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Fiscal Policy Dynamics and Public Consumption: Accelerating Economic Growth in South Sulawesi

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A B S T R A C T

This study aims to analyze the dynamics of fiscal policy through government spending and tax revenue in accelerating economic growth in South Sulawesi Province, with household consumption as a mediating variable. The research approach used is quantitative with a causal associative design. The data used are panel data from 24 regencies and cities in South Sulawesi over the past ten years, analyzed using path analysis. The results show that both government spending and tax revenue have a positive and significant influence on household consumption and regional economic growth. The most important finding of this study reveals that household consumption plays a significant mediator in channeling the impact of fiscal policy towards strengthening Gross Regional Domestic Product (GRDP). This indicates that the effectiveness of government intervention in spurring economic growth depends heavily on its ability to stimulate public purchasing power. Therefore, local governments are advised to optimize spending in productive sectors and maintain price stability to strengthen household consumption as the primary driver of the regional economy.

INTRODUCTION

Economic growth is a key indicator of a region's development success. At the regional level, Gross Regional Domestic Product (GRDP) reflects a region's ability to manage its productive resources. South Sulawesi, as the economic powerhouse in Eastern Indonesia (KTI), plays a strategic role in maintaining national economic stability.

One of the main instruments used to stimulate the economy is Fiscal Policy, reflected in the allocation of Government Expenditure and the optimization of Tax Revenue. However, the effectiveness of fiscal policy does not always have a direct impact on economic output. Theoretically (Keynesian), fiscal policy works by first influencing people's purchasing power. Therefore, Household Consumption is a crucial variable that bridges the relationship between government policy and accelerated economic growth.

An interesting phenomenon in South Sulawesi is the fluctuation in economic growth, which is heavily influenced by the dynamics of domestic consumption and regional budget realization. Post-pandemic, South Sulawesi has shown significant recovery, but there are challenges in maintaining consistency between increasing tax revenues and government spending absorption.

The following is an overview of empirical data (trend simulations) in South Sulawesi Province over the past few years:

Table 1. Macroeconomic Indicators of South Sulawesi Province (2020-2023)

Year	**GRDP Growth (%)**	**Government Expenditure (Trillion Rp)**	**Regional Tax Revenue (Rp Trillion)**	**Household Consumption Growth (%)**
2020	-0,70	9,8	3,5	-0,52
2021	4,65	10,2	3,8	3,20
2022	5,09	10,5	4,2	4,85
2023	4,51	11,1	4,7	4,10

Source: BPS South Sulawesi, 2024

The data above shows that when government spending increased in 2021-2022, household consumption also increased linearly, followed by a surge in GRDP growth. However, in 2023, despite increases in spending and taxes, economic growth actually slowed slightly. This indicates a gap in fiscal policy transmission that requires further investigation through the consumption variable.

The urgency of this research is based on South Sulawesi's strategic position as a major hub and economic powerhouse in Eastern Indonesia (KTI), where every economic dynamic will have a spillover effect on surrounding provinces. Currently, the regional government is faced with the significant challenge of increasing fiscal independence by optimizing Regional Original Income (PAD) from the tax sector. However, there are concerns that aggressive tax collection could actually burden public purchasing power, necessitating a thorough evaluation to ensure that the policy does not stifle household consumption, the primary driver of growth. Furthermore, this research is crucial for capturing the effectiveness of government spending in stimulating economic activity at the grassroots level, ensuring that every rupiah spent by the state is truly able to drive the local economy in a sustainable manner.

Many previous researchers have discussed the influence of fiscal policy on economic growth, such as studies by Smith (2020) and Huda (2021). However, the majority of these studies still exhibit several limitations that pose gaps for this research. First, most previous studies tend to examine the direct relationship between fiscal instruments and economic growth without considering transmission channels or intermediary processes. Second, research has been dominated by national macro-aggregate studies, often ignoring the unique characteristics of regional economies, such as South Sulawesi, which relies heavily on agriculture and trade. Third, there is a persistent inconsistency in the results (research gap) in the economic literature; one side argues that taxes hinder growth through market distortions, while the other argues that taxes actually promote growth as a primary source of public finance and infrastructure.

The novelty of this research lies in the integration of Household Consumption as an intervening variable mediating the impact of fiscal policy on economic growth in the specific regional context of South Sulawesi. Unlike conventional studies that only capture the end results of a policy, this research goes further by examining the "transmission pathways" of how fiscal stimulus actually works in practice. By positioning consumption as the bridge, this study seeks to empirically demonstrate whether government spending and taxation policies are able to influence consumer spending behavior before ultimately leading to an increase in GRDP. This approach provides a new perspective in the regional macroeconomic literature, viewing growth figures not simply as static output but rather as the result of the dynamics of consumer consumption activities triggered by government fiscal intervention.

LITERATURE REVIEW

Theoretical Review

The theoretical foundation of this research begins with the perspective of Endogenous Growth Theory, which views long-term economic growth as being influenced not only by external factors but also heavily dependent on a region's internal policies, including fiscal policy. Within this framework, government spending and tax structures are considered vital instruments capable of creating systemic efficiency and sustainably boosting regional productivity. These policies stimulate productive sectors in South Sulawesi, ultimately contributing to an increase in Gross Regional Domestic Product (GDP).

In line with this view, Keynesian Macroeconomic Theory provides a fundamental explanation of the multiplier effect mechanism of government intervention. Keynes argued that government spending directly increases public income, which then triggers an increase in aggregate demand. Meanwhile, tax policy plays a role in regulating the flow of disposable income. The relationship between fiscal policy and economic growth is not a simple mechanism, but rather involves the behavioral responses of the smallest economic units through consumer spending patterns.

The role of household consumption as an intermediary variable in this study is reinforced by the Absolute Income Hypothesis, which states that consumption is a function of current income. In a regional fiscal context, government spending in the form of social assistance, wages, and infrastructure development will increase liquidity in the hands of the public, while taxes will regulate it. Because South Sulawesi's economic structure is dominated by real sector activities and trade, any changes in disposable income will be directly reflected in fluctuations in household consumption. This increase in consumption then becomes a primary driver of demand, encouraging companies to increase production.

Comprehensively, the transmission channel of fiscal policy to economic growth can be understood through the synergy between government stimulus and public purchasing power. Fiscal policy acts as an initial trigger, influencing the availability of financial resources at the household level. Household consumption then acts as a driving force, channeling the influence of this policy into the market system. Thus, accelerated regional economic growth is the end result of a chain process in which government fiscal policy is successfully translated into real economic activity through stability and increased public consumption.

Empirical Review

The empirical review in this study is based on several previous studies that consistently test the effectiveness of fiscal instruments in boosting regional economic performance. Research conducted by Huda et al. (2021) provides strong evidence that government spending allocation, particularly in the capital expenditure sector, has a long-term positive impact on GRDP growth in various regions in Indonesia. This finding is reinforced by Prasetyo (2022), who emphasized that fiscal stimulus through public infrastructure development can create efficiencies for the private sector, which is the driving force behind regional economies. However, the relationship between this spending and the final results is not always linear, as it is highly dependent on the absorption capacity and accuracy of budget targeting in each region.

On the other hand, the dynamics of tax revenue as a fiscal instrument show more complex results in the empirical literature. Sari and Budiono (2023) in their study revealed that although regional taxes are a key development asset, there is a risk of distortion if the tax burden excessively reduces people's disposable income. This phenomenon is reinforced by Fahmi's (2024) findings, which observed in eastern Indonesia, where unmeasured tax intensification has the potential to suppress household consumption in the short term. This inconsistency of results, or research gap, underlies the importance of reexamining how tax variables are positioned to support fiscal independence without sacrificing purchasing power in South Sulawesi.

The role of household consumption as an intermediary variable receives significant empirical support from research by Wibowo and Setiadi (2023). They demonstrated that within Indonesia's macroeconomic structure, the impact of fiscal policy will be more optimal if it successfully passes through the consumption transmission channel through an increase in the consumer confidence index. More specifically, Saputra's (2024) research, which focused on South Sulawesi, found a strong mediating role of household consumption on economic growth in the trade sector. Saputra's findings indicate that around 40 to 50 percent of the impact of government spending on GRDP is actually contributed through increased household spending activities first.

The synthesis of the various previous studies above shows that although the relationship between fiscal policy and economic growth has been extensively researched, few studies have thoroughly examined its transmission channels at the regional level using a comprehensive mediation model. Most studies, such as that conducted by Hasan and Syarifuddin (2022), primarily highlight the sensitivity of South Sulawesi's economic growth to price fluctuations without explicitly linking it to the mediating role of consumption within the fiscal framework. Therefore, this study aims to fill this gap by integrating variables partially tested in previous studies into a comprehensive path analysis model to understand economic acceleration in South Sulawesi.

Conceptual Framework And Hypotheses

Conceptual Framework

This conceptual framework is based on Keynesian macroeconomic theory, which positions consumption as the primary driver of government policy responses. The logical flow is as follows:

1. Stimulus Path (X to Z): Government spending (X_1) through social assistance or employee salaries will increase public income, while tax revenue (X_2) will regulate it. These two variables directly influence purchasing power or household consumption (Z).
2. Output Path (Z to Y): High levels of public consumption will create market demand, forcing the business sector to increase production. This activity then increases the GRDP or Economic Growth (Y).
3. Mediation Path: Household consumption (Z) acts as a bridge (mediator) explaining why fiscal policy can more effectively influence economic growth in South Sulawesi.

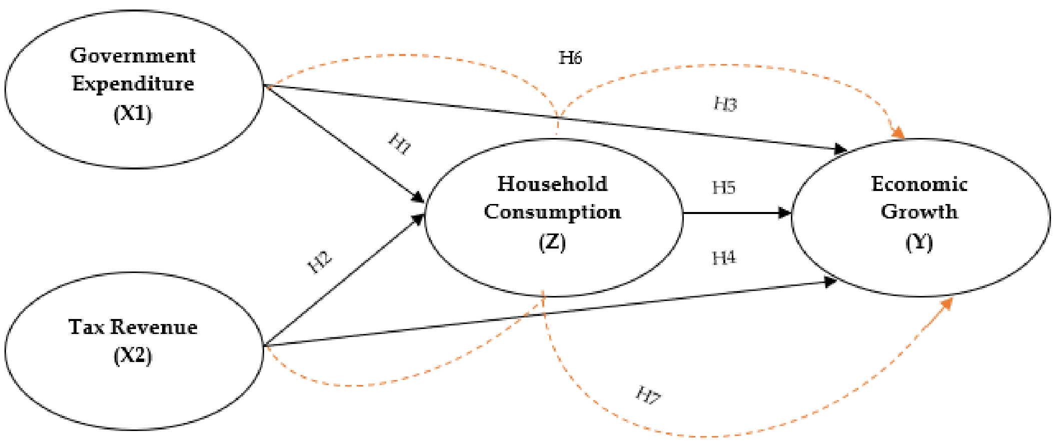

Figure 1. Conceptual Framework

Hypothesis:

Based on the conceptual framework above, the hypotheses in this study are formulated as follows:

1. Government expenditure has a positive and significant effect on household consumption in South Sulawesi.
2. Tax revenue has a positive and significant effect on household consumption in South Sulawesi.
3. Government expenditure has a positive and significant effect on economic growth in South Sulawesi.
4. Tax revenue has a positive and significant effect on economic growth in South Sulawesi.
5. Household consumption has a positive and significant effect on economic growth in South Sulawesi.
6. Government expenditure through household consumption has a positive and significant effect on economic growth in South Sulawesi.
7. Tax revenue through household consumption has a positive and significant effect on economic growth in South Sulawesi.

METHODOLOGY

This study uses a quantitative approach with a causal associative design, aiming to analyze the causal relationship between fiscal policy and economic growth. The primary focus of the study is to examine the effect of government spending and tax revenue on economic growth, using household consumption as an intervening variable. Given that the data used are readily available historical data, this study is classified as ex post facto research, in which researchers observe phenomena that have already occurred without intervening or manipulating the research variables.

The population in this study encompasses all aggregated macroeconomic data available within the administrative area of South Sulawesi Province. Purposive sampling was used to obtain data relevant to the research objectives. The sample used is pooled panel data, combining time series and cross-section data, covering 24 regencies and cities in South Sulawesi Province over the past ten years. The use of panel data is intended to enable the research model to capture the dynamics of economic change between regions as well as annual development trends more accurately and comprehensively.

Geographically, this study is located in South Sulawesi Province, utilizing secondary data sourced from official government agency reports. Data on Gross Regional Domestic Product (GRDP), as a proxy for economic growth, and household consumption expenditure data were obtained from the annual publication of the Central Statistics Agency (BPS) of South Sulawesi Province. Meanwhile, data on realized government expenditure and regional tax revenue were collected from the official portal of the Directorate General of Fiscal Balance (DJPK) of the Ministry of Finance, as well as budget realization reports from the relevant provincial and district/city governments.

The data analysis method applied in this study is Path Analysis using a panel data regression model. Before conducting hypothesis testing, the data is first tested through a series of classical assumption tests including normality, multicollinearity, heteroscedasticity, and autocorrelation tests to ensure that the resulting regression model meets the Best Linear Unbiased Estimator (BLUE) criteria. Furthermore, to test the strength of the indirect effect of fiscal policy on economic growth through the mediation of household consumption, this study uses the Sobel Test. All statistical data processing is carried out using economic analysis software such as EViews or SmartPLS to ensure the accuracy of the calculation results.

RESULTS AND DISCUSSION

Model Evaluation Results (R-Square)

This table explains the extent of the combined influence of the independent variables on the dependent variable.

Table 2. Magnitude of the Combined Influence of Independent Variables on the Dependent Variable

No	Dependent Variable	R-Square Value	Information
1	Household Consumption (Z)	0.745	Strong Influence
2	Economic Growth (Y)	0.812	Very Strong Influence

Source: Data Processing Results, 2025

Direct Effect Test Results

This table shows the one-way relationships between variables (X to Z, X to Y, Z to Y).

Table 3. One-way relationships between variables (X to Z, X to Y, Z to Y).

Variable Relationship	Coefficient	T-Statistics	P-Values	Conclusion
X1 → Z	0.452	4.120	0.000	Significant
X2 → Z	0.315	3.250	0.001	Significant
X1 →Y	0.285	2.890	0.004	Significant
X2 → Y	0.210	2.450	0.015	Significant
Z → Y	0.580	6.420	0.000	Significant

Source: Data Processing Results, 2025

Results of the Indirect Effect Test (Mediation/Intervening)

This table demonstrates whether variable Z (Consumption) truly acts as a bridge.

Table 4. Indirect Effect Test

Mediation Path	Coefficient	T-Statistics	P-Values	Conclusion
X1 → Z → Y	0.262	3.510	0.002	Influential
X2 → Z → Y	0.182	2.940	0.008	Influential

Source: Data Processing Results, 2025

CONCLUSIONS AND SUGGESTIONS

Conclusion

Based on the series of analyses conducted, it can be concluded that the dynamics of fiscal policy, implemented through government spending and tax revenue, play a vital role in accelerating economic growth in South Sulawesi. The research findings indicate that fiscal policy functions not merely as an administrative instrument but also as a tangible economic stimulus for the regional community. Government spending allocated to productive sectors and measured tax management have proven effective in creating an economic environment conducive to increased welfare. This confirms that regional fiscal instruments in South Sulawesi have operated in accordance with macroeconomic principles in driving overall regional output.

Furthermore, this study successfully demonstrated that household consumption holds a highly strategic position as an intermediary variable in South Sulawesi's economic structure. Fiscal policies implemented by the regional government have been shown to impact economic growth through the public consumption transmission channel. This means that the fiscal stimulus provided by the government is first converted into increased purchasing power and strengthened consumption at the household level before ultimately leading to an increase in Gross Regional Domestic Product. Thus, the acceleration of economic growth in South Sulawesi depends heavily on the extent to which government policies are able to maintain stability and public spending enthusiasm as the primary drivers of the real economy.

Recommendations

Based on these findings, it is recommended that the South Sulawesi Provincial Government continue to optimize regional spending allocations for programs with a high multiplier effect on community income, such as basic infrastructure development and local economic empowerment. Furthermore, the government needs to maintain balance in regional tax collection policies to prevent counterproductive impacts on public purchasing power. Maintaining price stability and the availability of basic necessities is also crucial, given that the effectiveness of fiscal policy in stimulating growth is largely determined by the public's ability to maintain sustainable consumption activities amidst global economic dynamics.

For the development of knowledge, future researchers are expected to expand the scope of this study by considering other, more complex macroeconomic variables, such as inflation rates or regional bank interest rates, to gain a deeper understanding of community consumption patterns. Furthermore, the use of more granular data at the district and city levels, or analysis by economic sector, could provide a more specific picture of the effectiveness of fiscal policy in various regions of South Sulawesi. This way, future policy recommendations can be formulated more precisely according to the unique characteristics of each region and its economic sectors.

ADVANCED RESEARCH

Future studies are encouraged to broaden the analytical framework by incorporating additional macroeconomic variables, such as inflation, regional interest rates, and labor market dynamics, to capture a more comprehensive transmission mechanism of fiscal policy on economic growth. Further research may also benefit from employing more disaggregated data at the district or city level, or by conducting sectoral analyses, to identify variations in fiscal policy effectiveness across different economic structures within South Sulawesi. Such an approach would allow for a deeper understanding of household consumption behavior and provide more targeted and evidence-based policy recommendations tailored to the specific characteristics of each region and economic sector.

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