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THE HUMAN DEVELOPMENT INDEX IN ASEAN COUNTRIES

This study will examine the impact of monetary and fiscal policies simultaneously on human development in ASEAN countries. The fiscal policy indicators in this study are through approaches from government spending on education and health. Monetary policy indicators through approaches from bank credit to private and financial system deposits. The results of data processing revealed that the Human Development Index was influenced by monetary policy in the form of bank credit to private, financial system deposits and fiscal policy in the form of spending on health, while fiscal policy related to spending on education has a positive but not significant effect. To achieve these objectives, fiscal and monetary policies must be directed at improving human development. To look at the impact of fiscal policy on human development, it is not only limited to these indicators. Further research can be developed on other indicators, such as infrastructure spending, other social expenditures, and can even be developed in terms of state revenues. as easy as the monetary policy indicator can be expanded. In the context of HDI, monetary policy should be approached from the portion of loans received by micro and medium enterprises.

Keywords: *Fiscal and monitery policy; Expenditure allocation policies; Human Developmet Index; ASEAN countries*

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ІНДЕКС ЛЮДСЬКОГО РОЗВИТКУ В КРАЇНАХ АСОЦІАЦІЇ ДЕРЖАВ ПІВДЕННО-СХІДНОЇ АЗІЇ

У цьому дослідженні буде вивчено вплив монетарної і фіскальної політики одночасно на розвиток людського потенціалу в країнах Асоціації держав Південно-Східної Азії. Показники фіскальної політики в даному дослідженні засновані на підходах державних витрат на освіту та охорону здоров'я. Індикатори грошово-кредитної політики через підходи від банківського кредиту до депозитів приватної та фінансової системи. Результати обробки даних показали, що на індекс людського розвитку вплинула грошово-кредитна політика в формі банківського кредиту приватним особам, депозити в фінансовій системі і фіскальна політика в формі витрат на охорону здоров'я, в той час як фіскальна політика, пов'язана з витратами на освіту, має позитивний але незначний ефект. Для досягнення цих цілей фіскальна та грошово-кредитна політика повинна бути спрямована на поліпшення людського розвитку. Щоб подивитися на вплив фіскальної політики на розвиток людини, вона не обмежується тільки цими показниками. Подальші дослідження можуть бути розроблені за іншими показниками, таким як витрати на інфраструктуру, інші соціальні витрати, і навіть можуть бути розроблені з точки зору державних доходів. так просто, як індикатор грошово-кредитної політики може бути розширено. У контексті до грошово-кредитної політики слід підходити з частини кредитів, отриманих мікро- і середніми підприємствами.

Ключові слова: *податково-бюджетна політика; політика розподілу витрат; індекс розитку людського потенціалу, країни Асоціації держав Південно-Східної Азії.*

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ИНДЕКС ЧЕЛОВЕЧЕСКОГО РАЗВИТИЯ В СТРАНАХ АССОЦИАЦИИ ГОСУДАРСТВ ЮГО-ВОСТОЧНОЙ АЗИИ

В этом исследовании будет изучено влияние монетарной и фискальной политики одновременно на развитие человеческого потенциала в странах Ассоциации государств Юго-Восточной Азии. Показатели фискальной политики в данном исследовании основаны на подходах государственных расходов на образование и здравоохранение. Индикаторы денежно-кредитной политики через подходы от банковского кредита до депозитов частной и финансовой системы. Результаты обработки данных показали, что на индекс человеческого развития оказала влияние денежно-кредитная политика в форме банковского кредита частным лицам, депозиты в финансовой системе и фискальная политика в форме расходов на здравоохранение, в то время как фискальная политика, связанная с расходами на образование, имеет положительный но не значительный эффект. Для достижения этих целей фискальная и денежно-кредитная политика должна быть направлена на улучшение человеческого развития. Чтобы посмотреть на влияние фискальной политики на развитие человека, она не ограничивается только этими показателями. Дальнейшие исследования могут быть разработаны по другим показателям, таким как расходы на инфраструктуру, другие социальные расходы, и даже могут быть разработаны с точки зрения государственных доходов. так просто, как индикатор денежно-кредитной политики может быть расширен. В контексте к денежно-кредитной политике следует подходить из части кредитов, полученных микро- и средними предприятиями.

Ключевые слова: *налогово-бюджетная политика; политика распределения расходов; индекс развития человеческого потенциала, страны Ассоциации государств Юго-Восточной Азии.*

Introduction. The success of a country's development cannot only be seen from economic growth but also must be seen from its social development. The social development indicator that is often used is the Human Development Index (HDI) developed by Pakistani economist Mahbub ul Haq in 1990. The explicit goal is to shift the development economic focus from national income accounting to people-centred policies (UNDP, 2010). The Human Development Report introduces a new HDI concept that is adapted to inequality (Ayala, 2010). To obtain this index, researchers need to measure the level of inequality in each dimension, adjust the average value of each dimension, and calculate the decline in HDI due to inequality (Alkire & Foster, 2010).

There are at least three reasons for the need for attention to the HDI, namely: First, many developing countries achieve economic growth but fail to reduce socio-economic disparities and poverty. Second, many developed countries with high income are not successful in reducing social problems, such as drug abuse, AIDS, alcoholism, homelessness, and domestic violence. Third, some low-income countries can achieve high levels of human development, they are able to wisely use all resources to develop basic human abilities (Asmita, et.al, 2017).

Research concerning the factors that influence HDI has been carried out, including the study of the impact of economic growth, poor population, government spending on education, government health expenditures, and inequality income distribution on the development of HDI with case studies in North Sumatra Province, Indonesia (Asmita, et.al., 2017). The relationship between economic growth and human development is also carried out by Ranis (2004). The results show that there are countries with high economic growth rates followed by high HDI, but on the other hand, there are also countries that fall into a vicious circle, low economic growth followed by low HDI.

Research into the impact of fiscal and monetary policies on human development separately has been widely carried out. The impact of monetary policy on human development is carried out among others by Monacelli, et. All. (2012), and Lenka (2015). While the study of the impact of fiscal policy on human development is carried out among others by Prasetyo and Ubaidillah Zuhdi (2013), Herrera and Pang (2005) and Afonso, Schuknecht, and Tanzi (2010).

The development of the human development index of ASEAN member countries in the period 2006-2015 generally improved, except Indonesia. Based on data from the 2006-2015 Human Development Report published by UNDP, Indonesia's HDI in that period fell from 0.701 to 0.689. For this reason, this study will examine the impact of monetary and fiscal policies simultaneously on human development in ASEAN countries. This is the advantage of this research which is combining two approaches which in previous studies have been carried out separately.

Literature review

Fiscal Policy and Human Development. Human Development is the ultimate goal of the development process, while economic growth is a means to increase human development. For this reason, it is necessary to redefine the link between human development and fiscal policy (Kizilkaya, et.all). The important point is the role of government in human development. The final goal of the government in Suescun's (2007) research was human development, sanitation, health care, clean water use, basic education, adequate housing, and a clean environment.

According to Todaro and Smith (2003) development has three core values, namely life sustenance, self-esteem and freedom. Life sustenance means the ability to fulfil basic needs. Self-esteem means self-esteem, dignity or personality. Freedom means having the ability to make choices in life.

Meanwhile according to UNDP (1995), the human development paradigm consists of four main components, namely: First, productivity. Communities must be able to increase their productivity and participate fully in the process of earning income and paid work. Second, equity. Communities must have access to fair opportunities. All obstacles to economic and political opportunities must be removed so that the community can participate in and benefit from this opportunity. Third continuity. Access to obtain opportunities must be ensured not only for the present generation but also for future generations, and fourthly empowerment. Development must be carried out by the community and not just for them. Communities must participate fully in making decisions and processes that affect their lives.

Fiscal policy will influence economic growth and determine the distribution of resources. According to UNDP (1991) the allocation of resources to improve human development can be seen from three ratios: (1) the ratio of public expenditure, defined as the proportion of GNP spent by various levels of government; (2) human development allocation ratio, defined as the proportion of total government expenditure for human development; and finally (3) human development priority ratios, defined as the proportion of total human development expenditure that goes into the 'priority area'.

Fiscal policy is basically related to public expenditure and state revenues. In terms of public expenditure, fiscal policy will improve social welfare, enhance human development, and reduce inequality and other development barriers. Whereas in terms of state revenues, fiscal policy related to the structure of public revenues, especially taxation policies for direct and indirect taxes, will have an impact on the ability of individuals to spend thereby limiting activities related to human development, but on the other hand, if compliance with redistribution functions, hence reducing inequality and poverty (Ali, et al., 2012).

The study of the impact of fiscal policy on human development was carried out by Prasetyo and Ubaidillah Zuhdi (2013), who conducted research on the level of efficiency of government expenditure per capita in the health and education fields in 81 countries on human development using the Data Envelopment Analysis (DEA) approach during 2006-2010. Herrera and Pang (2005) also measured the efficiency of government spending in the health and education sector in Indonesia and developing countries with a period of observation from 1996 to 2002. Whereas Afonso, Schuknecht, and Tanzi (2010) also analyzed the efficiency of government spending on social spending on income differences in OECD countries during 1995-2000. They use public social spending as input and Gini coefficients as output.

In the context of our research, improving education and health achieved by increasing public spending will lead to positive externalities. For this reason, there is a demand for better fiscal policies that focus on public expenditure, especially for the education sector and the health sector. In this context, it is understood that public spending will provide opportunities for citizens to increase human capital and production. At least this opinion is supported by the results of the Lucas (1988) study which found that public expenditure contributed positively to income growth.

Sri Lanka's experience shows that government policies that eliminate the costs of education and health services through the public budget are able to improve human development indicators from 0.513 in 1980 to 0.766 in 2016 and reach the highest place among South Asian countries in Abbas (2001). Even according to the UNDP Sri Lanka's life expectancy at birth increased by 5.5 years, the average school year increased by 2.5 years, and Gross National Income (GDP) increased by around 196.5% between 1990 and 2015. Therefore, Sri Lanka has been classified in the fairly high Human Development category which places it in 73 of 188 countries and regions. Sri Lanka is also ranked as the fastest growing and strong countries like China and India, in terms of human development (UNDP, 2016).

Monetary Policy and Human Development. Monetary policy aims to direct better macroeconomic conditions. Better macroeconomic conditions indicate a desire for price stability as indicated by low inflation, improvements in real output, namely economic growth, and a large number of jobs available to reduce unemployment.

Monetary policy is carried out by regulating the amount of money in circulation. The monetary policy contains government efforts carried out by a central bank which aims to influence money supply on the country's economy. The role of monetary policy can also change interest rates aimed at influencing aggregate expenditure.

The aggregate expenditure in question is investment carried out by the business sector. Investment has an influence on interest rates. If the interest rate is high, the business sector will be reluctant to invest. So that the government must reduce interest rates aimed at increasing the money supply by carrying out monetary policy. From the explanation above, it can be concluded that monetary policy is a government policy in the economic field related to the circulation of money.

The banking function is as a collector, distributor and service provider in the traffic of payment and circulation of money in the community which aims to support the implementation of national development, in order to improve equity, economic growth and national stability towards increasing the welfare of the people. In the financial system, the role of banking plays an indispensable role in economic growth. For this reason, the development of the financial system will enhance human development, and access to financial services has a positive impact on the lives of people, especially the poor. In addition, financial development reduces income inequality and increases income.

Inclusive growth is a multidimensional concept and the concept of inclusiveness. This concept has various definitions, interpretations, and connotations. The various definitions used can sometimes cause confusion, although they also provide flexibility in the operationalization of the concept of inclusive growth (Aoyogi et.al., 2015). This concept of growth is one of the most widely adopted concepts, especially by countries that are stuck in the middle-income trap that face high economic growth followed by large inequality. Although it is recognized by various economists that there is no standard recipe for achieving inclusive growth, the macro approach, trade and labour is still the main strategy. Specifically, fiscal redistribution, monetary policy to support macro stability, structural reforms to stimulate trade, reduce unemployment and increase productivity are considered as determinants of inclusive growth (Aoyogi et.al., 2015).

The majority of poor people in the world do not use the formal financial system. The absence of financial services for the poor makes it difficult for them to make future decisions and leads to inefficient use of resources. Microfinance institutions and savings cooperatives in several countries have made great progress in Indonesia, Malaysia and India (Hannig and Stefan Jansen, 2010). This is the case in Turkey, where the financial inclusion system also plays an important role. So far, regulations in Turkey have largely focused on microfinance as a policy goal to reduce poverty (Yorulmaz. 2012).

The inclusive financial system provides several benefits, in addition to promoting effective allocation of productive resources, as well as more efficient use of resources. The inclusive financial system makes it easy for individuals to access financial services, and this improves financial management. According to Sarma (2008), it is possible that countries can improve efficiency and prosperity with the financial system that provides safe ways and austerity practices and by promoting efficient financial services. The role of the financial sector in facilitating economic growth and poverty reduction is supported by empirical evidence from both countries and countries, a study conducted by Zhuang et al. (2009).

The study of the impact of monetary policy on human development was carried out by Monacelli et al. (2012), and Lenka (2015). Lenka uses the main component analysis to compile the financial depth index (IFD) which functions as a proxy variable from the position of developing state finances. Monacelli and Lenka's studies provide insights to understand various financial sector proxies as well as increase knowledge about the country's financial position.

Research methodology, data, Result and Discussion. This paper examines the impact of fiscal and monetary policies on human development. According to the United Nations Human Development Report (HDR), the Human Development Index (HDI) is calculated by measuring various social indicators for each country. Indicators related to education, health, and income measured in various units are subunits that are converted in the range 0-1. For this conversion, the minimum and maximum values of each indicator are calculated (UNDP, 2010: 216). Although the HDI data since 1990 has not changed, the UN has changed several indicators related to income, health and education. Based on 2013 Human Developments Reports, for the period 1990-1999, health indicators were measured by life expectancy at birth, education indicators were measured from the adult literacy rate and gross enrollment ratio, and income indicators were measured by PPP adjusted GDP. For the period after 2010 the education indicators are measured from expected years of schooling and mean years of schooling, income indicators are measured by GDP per capita, while for health indicators there are no changes. In this study, HDI data is sourced from the 2016/2017 ASEAN Statistical Yearbook.

Referring to the research of Herrera and Pang (2005), Afonso, Schuknecht, and Tanzi (2010) and Kizilkaya (2015) indicators of fiscal policy in this study through approaches from government spending on education and health. Whereas for the selection of indicators of monetary policy refers to the research of Yorulmaz (2012), Lenka (2015), Feldman and Gang, (1990). Based on various indicators developed in previous studies, monetary policy through the approach of bank credit to private and financial system deposits. Data that we use comes from World Bank data, 2009 to 2015. In this study, we used panel data models from six countries ASEAN members, namely: Cambodia, Indonesia, Malaysia, Singapore, Thailand and Vietnam. The choice of sample countries is based on data availability. While the observation period is 2010-2015.

To determine the most appropriate model specifications, we conduct redundant fixed effects tests (chow tests) and correlated random effects (Hausman tests). Based on the regression results using a panel model, it shows that fixed effects are better to use than random effects and pooled least square (PLS).

Table 1. **Human Development Index Model,** *author's*

Variable	Fixed Effect	Random Effect	PLS
BANK_CREDIT	0.000206**)	0.000167	-0.000399
F_SYSTEM	0.001088*)	0.001339*)	0.003330*)
E_EXPEND	0.003540	0.004917	0.063392*)
H_EXPEND	0.019443*)	0.013577	0.056848*)
Constant	0.520416*)	0.526915*)	
R-squared	0.982083	0.320926	-0.128685
F Test	158.3481	3.662607	-

Source: The calculation results, *) significant at alpha 5%, **) significant at alpha 20%.

Based on the results of the above calculations, it can be concluded that HDI is influenced by monetary policy (bank credit to private and financial system deposits) and fiscal policy (spending on health), while fiscal policy related to spending on education has a positive but not significant effect. This indicates that the increase in education achieved through expenditure allocation policies for the education sector has not brought about the optimal impact of positive externalities.

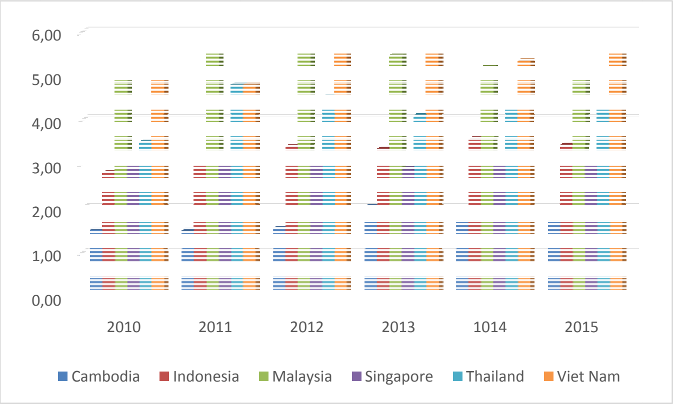

Figure 1. **Budget Allocation for Education of several ASEAN Countries Period of 2010-2015,** *World Bank*

The non-optimal impact of allocations for education can be shown in the net enrollment ratio in secondary schools and the adult literacy rate. According to data from the ASEAN Secretariat, in Cambodia in the 2007-2015 period, the level of school participation only rose from 23% to 35.7%. The low level of school participation is in line with the low budget allocation for education in Cambodia which is also the lowest among the ASEAN member countries studied, which only reached 1.53% of GDP in 2010 and rose to 1.84% in 2015. Meanwhile, The adult literacy rate of the ASEAN countries examined in 2015 has generally been very good, reaching more than 90%, except Cambodia, which has only reached 80.5%. Among ASEAN member countries the highest level of adult literacy rates is Singapore (96.8%), Indonesia (95.9%), Vietnam (94.9%) and Malaysia (94.2%).

Meanwhile, in Malaysia, which has a relatively stable budget allocation (4.97% of GDP) the school enrollment rate has decreased from 87.7% to 68.5%. The best level of school participation is in Singapore which reaches 99.5% (2015) with a relatively stable budget allocation (3.01% of GDP) and Thailand (83%) with a budget allocation of 4.38%, while Indonesia has only reached 77.8 % budget allocation of 3.45%. Overall, the increase in budget allocation for education in the countries studied by 1% will only increase HDI by 0.003540.

Based on the regression coefficient, in general, it can be said that fiscal policy has a positive impact on HDI. This is in line with the research of Suescun (2007), Davis (2009), Qureshi (2009) and Kizilkaya et.al. (2015). Suescun analyzed the impact of government public expenditure on human development in 15 Latin American countries and found a positive relationship between government spending, human development and economic growth. Davies examined the relationship between government consumption expenditure and human development using data from 154 countries for the period 1975-2002, and the study found that government consumption expenditure had a positive impact on the human development index. While the results of Qureshi's findings show that public expenditure improves human development indicators in Pakistan. Qureshi also found that spending on human development not only had an impact at the macro level but also had a positive effect on the micro and household level. Kizilkaya examines the impact of taxes, government expenditures, income and infrastructure (electricity consumption) on human development in 14 OECD member countries with the 1998-2007 observation period. The results also show that government expenditures have a positive impact on human development.

Monetary policy through the domestic credit to private sector approach and financial system deposits in ASEAN countries has a positive and significant impact on human development, but there is a difference in significance level. The domestic credit to private sector variable is significant at alpha 20%, while the financial system deposits variable is significant at alpha 5%.

The findings above are in line with Keynesian and Monetary theory, that economic activity is influenced by a monetary policy through various transmission channels. According to Schwartz and Friedman (1963), the money supply can be increased by the central bank through open market operations. This increases commercial bank reserves and the availability of credit to the public and also increases the money supply several times. When the central bank decides to reduce the money supply, banks and non-bank organizations start buying securities sold by the central bank through open market operations.

The results of this study also show that there are very striking differences in the domestic credit to private sector variables and financial system deposits between the ASEAN member countries studied. There are three countries where the percentage of the financial system deposits against GDP is very low and the others are very high. Three countries with very low financial system deposits are Cambodia, Indonesia and Vietnam. These three financial system deposits in the period 2010-2015 only experienced a very small increase. Cambodia rose from 31.37% to 58.89%, Indonesia rose from 29.34% to 33.1% and Vietnam rose from 12.94% to 15.02%. While the other three countries, namely Malaysia, Singapore and Thailand, the deposits financial system has reached more than 100% in 2015.

Most banking loans in ASEAN are channelled to large-scale businesses, while small businesses that are using them are still small. Based on World Bank data, small businesses that utilize banks are still very small, namely in Cambodia, only 41.1% (2013), Vietnam 28.8%, Malaysia 27% and Indonesia 25% in 2015.

Even though financial development is very important to improve human development, and access to financial services, it is a positive impact on the lives of people, especially the poor. In addition, financial development reduces inequality income and increases income (Yorulmaz, 2012). The lack of small business access to financial services is generally a loan requirement such as physical security. This effect is of limiting only a few households located in relatively isolated areas with low population densities. Difficulties in access to banks can also expand income in quality (Conroy, 2008).

Conclusion. The Human Development Index is influenced by monetary policy in the form of bank credit to private, financial system deposits and fiscal policy in the form of spending on health, while fiscal policy related to spending on education has a positive but not significant effect. This indicates that the increase in education achieved through expenditure allocation policies for the education sector has not brought about the optimal impact of positive externalities. The non-optimal impact of allocations for education can be shown in the net enrollment ratio in secondary school (school participation) and adult literacy rate (adult literacy rate).

Monetary policy through the approach of the domestic credit to private sector and financial system deposits in ASEAN countries has a positive and significant impact on human development, but there is a difference in the level of significance. The domestic credit to the private sector and the financial system deposits are very significant differences between the ASEAN member countries studied. There are three countries with a very low percentage of financial system deposits to GDP, namely Cambodia, Indonesia and Vietnam and three other countries namely Malaysia, Singapore and Thailand, reaching more than 100% in 2015.

Most banking loans in ASEAN countries are channelled to large-scale businesses, while small businesses that utilize them are still small. Financial development is very important to improve human development, and access to financial services makes a positive impact on the lives of people, especially the poor. The lack of small business access to financial services is generally due to loan requirements such as physical security.

The purpose of development is to create a prosperous society. To achieve these objectives, fiscal and monetary policies must be directed at improving human development. In this study to measure the impact of fiscal policy, we are still limited to using indicators of budget allocation for education and health. To look at the impact of fiscal policy on human development, it is not only limited to these indicators. Further research can be developed on other indicators, such as infrastructure spending, other social expenditures, and can even be developed in terms of state revenues. as easy as the monetary policy indicator can be expanded. In the context of HDI, monetary policy should be approached from the portion of loans received by micro and medium enterprises. However, the limitations of data have led us to approach data from the total loans channelled to the business world. In addition, other inclusive financial sector indicators can also be used as a monetary policy approach.

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