Government role in the economy has been a center of debate for centuries. The trend has shown a significant increase of government expenditure since 1950s, both in developed and developing countries. In the case of developing countries, the ability of the government is constrained by even more limited revenue sources, hence expenditure efficiency matters.

In the first study, using panel data of 63 developing countries for the period 1990 to 2000, government expenditure efficiency index is calculated. The scores are then incorporated into a simple model of growth and government expenditure. It is found that the effect of government expenditure on growth changes from negative to positive at a critical level of efficiency, hence efficiency matters. Also it is found that efficiency affects the optimal size of government expenditure. Above a threshold of efficiency for optimal size of government, the higher the size of government expenditure required to maximize growth.

The second study, by comparing 176 municipalities in Indonesia, identifies the determinants of local government expenditure efficiency. After obtaining the efficiency index and Malinovskiy productivity index, Tobit regression is used to explain their variations. The results show that regional income, population density, rural municipalities, and expenditure decentralization are associated with a higher efficiency. Capital expenditure relates to inefficiency, most likely due to excessive formalism and weak government in the procurement process of goods and services. Governance has positive impact on expenditure productivity.

The third study seeks to answer whether expenditure efficiency and administration quality of local government matter to income equality in Indonesia. Using data of 243 municipalities in Indonesia, municipal level Gini coefficients are calculated and then tested against government expenditure by including the indices of expenditure efficiency and administration quality. Expenditure efficiency index is calculated through data development analysis, while the administration index is calculated by normalizing several local governance indices related to administrative aspect of the local government. The study finds that expenditure efficiency and administration quality of local governments increase the effect of government expenditure in reducing income inequality. Similar results are found in the case of social and capital expenditure.

Consequently, the governments of developed countries need to pay attention, not only to the size of expenditures, but also to the quality of the spending. In the case of Indonesia, governance, among other factors, evidently contributes to expenditure efficiency, expenditure productivity and government administration quality. Improvement of governance is a paramount goal of the reform measures pursued since the aftermath of the economic crisis in 1998. However, in the view of anti-corruption movement and the battle for democracy, governance issue in Indonesia remains elusive. Facing challenges, particularly at the implementation level, makes improvement in planning, transparency and monitoring functions highly imperative. Finally, incorporating expenditure efficiency as performance measurement instrument at various levels of government operation shall offer some solutions.

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