

ABSTRACT

The mandatory spending policy allocates education spending at least 20% of the total state budget. This policy is the government's step in improving the quality of education in Indonesia. The role of government spending in financing the implementation of development has an impact on economic growth. Wagner's law and the Keynesian hypothesis have different views on their relationship. Wagner's law describes the direction of the relationship that moves from economic growth to government spending, while Keynesian vice versa.

In this regard, this research was conducted with the aim of knowing the direction of the causality relationship based on the Goffman model, namely between education spending and GDP per capita and to see whether GDP per capita, unemployment rate, population growth, and average length of schooling affect the allocation of education spending Indonesia uses the Error Correction Model (ECM) for the period 1991-2021.

This study provides results that confirm Goffman's model of Wagner's law on Indonesian education spending. This means that there is a one-way relationship from per capita income to Indonesia's education spending. The long-term regression results show that per capita income and the average length of schooling have a positive and significant effect on Indonesia's education spending, while the short-term ECM model states that population growth and the average length of schooling have a positive and significant effect on Indonesia's education spending. The unemployment rate is stated to have a negative and insignificant effect on education expenditure in the long and short term, while the average length of schooling has a significant and positive effect on Indonesia's education expenditure in the long and short term.

Keywords: education spending, economic growth, Wagner's law, Error Correction Model