies of other regions nearby, but it is a loss for the Surabaya administration.

Consumption tends to be more erratic in the city. Households' spending habits may change as a result of the social pressures they feel they must succumb to in urban areas, where the appeal of urban life often leads to higher expectations and demands for conspicuous expenditure. By providing free public education from elementary through high school, as well as BPJS, the Surabaya City Government directly lowers residents' cost of living, and it is hoped that residents can use the extra cash to better themselves, whether through savings or more discretionary spending. The Surabaya city administration also runs a labor-intensive initiative, in which idle property is turned into places of economic activity

like cafes and car washes, providing employment opportunities for locals.

There has been no empirical research to back up the theory that these initiatives actually enhance economic growth and household consumption. Due to a lack of information on how much the city of Surabaya spends on social programs, this research will first focus on how the city's economic growth has changed people's spending habits.

Batrancea (2021) studied the impact of economic growth on household spending in 28 European Union nations during the pandemic and found that proxies for economic growth and inflation strongly affected family consumption.

According to Chai (2018), in most industrialized nations, household spending accounts for more than half of GDP. This indicates that household expenditure is a key economic growth driver.

THEORETICAL FRAMEWORK LITERATURE REVIEW

The term "economic growth," which refers to the rise in a country's output of goods and services over a given time period, is central to the study of economic development. In most cases, a rise in GDP (or a regional equivalent) is taken as indicative of economic expansion. Growth and structure (production and spending), income and savings, the balance of payments, prices and terms of trade, and labour productivity are just a few of the economic indicators used by the World Bank (World Bank, n.d.). Economists look to economic growth as a barometer of rising living standards, expanding job possibilities, and improved social welfare. Studying the many facets of economic growth is essential for coming to terms with its significance. First, according to proponents of the production approach to economics, growth is best understood as a rise in the quantity and quality of products and services produced. When seen through the lens of the expenditure approach, economic expansion serves as a useful measure of a country's aggregate outlays for goods and services. Last but not least, according to the income concept, economic expansion is synonymous with rising national income. Romer (n.d.) provides a comprehensive paradigm to explain economic growth as the result of resource reallocation that increases value. We run out of raw materials, but history shows us that economic expansion gives rise to new ways of processing that are superior because of scarcity. This is the dynamic nature of economic growth, as explained in more detail.

The notion of economic growth has progressed through the stages of classical, modern, and post-modern thought. Each of these three groups shares a common belief in the importance of labour, capital, and natural resources for economic growth. Although the existing disparities are large, they are the result of historical evolution. Investment in new capital is singled out by classical growth theory as a key contributor to economic expansion. The neoclassical (Solow-Swan) theory of economic growth places special emphasis on technological progress and new inventions as engines of economic expansion. While technological advancement and innovation have become industry standards, modern growth theory emphasizes the importance of humans and their expertise for economic development. The economy growth can also be influenced by non-economic variables such as governmental initiatives.

The true economic growth of a region depends on a number of factors, all of which must be taken into account. Multiple metrics of economic growth may not provide a complete picture. If we infer that a region has good economic growth based just on GDP while inflation and unemployment rates have increased, we would be wrong.

Household Consumption

Household consumption is defined as public spending done by individuals or families to meet their subsistence requirements (Deliarnov, 1995). Consumption, as defined by Mankiw (2018), is the act of buying items and services for one's home. This includes both permanent and temporary possessions, as well as services such as those related to one's health and education. According to Dernasburg (1994), consumption is the most important factor in national income because it affects so many other sectors.

Keynes (1936) argues that the size of the household sector's share of GDP is determined by the level of household income. The marginal propensity to consume (MPC) is a measure of how often a person is willing to spend money. The MPC value is inversely proportional to the proportion of disposable income spent on consumption activities. The propensity to consume and the propensity to save are two ideas that Mankiw (2018) states are used to determine the nature of the link between disposable income and consumption and disposable income and savings.

Although Keynes, Friedman, and Modigliani each have their own ideas on consumption, they can all agree that personal spending plays a significant role in the economy. Demand for goods and services from consumers is what drives businesses and

the economy forward. Producers will respond to rising household consumption by increasing output. New jobs and income from higher production levels will boost demand once more. The economy will continue to expand as a result of this cycle. It is important to keep in mind that various factors, like income levels, inflation, interest rates, and others, can alter the relationship between household consumption and economic development; thus, it is not necessarily linear.

Government Expenditure

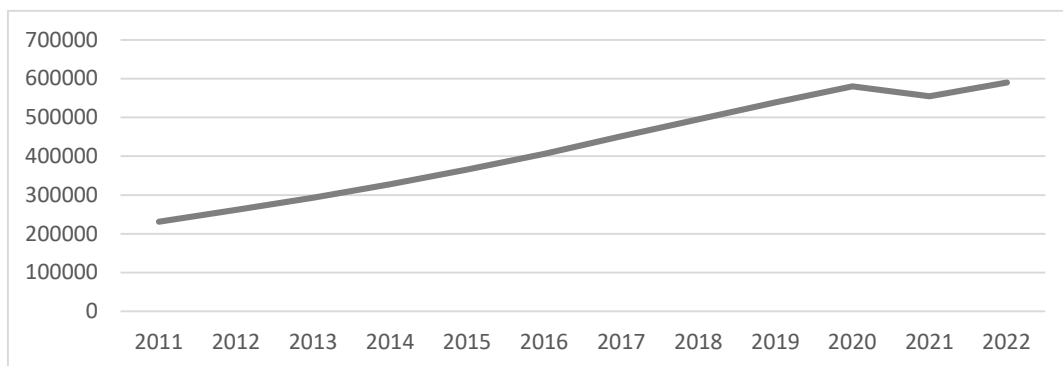
When the government spends money, it's doing something very similar to private consumption—buying goods and services—but it's doing so in order to serve the public by creating public spaces and infrastructure. The extent of government activities supported by government spending can be measured by looking at real government spending (Bato, 2017). Priorities and development policies determine how these funds are allocated across sectors (Pakasi, 2005).

RESEARCH METHODS

This quantitative research investigates how economic growth may contribute the household and government consumption in the subsequent year and how minimum wage may strengthen or weaken them. Secondary data acquired from National Statistic Center (bps.go.id) were utilized and analyzed using SmartPLS.

RESULTS AND DISCUSSION

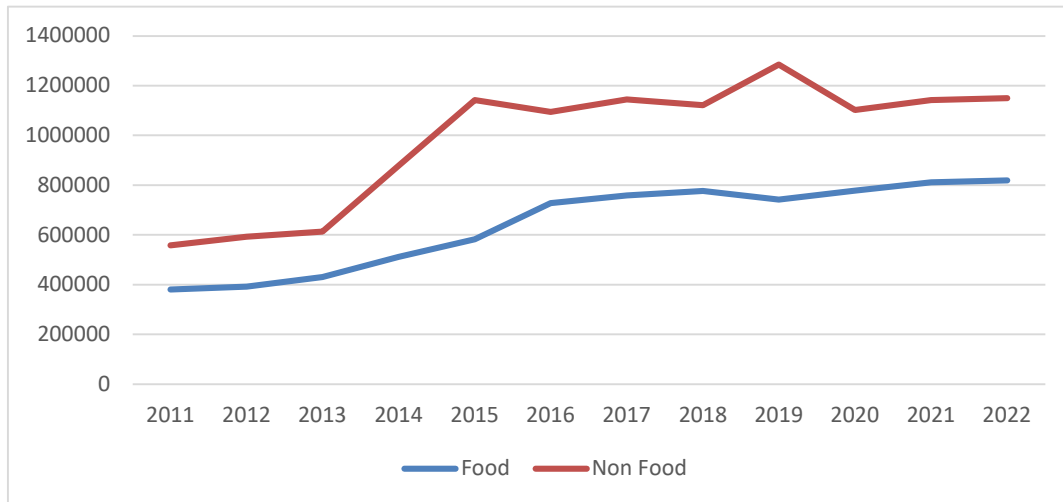
The research results obtained are as follows:



Source: BPS, 2023

Figure 2. Surabaya GDP (in billion Rupiah)

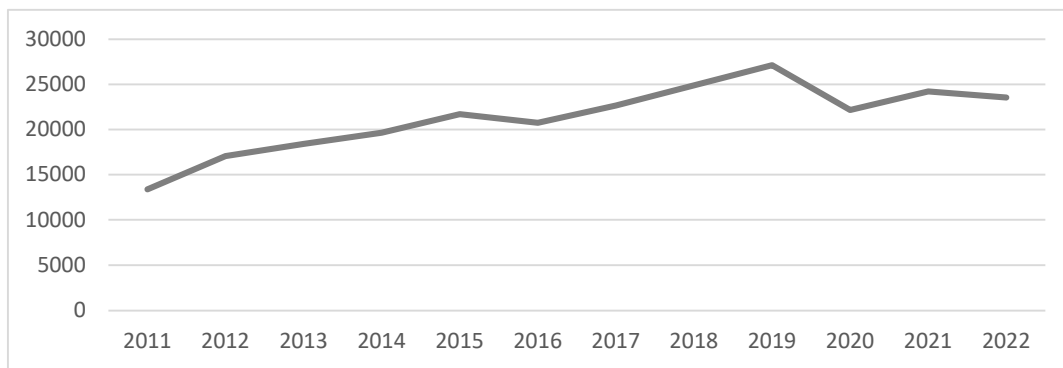
Gross domestic product in Surabaya grows each year. The only decrease will occur in 2021 as a result of the lockdownpolicy implemented to prevent the spread of COVID-19. When the lockdown was finally lifted in 2022, Surabaya's GDP rose back to where it had been in 2020. Thus, it is safe to say that Surabaya's economic development is thriving.



Source: BPS, 2023

Figure 2. household consumption and government expenditures (in million Rupiah)

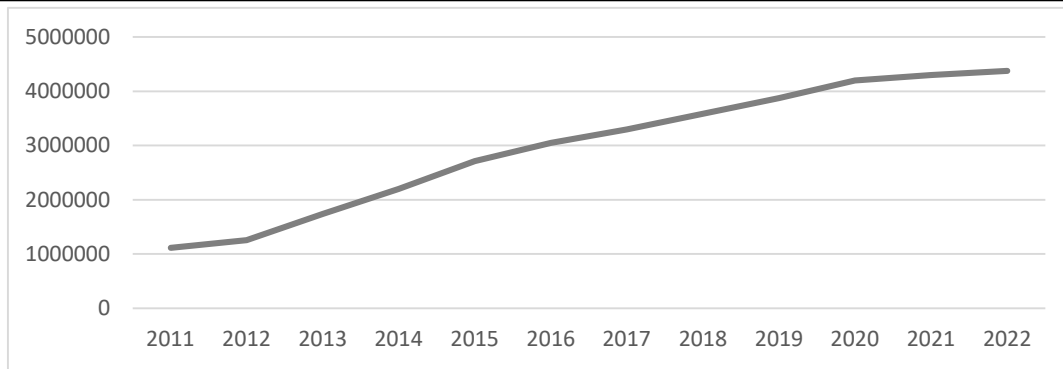
While there is some volatility in non-food consumption, household consumption tends to rise steadily. However, the rise has been lowering since 2020, indicating a decline in actual dollars in both food and non-food spending. It is possible to argue that the citizens have efficiently utilised their income because they have reached welfare.



Source: BPS, 2023

Figure 3. Government Expenditure (in billion Rupiah)

Since 2011, government spending has climbed steadily, although during the COVID-19 epidemic, spending decreased sharply because many physical development programmes were delayed owing to the lockdown policy. However, in 2021, the rise will be moderate, and spending will actually decrease in 2022.



Source: BPS, 2023

Figure 4. Minimum Wage (in billion Rupiah)

The regional minimum wage in Surabaya has risen dramatically in recent years.

Table 1. SmartPLS Results

Hypothesis	Original Sample	P value
Economic Growth --> Household Consumption	-0,086	0.890
Economic Growth --> Government Expenditure	1,975	0.236
Moderating Effect --> Household Consumption	-0.299	0.030
Moderating Effect --> Government Expenditure	-0.624	0.035

Based on the SmartPLS results (as shown in table 1), we concluded that Surabaya’s economic growth doesn’t affect both household consumption and government expenditure. While the minimum wage significantly weakens the economic growth effect on household consumption and government expenditure.

Let's start with the fact that Surabaya’s economic growth has somewhat dampened household consumption in subsequent years. Taking a more optimistic view, this may indicate that residents of Surabaya are more likely to save or invest their money than to spend it. If they believe they are prosperous or self-sufficient, this may occur. As was previously mentioned, the city of Surabaya administers a number of social service initiatives. Free health care and education are two program that have the potential to greatly increase people's sense of welfare. This means that if the general population isn't burdened by healthcare and education expenses, more of their money will be allocated to meeting their needs. This means that their primary needs will be met first, followed by their secondary needs, and then their tertiary needs. And once they've covered their tertiary expenses, they'll have plenty of extra money to put towards saving and investing for a

second source of revenue. However, in recent times, there have been other big occasions, particularly the purchase of credit. People may buy things like wide-screen televisions, multichannel audio, pricey cell phones, and even cars that would otherwise be out of their financial grasp because of their lack of funds. Because the funds used to make purchases on credit are not considered individuals but instead the bank's or financial organization's, these transactions will not be counted as fully household consumption. Let's say someone spends Rp. 6,000,000 on a 45" TV and pays it off over the course of 24 months using a credit system. The credit provider will then pay the retailer in full, while the buyer will only spend Rp. 250.000 plus per month. Then, while the total value is Rp. 6,000,000, it will not be considered household consumption.

The second topic is how Surabaya's economic growth has a minor yet insignificant beneficial impact on government expenditure. To put it simply, it is easy to explain that government expenditure is something that occurs naturally and must be carried out by the government as regional development costs that should not be impacted by any variables. Government spending on infrastructure development is necessary regardless of the level of economic growth, inflation, bank interest rates, or any other factor that may influence it. In this scenario, when economic growth was stable in the prior years, the government does not have a tremendous duty to greatly boost economic growth. Rather, the government's role was to ensure that the stability of the increase in regional economic growth was maintained. However, when economic growth decreases, the government has greater motivation to put effort into strengthening the economy the following year.

The increase in minimum wage significantly hinders the negative effect of economic growth on household consumption. It's understandable that as both the minimum wage and economic growth rise, people's discretionary spending habits tend to shrink. An increase in the minimum wage may cause inflation, which in turn may reduce consumer spending. People put off their usual spending habits and instead put the money towards investments (or savings). Even if they did decide to purchase goods, they would use credit. This conforms to Chai's (2018) assertion that rising income causes rapid shifts in household spending habits and the introduction of a wide range of new commodities into the consumption basket. Grossman and Helpman (1991) and Barro and Sala-i-Martin (1995) are among the economists who see this trend as indicative of the expanding well-being brought about by the advent of the modern economic system. Domestically focused

expansion, to use Deer & Song's (2012) terminology. Engel's Law (1857) states that when people's incomes rise, a smaller amount of their budgets will go towards food, while the share going towards housing and clothing will remain constant, and the share going towards health care and entertainment will rise. Jackson (1986) notes that this is due to the increased range of products purchased by households. Even if Bils & Klenow (2001) included the fact that these products and services cost extra.

The insignificant positive impact of economic development on government spending is diminished by the minimum wage. This indicates that when both the minimum wage and economic growth rise, government spending will fall, though not by a huge amount. Increases in both the minimum wage and economic growth have the potential to mitigate the expansion of government spending that accompanies a rising economy. However, any such reduction would be marginal at best. This is due to the fact that raising the minimum wage can improve workers' living standards. Poverty and economic disparity can be mitigated by investing in worker benefits. This has the potential to improve social and political conditions, which in turn may benefit the economy. By improving the standard of living for the majority of the population, governments can save money on assistance programs. That secondary and tertiary public facilities receive priority funding from the government. Evidently, the city government's recent efforts to convert privately held land into public parks and culinary centres, as well as the conversion of other privately held land into business land that employs local residents (a labour-intensive programme), renovating pavements and expanding culverts to reduce flooding are two other government priorities.

CONCLUSIONS AND ADVICE

From research analysis, researchers draw conclusions as follows:

1. The increase in Surabaya's economic growth dampened household consumption in subsequent years because people tend to invest or save their income, while credit purchases may also play a role.
2. Surabaya's economic growth has a small but not significant positive impact on government spending because, naturally, the government must keep building facilities for its citizens so they are not affected by changes in political, social, and economic factors.

3. The increase in minimum wage significantly hinders the negative effect of economic growth on household consumption because it may cause inflation, which in turn may reduce consumer spending.
4. The insignificant positive impact of economic development on government spending will decrease with an increase in the minimum wage because, when people's welfare is achieved, the government no longer needs to spend heavily on welfare programs, it can focus on secondary and tertiary facilities just to maintain citizen satisfaction.

From drawing conclusions, here are some suggestions for Surabaya city government:

1. Keep investing in infrastructure and social welfare programs to maintain citizen's satisfaction.
2. The government can promote financial literacy to help people make better financial decisions, such as investing their money in productive assets.
3. The government should monitor the impact of economic policies, such as increasing the minimum wage, on household consumption and government spending. This will help the government to make informed decisions about future economic policies.

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