



Public Sector Development Strategy as a Driver of Economic Growth: An Endogenous Growth Theory Perspective

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Abstract. *Sustainable and stable economic growth is a key goal for many countries. As times change and global challenges become more complex, it is important for countries to develop effective strategies to promote economic growth. One sector that has an important role in this regard is the public sector. This research aims to analyse the public sector development strategy as a driver of economic growth. The current research type is qualitative. Data collection techniques include listening and recording important information to conduct data analysis through data reduction, data display, and conclusion drawing. The study results show that the public sector development strategy as a driver of economic growth plays an important role in creating a conducive environment for sustainable and inclusive economic growth. In the context of endogenous growth theory, the government has the ability to influence the determinants of economic growth through appropriate policies and actions.*

Keywords: *Public Sector, Economic Growth, Endogenous Growth Theory.*

Abstrak. Pertumbuhan ekonomi yang berkelanjutan dan stabil merupakan tujuan utama bagi banyak negara. Seiring dengan perubahan zaman dan tantangan global yang semakin kompleks, penting bagi negara-negara untuk mengembangkan strategi yang efektif dalam mendorong pertumbuhan ekonomi. Salah satu sektor yang memiliki peran penting dalam hal ini adalah sektor publik. Penelitian ini bertujuan untuk menganalisis strategi pengembangan sektor publik sebagai pendorong pertumbuhan ekonomi. Jenis penelitian saat ini adalah kualitatif. Teknik pengumpulan data meliputi menyimak dan mencatat informasi penting untuk melakukan analisis data melalui reduksi data, *display data*, dan penarikan kesimpulan. Hasil studi menunjukkan bahwa strategi pengembangan sektor publik sebagai pendorong pertumbuhan ekonomi memainkan peran yang penting dalam menciptakan lingkungan yang kondusif bagi pertumbuhan ekonomi yang berkelanjutan dan inklusif. Dalam konteks *endogenous growth theory*, pemerintah memiliki kemampuan untuk mempengaruhi faktor-faktor penentu pertumbuhan ekonomi melalui kebijakan dan tindakan yang tepat.

Kata kunci: Sektor Publik, Pertumbuhan Ekonomi, *Endogenous Growth Theory.*

BACKGROUND

The pursuit of sustainable and stable economic growth is a fundamental goal for many countries. Given the times and the increasing complexity of global challenges, it is imperative for countries to formulate effective strategies aimed at promoting economic growth. The public sector is an important player in this domain. The public sector, comprising of government bodies and public institutions, plays a vital role in formulating economic policies, overseeing business operations, and delivering essential public services to society (Ausat, Al Bana, et al., 2023). In recent decades, there have been significant transformations and developments in the functions and responsibilities of the public sector, fuelled by the complex interplay between the global economy and societal demands.

Effective public sector development has the potential to contribute substantially to a country's economic growth (Manzoor et al., 2019). The public sector has the potential to contribute significantly to economic growth by implementing robust public infrastructure (Y. Zhang & Cheng, 2023), enacting pro-investment policies, improving the quality of public services, and fostering a favourable business environment (Ausat, Velmurugan, et al., 2023). Nevertheless, further understanding and investigation is still needed to understand and explore approaches to utilising the public sector as a catalyst for economic progress. Analysing the potential of the public sector to effectively contribute to improving the investment climate, fostering innovation, creating employment opportunities, and improving the overall quality of life deserves attention.

In addition, public sector development strategies are also influenced by external factors such as globalisation, technological advancement, and environmental issues (L. Zhang et al., 2022). Therefore, it is imperative to conduct research that considers these factors when designing a suitable approach for public sector advancement.

This research aims to analyse public sector development strategies as drivers of economic growth. In this particular context, the research effort will include an in-depth review of existing scholarly works to gain an in-depth understanding of the public sector's involvement in driving economic growth. The expected outcome of this research is poised to offer valuable policy recommendations to government agencies and public institutions in formulating effective approaches to drive economic growth through public sector enhancement. In addition, this study also has the potential to enhance academic understanding of the correlation between the public sector and economic growth.

Through a comprehensive understanding of public sector development strategies as catalysts for economic growth, countries can effectively increase the contribution of the public sector to their economic progress, job creation, and improved public welfare.

THEORETICAL REVIEW

In research on public sector development strategies and economic growth, the most commonly used theory is the Endogenous Growth Theory. The main originators of this theory are two prominent economists, namely Paul Romer and Robert Lucas in the late 1980s (Wijayanto, 2019). This theory emphasises that economic growth is influenced by internal factors, such as investment in human capital, innovation, and the role of the public sector. Endogenous growth theory states that economic growth is not only influenced by exogenous factors such as natural resources or savings rate, but also by endogenous factors that are subject to government policies and interventions (Shen et al., 2021). In this context, it is crucial to recognise the important role that the public sector plays in facilitating an atmosphere conducive to the advancement of economic growth. The theory emphasises that the public sector can be a driver of economic growth through various means, such as:

1. Investment in human capital: The public sector has the potential to contribute to improving access to and quality of education, thereby enhancing the capabilities of the workforce and boosting economic competitiveness.
2. Innovation and research and development: The promotion of innovation in the public sector can be achieved through various means, such as providing assistance for research and development, allocating financial resources to research initiatives, and establishing a conducive environment that facilitates innovation in the private sector.
3. Pro-investment policies: The public sector has the capacity to formulate policies aimed at improving the investment climate, including favourable fiscal policies and investment-related regulations.
4. Improved efficiency of public services: Improving the quality and efficiency of public services in the public sector has the potential to increase productivity in the private sector.
5. Public infrastructure: Strong public infrastructure development by the public sector, including efficient transport networks, reliable energy systems, and state-of-the-art telecommunications, plays an important role in driving economic growth.

Endogenous growth theory offers a comprehensive framework to examine the correlation between the public sector and economic growth. The application of this theory in the study of

public sector development strategies enables effective analysis and policy formulation in enhancing the contribution of the public sector to sustainable economic growth.

RESEARCH METHODS

This research aims to analyse the public sector development strategy as a driver of economic growth. In this study, researchers conducted desk research so that there was no need to go directly to the field during the data collection process, but rather examine various reference sources that support this research. Literature was obtained from online media and databases from journal portals in accordance with keywords related to this discussion, namely public sector strategies and their relation as drivers of economic growth in the perspective of endogenous growth theory. The author does not focus on specific journal portals or online media in determining relevant reference sources such as referring to Emerald Insight, ResearchGate, and Elsevier journal portals, but is more flexible. In this article, with a focus on public sector development strategies as a driver of economic growth, the author makes the keywords the focus of the search so as not to widen the main discussion. The search for journals, articles, and publications is mostly in the range of articles published between 2018 and 2023. Not all writings, journals, and publications that appear from the search results will be used, but only those related to public sector development strategies and economic growth in the perspective of endogenous growth theory.

This research is a type of qualitative research. Data collection techniques include listening and recording important information to conduct data analysis through data reduction, data display, and conclusion drawing in order to obtain an overview of the conclusions regarding the literature study that will be developed in this study. Data validation using data source triangulation.

RESULTS AND DISCUSSION

Public sector development strategies, employed by governments and public institutions, serve as a catalyst for economic growth by maximising the contribution of the public sector in driving the nation's economic progress (Surya et al., 2021). In this framework, the public sector encompasses the central government, local governments, and various public entities that bear the responsibility for delivering public services and overseeing the administration of public resources.

The importance of the public sector in promoting economic growth lies in its ability to create a conducive investment climate, improve economic competitiveness, stimulate

innovation, and develop infrastructure that facilitates private sector operations. The goal of a public sector development strategy is to improve the efficiency, effectiveness, and operational responsibility of the government in fulfilling its obligations to promote sustainable economic growth (Kruk et al., 2018).

Improving the quality of public policies is an important element of this strategy. Effective public policies are critical in promoting a conducive investment climate and offering the right incentives to stimulate private sector engagement. To achieve this goal, it is critical for governments to utilise a results-based methodology, which is based on a comprehensive assessment of economic requirements and constraints. The incorporation of empirical data and evidence in the decision-making process is crucial to ensure policy effectiveness (Demir, 2020).

In addition, public sector development strategies also include institutional reform. This entails modifications in government frameworks, procedures and operational systems with the aim of improving the capability and efficacy of public institutions. Potential reforms could include improved management systems, advances in governance practices, and increased transparency and accountability. Through the improvement of public institutions, governments have the potential to reduce corruption (Ceschel et al., 2022), increase administrative effectiveness, and provide better public services to citizens.

Furthermore, implementing a public sector development strategy requires the allocation of resources for human resource enhancement and organisational capability development. It is imperative for governments to ensure that public sector employees have the necessary skills and knowledge to carry out their professional responsibilities effectively. This objective can be achieved through the implementation of continuous training and development initiatives, in addition to improving the selection and recruitment process of public sector employees. In addition, the government must improve administrative and technical capacity to effectively strategise, implement and monitor public policies and programmes.

Infrastructure development is a crucial element in the public sector development strategy. Sustainable economic growth depends on the existence of adequate and high-quality infrastructure. It is crucial for the government to ascertain the sectors that require infrastructure investment and strategise for development accordingly. This includes the advancement of transport infrastructure such as roads, bridges, harbours, airports, as well as the development of communication networks and the exploration of energy resources. The utilisation of

information and communication technology (ICT) has the potential to accelerate infrastructure development and improve public sector efficiency (Farmansyah & Isnalita, 2020).

Furthermore, it is crucial for public sector development strategies to consider environmental issues and prioritise sustainable development. The government needs to actively promote the advancement of environmentally sustainable public sector development, which includes the use of renewable energy sources, effective waste management practices, and preservation of natural resources. On the other hand, it cannot be overlooked for the government to ensure that economic progress resulting from public sector development does not neglect the principles of social justice and equity, thereby promoting the fair and impartial distribution of benefits across society.

In summary, the approach to promoting the public sector as a catalyst for economic expansion encompasses a range of measures aimed at enhancing the public sector's contribution to creating a climate conducive to sustainable economic development. The promotion of inclusive, sustainable and socially beneficial economic growth can be achieved through various means, including improving public policies, implementing institutional reforms, investing in human capital, developing infrastructure and prioritising environmental stewardship.

The study of the relationship between public sector development strategies as catalysts for economic growth and endogenous growth theory requires a comprehensive understanding and application of the principles inherent in this theory to formulate and implement efficient public sector development strategies. Within this particular framework, endogenous growth theory places significant emphasis on the relevance of factors that serve as catalysts for economic growth, which can be controlled and influenced through government policies and actions.

Human capital accumulation is a fundamental concept in the endogenous growth theory framework. It is concerned with the allocation of resources for the improvement of education, training and skills development in the labour force. Within the framework of public sector development strategies, the government has the capacity to take an important role in improving the quality and availability of education and training. Improving human capital through investment in education and training can contribute to the creation of sustainable economic growth and innovation, with the public sector playing an important role in this endeavour (Suhaili et al., 2020).

In addition, it is worth noting that endogenous growth theory places significant emphasis on the role of research and development (R&D) in driving long-term sustainable economic growth. Within the framework of public sector development strategies, governments have the capacity to foster innovation and technological progress by allocating resources to research and development (R&D). The government has the capacity to offer various forms of incentives, subsidies, and research infrastructure to both the public and private sectors in order to foster and encourage research and development efforts (Sarpong et al., 2023). The promotion of innovation in the public sector can catalyse economic growth by encouraging the creation of new products, improving production efficiency, and promoting the development of new products.

Furthermore, it should be noted that endogenous growth theory places significant emphasis on the role of infrastructure investment as an important factor in determining long-term economic growth. In the realm of public sector development strategies, the government plays an important role in facilitating infrastructure development that fuels economic expansion. Investments in transport infrastructure, such as roads, bridges, airports, harbours, and communication networks, have the potential to improve economic connectivity, operational effectiveness, and overall productivity. The presence of strong infrastructure can also increase the attractiveness of private investment and facilitate the advancement of economically promising sectors (Nguyen, 2021).

Moreover, endogenous growth theory places significant emphasis on the critical role of capital and financial accessibility for entrepreneurs and small and medium enterprises. Within the framework of public sector development strategies, the government has the capacity to provide assistance and incentives to entrepreneurs and small and medium enterprises (SMEs) through the implementation of policies that streamline the process of obtaining capital, financing, and business services (Subagja et al., 2023). The government has the ability to foster a conducive atmosphere for private sector growth through measures such as improving the investment climate, simplifying bureaucratic processes, and ensuring legal protection and legal certainty for investors.

Endogenous growth theory also emphasises the importance of maintaining stable and consistent macroeconomic policies. Within the framework of the public sector development strategy, it is imperative for the government to implement prudent fiscal and monetary policies in order to uphold economic stability and reduce uncertainty. The implementation of balanced

fiscal policy, responsible deficit management, and accommodative monetary policy can foster an enabling environment for growth in both the public and private sectors.

To enhance the correlation between public sector development strategies as catalysts for economic growth and endogenous growth theory, it is imperative for governments to utilise comprehensive and interconnected methodologies. This includes the need for effective collaboration between public institutions, active involvement of the private sector and civil society, and the application of appropriate policy tools to promote sustainable and inclusive economic development.

In summary, the correlation between public sector development strategies as catalysts for economic growth and endogenous growth theory can be established by emphasising human capital accumulation, research and development, investment in infrastructure, access to capital and finance, and the implementation of stable macroeconomic policies. Through the incorporation of these principles into the public sector development strategy, the government can play an important role in fostering a conducive environment for sustainable and innovative economic expansion.

CONCLUSIONS AND SUGGESTIONS

The analysis we have presented above leads to the conclusion that public sector development strategies, when used as catalysts for economic growth, have a significant role to play in creating an enabling atmosphere for sustainable and inclusive economic progress. Within the framework of endogenous growth theory, it is recognised that governments have the capacity to influence the factors that determine economic growth by implementing appropriate policies and taking relevant actions. The following are some suggestions that can be drawn from the above explanation:

1. Increase investment in education and training: It is imperative for the government to place emphasis on improving the quality and accessibility of education and training to enhance the development of high-quality human resources. Achieving this goal can be done by implementing appropriate curriculum development strategies, improving the quality of teaching practices, and implementing effective training programmes.
2. Encourage innovation and research: Governments should allocate sufficient resources to facilitate research and development (R&D), while also implementing measures to incentivise participation in R&D activities by both the public and private sectors. The provision of subsidies, establishment of research facilities, and fostering collaboration

between the public and private sectors can be catalysts for encouraging innovation and facilitating technological advancement.

3. Investment in infrastructure: The government should increase its investment in infrastructure development that facilitates sustainable economic expansion. Infrastructure upgrades related to roads, bridges, airports, harbours, and communication networks are anticipated to drive improved connectivity and enhance economic productivity.
4. Improve access to capital and finance: The government needs to create a conducive atmosphere that facilitates the growth of entrepreneurs and SMEs through facilitating their access to capital, finance, and business services. The promotion of private sector growth can be facilitated through the implementation of fiscal incentives, the establishment of clear regulations, and the provision of adequate support services.
5. Adopt stable macroeconomic policies: It is imperative for the government to maintain economic stability by implementing prudent fiscal and monetary policies. The adoption of balanced and consistently applied policies has the potential to foster an enabling environment for public and private sector growth.
6. Adopt an integrated and holistic approach: The government needs to implement a cohesive strategy that involves collaboration among various public institutions, the private sector and civil society. Effective collaboration and partnerships have the potential to enhance the effectiveness of public sector development strategies in their role as catalysts for economic growth.

By incorporating the above-mentioned recommendations, the government can increase public sector engagement in facilitating sustainable economic growth, enhancing economic competitiveness, and promoting equitable social returns.

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