

Economic Growth and Structural Changes in Indonesia

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Abstract

The standard neoclassical economics literature that analyzes national growth considers two sources: increase in factor inputs and productivity growth. However, the extent to which interregional factor mobility has contributed to the national economy has been infrequently examined because of regional data constraints in Indonesia.

This research extends the traditional neoclassical model to include another ingredient of economic growth—efficiency growth—which is attributed to interregional allocation of factor inputs from low-productivity to high-productivity regions. To achieve this objective, I estimated the province-level regional production functions and solved a Pareto-optimal interregional allocation of factor inputs, using the estimation results.

Given the aforementioned empirical results, this study found a structural shift from a pro-efficiency interprovincial allocation before the economic crisis to a non-pro-efficiency allocation after the crisis.

Keywords: Economic growth, interprovincial factor mobility, Indonesia

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