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GOVERNMENT POLICIES IN DRIVING LOCAL AND NATIONAL ECONOMIC GROWTH AND THEIR IMPACT ON STATE REVENUE THROUGH TAXES AND LEVIES

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Abstract

Economic growth is one of the main indicators of a country's development success, both at the local and national levels. The government plays a strategic role in driving this growth through fiscal and monetary policies, infrastructure development, strengthening the productive sector, and empowering MSMEs. Synergy between central and regional policies is a key factor in creating inclusive, sustainable, and equitable growth across regions. This study uses a literature review method by analysing various academic sources, official government publications, and research reports related to the relationship between government policies, economic growth, and state revenue. The results of the study show that positive economic growth can expand the tax base, increase state revenue through income tax, value-added tax, local taxes, and levies. In addition, equitable growth contributes to an increase in local revenue, which supports fiscal independence. To optimise the contribution of economic growth to tax and fee revenue, adaptive and integrative policies are needed, along with tax reforms that emphasise broadening the tax base, digitalising services, and improving taxpayer compliance. These findings confirm that the integration of economic and fiscal policies is a determining factor in strengthening the capacity for national development financing and improving public welfare.

Keywords: Government policy, economic growth, taxes, levies, state revenue, fiscal decentralisation.

Introduction

Economic growth, both at the local and national levels, is one of the main indicators of a country's development success. This success is not only measured by an increase in Gross Domestic Product (GDP) or Gross Regional Domestic Product (GRDP), but also by how this growth can provide equitable welfare to the community (Harefa, 2025) . The government, as the policy maker, plays a strategic role in creating a conducive economic climate through fiscal, monetary, and sectoral policies aimed at encouraging investment, enhancing competitiveness, and expanding employment opportunities. In this context, government policies are not merely administrative instruments but are determining factors in the direction of economic development (Bappenas, 2021) .

Government policies to spur economic growth cover various aspects, ranging from simplifying regulations to facilitate business licensing, providing fiscal incentives for investors, developing infrastructure, to empowering MSMEs (Micro, Small and Medium Enterprises) (Fiscal PolicyAgency of the Ministry of Finance . At the local level, policies are directed towards optimising regional potential in line with comparative and competitive advantages, while at the national level, macroeconomic policies are designed to maintain price stability, exchange rates, and controlled inflation. Policy synergy between the central and regional governments is crucial because imbalances in growth in one region can affect overall economic performance (Nugroho, 2022) .

The relationship between economic growth and state revenue — particularly from taxes and levies — is close and mutually influential. Positive economic growth expands the tax base, increases consumption and production, thereby increasing government revenue. Conversely, a decline in economic performance can narrow the government's fiscal space to finance development (. Therefore, designing policies that can promote economic growth while expanding the potential for government revenue is a challenge for public policymakers.

Taxes, as the main source of state revenue, require a strong economic foundation in order to achieve revenue targets. Increased economic activity in both the formal and informal sectors creates new tax potential that can be mobilised. Similarly, local government revenues—as a financing instrument for development at the local level—depend on the intensity and quality of public services provided by local governments. Therefore, the success of government policies in driving economic growth will directly reflect in increased tax and revenue potential (Chatra, 2025) .

In practice, government policies often face a dilemma between creating incentives for economic growth and maintaining adequate tax revenues. For example, fiscal incentives such as tax rate reductions or tax exemptions for certain sectors may encourage short-term investment, but could potentially reduce tax revenue over a certain period of time (Jaiyesimi, 2024) . Therefore, the formulation of balanced, data-driven policies that consider long-term impacts is of utmost importance.

The increasingly integrated global economy is also increasingly influencing government policy strategies. Free trade, international capital flows, and digital technology developments bring both opportunities and risks for national economic growth. Policies to boost the local economy cannot be separated from the influence of the global market, so the government must be able to formulate adaptive strategies. These strategies include protecting strategic sectors, strengthening the competitiveness of the national industry, and enhancing the state's revenue base through fair and efficient taxation. .

The importance of a decentralised fiscal approach in this context cannot be ignored. Granting greater authority to local governments in regulating taxes and levies aims to increase fiscal independence and responsiveness of policies to local needs. However, the effectiveness of this decentralisation depends on the fiscal capacity, administrative capabilities, and human resources available at the local level. Without adequate capacity, policies designed to stimulate economic growth or increase local revenue will not be optimal. (Ulil Albab Institute, 2024) .

The issue of economic inequality between regions is also a focus of government policy discussions. Growth that is concentrated in certain areas can widen income and employment disparities. This has implications for differences in tax and revenue potential between regions. Therefore, economic growth policies must ensure equitable development between regions through fiscal instruments that are capable of channelling resources to disadvantaged areas (Asroni, 2023) .

From a historical perspective, Indonesia's economic development has shown that changes in fiscal policy and the real sector have a direct impact on the increase or decrease in state revenue. Tax reforms, bureaucratic improvements, and infrastructure development have proven to spur economic activity in various sectors. However, challenges such as low tax compliance, a large informal economy, and tax avoidance practices remain obstacles to optimal revenue growth (Pamungkas & Sesanti, 2023) . In addition to economic factors, legal and regulatory aspects also play a crucial role. A clear, consistent, and predictable legal framework provides certainty for businesses and investors. Regulatory reforms that simplify licensing processes, reduce transaction costs, and enhance transparency will create a conducive business environment (Directorate General of Taxes, 2025) . This, in turn, will drive economic growth while expanding the government's revenue base.

Research Method

This study uses a qualitative descriptive literature review method to analyse the relationship between government policies, local and national economic growth, and their impact on state revenue through taxes and levies. The research data was sourced from scientific literature such as textbooks, journal articles, official government publications, research reports, and relevant policy documents (Eliyah & Aslan, 2025) . The data collection process was carried out through systematic searches of academic databases and reliable digital sources, followed by selection based on criteria of relevance, credibility, and actuality. Data analysis uses a thematic approach to identify concepts, patterns, and relationships between variables discussed, thereby providing a comprehensive overview of the effectiveness of government policies in driving economic growth and their impact on increasing tax and fee revenues (Tranfield et al., 2003) .

Results and Discussion

Government Policies in Promoting Local and National Economic Growth

Government policy plays a very important role in determining the direction and pace of economic growth, both at the local and national levels. These policies serve as a basic framework that regulates investment, production, distribution, and trade, all of which are the main foundations of a country's economic management. Effective government intervention not only creates a conducive business climate but also encourages innovation, ensures optimal resource allocation, and maintains socio-economic stability. Sustainable economic growth cannot be separated from integrated and well-planned policy strategies that can positively impact income growth, job creation, and equitable development. (Fareed, 2023) .

At the local level, local government policies are generally designed to maximise the comparative and competitive advantages of each region. This can be achieved through various strategic measures, such as providing fiscal incentives to local businesses, developing infrastructure to support economic activities such as roads and markets, and simplifying business licensing regulations to facilitate the investment process (Sulastri, 2025) . Local governments play a significant role in driving growth in key sectors that can absorb labour and increase local revenue (PAD). However, the success of these local policies heavily depends on synergy with national-level policies to avoid disparities in development between regions, which could hinder overall growth (Handini, 2025) .

At the national level, the government has the authority to formulate macroeconomic policies, including fiscal, monetary, and trade policies, to ensure economic stability. Fiscal policy, for example, is implemented through government spending on infrastructure development, education, health, and other productive sectors, as well as through tax management to encourage business activities (Budiarto, 2024) . Meanwhile, monetary policy, controlled by financial authorities, aims to keep inflation under control, maintain exchange rate stability, and ensure liquidity in the market. The macroeconomic stability created by this combination of policies is a factor of confidence for businesses and investors, both domestic and international, to invest their capital (Prabowo, 2024) .

Investment in human resource development is one of the main focuses of government policy that has a significant impact on long-term economic growth. Targeted education and training can improve workforce skills, boost productivity, and stimulate creativity and innovation. Countries that are able to build quality human capital are usually more competitive in facing global competition. Policies in this area not only target formal education, but also vocational programmes, industrial training, and research and innovation support that are integrated with the needs of the labour market (Purwanto, 2024) . In addition, the government recognises that the micro, small and medium enterprise (MSME) sector plays a vital role in expanding the economic base. Policies aimed at strengthening MSMEs, such as tax incentives, access to low-interest financing, business management training, and facilitation of product promotion in national and global markets, will have a significant impact on local economic growth. MSMEs have advantages in terms of flexibility and adaptability to the market, so policies supporting this sector play a direct role in promoting equitable economic growth (Ministry of Finance of the Republic of Indonesia, 2025) .

Infrastructure development is one of the main pillars of government policy because it serves as a driver of the economy. Good infrastructure — such as transportation networks, energy, clean water, telecommunications, and the internet — can reduce transaction costs, facilitate the distribution of goods and services, and increase the speed of trade. Governments that consistently invest in infrastructure not only stimulate short-term economic activity through construction projects but also lay the groundwork for future productivity growth. (OECD, 2025) .

Regulatory reform is also one of the key strategies implemented by the government to improve the business climate. Simplifying and digitising licensing processes will reduce bureaucratic barriers, lower economic costs, and enhance transparency and accountability. Intellectual property rights protection, legal certainty for business contracts, and fair enforcement of the law are key factors influencing investors' decisions to invest capital. When regulations are more investment-friendly, economic growth tends to increase significantly (Riawati, 2022) .

As global economic interconnectivity increases, governments face the challenge of formulating policies that are responsive to changes in world trade dynamics, technological developments, and environmental issues. Globalisation brings broader market opportunities but also intensifies competitive pressures and risks to domestic sectors. Policies focused on sustainable development are crucial to ensure that economic growth does not come at the expense of environmental sustainability or widen social disparities, thereby safeguarding the well-being of both current and future generations (Suryaman, 2025) .

Fiscal decentralisation and the transfer of administrative authority from the central government to regional governments are important policies for improving the effectiveness of development. With greater authority, regional governments can design policies that are better suited to the characteristics and needs of their regions. However, the success of decentralisation depends heavily on fiscal capacity, human resources, and good governance at the local level. Without adequate support, decentralisation can lead to regional disparities (Wahjoe, 2025) .

Economic growth policies are also inseparable from the drive for innovation and technology adoption as key factors in moving towards high value-added industries. The government supports this process through research funding schemes, the development of innovation hubs, and cooperation with the private sector and educational institutions. Strengthening patent and copyright protection is also part of the policy to motivate businesses to continue innovating so that they can compete in the global knowledge-based market. (Manggala, 2024) . Partnerships between the government and the private sector, or more commonly known as Public-Private Partnerships (PPP), are becoming an increasingly popular trend in strategic economic projects. Through this scheme, the government can utilise the efficiency and capital of the private sector while maintaining a focus on public interests. PPPs are widely used in large-scale infrastructure development, healthcare, education, and renewable energy. This partnership enables accelerated development while preserving the quality of public services (Jasiyah, 2024) .

Ultimately, the main objective of economic growth policy is to create inclusive development, reduce disparities between social groups and regions, and expand economic opportunities for all. Effective policy strategies must be data-driven, integrated across sectors, and consider the balance between economic efficiency, social equity, and environmental sustainability. With the right policy framework, sustainable economic growth will bring widespread benefits, enhance national competitiveness, and improve the quality of life for all citizens.

The Impact of Economic Growth on Government Revenue through Taxes and Fees

Sustainable economic growth directly contributes to increased state revenue, particularly through the tax and retribution sectors. When the economy grows, production, consumption, and trade activities increase, thereby broadening the tax base. This opens opportunities for the government to optimise revenue from various types of taxes, such as Income Tax, Value-Added Tax (VAT), and Property Tax, as well as fees imposed on certain public services. Thus, economic growth is not only an indicator of progress but also the primary source of funding for national development. (Setiawan, 2022) .

An increase in Gross Domestic Product (GDP) affects the number of taxpayers, business turnover, and purchasing power. This increase in purchasing power encourages consumption of goods and services, which automatically increases consumption tax revenue, such as VAT and excise. In addition, growing businesses that earn higher profits will pay higher corporate income tax (Yuda, 2024) . Therefore, real economic growth naturally stimulates tax revenue flows, providing broader fiscal space for the government to finance various development and social programmes. In addition to taxes, local government revenues also benefit from economic growth, particularly at the local level. Increased economic activity and public services enhance the potential for local government revenues from sectors such as business licensing, use of public facilities, and administrative services (Purwanto, 2024) . As the local economy grows, demand for government services increases, thereby boosting local government revenue (PAD) from fees. By efficiently increasing fees, local governments can become more self-reliant in funding regional development (Suryanto & Setiawan, 2024) .

However, the impact of economic growth on tax and levy revenue is not always linear and unimpeded. For example, if economic growth is dominated by the informal sector, which is poorly covered by the tax system, then the potential revenue from that sector will be limited. Similarly, if there are inefficiencies in the tax and fee administration system, such as weak oversight or high levels of tax evasion, then economic growth may not fully translate into optimal increases in government revenue (Sulistyo, 2022) .

Rapid economic growth must also be balanced with adaptive and progressive taxation policies so as not to weaken investment and consumption incentives. The government needs to design a fair and efficient tax system that maximises revenue without imposing excessive burdens on economic actors. Tax reforms, including digitalisation of the system, simplification of regulations, and improvement of taxpayer compliance, are strategic steps in optimising the impact of economic growth on state revenue (Jusuf, 2021) .

Furthermore, tax revenue is also influenced by the economic structure and types of activities that dominate growth. Sectors with high added value and good tax compliance, such as manufacturing and formal services, can contribute more to tax revenue. Conversely, economic growth in small-scale agriculture or informal businesses may have limited contributions to tax revenue (Mutia et al., 2025) . Therefore, successfully integrating the informal sector into the tax system is crucial. The dependence of regions on retribution also requires improved administrative capacity and innovation in tax and retribution management. Local governments that are able to manage taxpayer and service user data well can significantly increase revenue potential. Digitalisation of fee collection services, the use of information technology, and transparency in financial management will improve compliance and minimise revenue leakage (Wang, 2025) .

Economic growth also has an indirect impact on state revenue through increased foreign and domestic investment activity. Increased investment expands the tax and levy base through the growing number of companies operating and generating profits. In addition, investment brings new technology and more efficient business practices, increasing national productivity and production capacity, which in turn leads to increased tax revenue (Jasiyah, 2023) .

In the context of globalisation, adequate economic growth also enables the government to optimise taxes from the international trade sector, such as import duties and export-import excise taxes. Increased trade flows resulting from economic growth create a broader scope for customs and excise taxes. Harmonious fiscal policies between the central and local governments in collecting and managing taxes and fees are key to the success of the national tax system (Yusuf, 2022) .

Tax compliance and public awareness of tax obligations can also increase in line with economic growth and improvements in the quality of public services. People who feel the benefits of development through taxes and levies tend to have greater motivation to pay taxes. Therefore, transparency in the management of tax funds and their benefits to the public are very important to maintain and increase state revenue (Harefa, 2025) . However, fiscal policy must continue to be adjusted to economic dynamics so that the goal of increasing tax and levy revenue does not sacrifice economic growth itself. The imposition of excessively high taxes or burdensome fees can lead to negative effects such as reduced investment, decreased consumption, and the emergence of illegal economic activities. Therefore, balancing the promotion of economic growth with the maintenance of government revenue is a critical factor in policy formulation (Nugroho, 2022) .

Overall, positive and sustainable economic growth is the main driver of increased state revenue through taxes and levies. The government must continue to optimise policy synergies between economic growth management and an effective and efficient taxation system. Thus, state revenue can increase steadily and be used to finance inclusive development, strengthen fiscal independence, and improve the welfare of the wider community.

Conclusion

Government policies play a strategic role in driving local and national economic growth through a combination of fiscal, monetary, regulatory, infrastructure development, human resource development, and support for productive sectors such as MSMEs, industry, and investment. Synergy between policy- t at the central and regional levels is key to ensuring equitable growth, reducing regional disparities, and creating a conducive business climate. The economic growth achieved is not merely about increasing GDP figures, but rather about inclusive, sustainable development that improves the well-being of the broader community.

Positive economic growth has proven to have a significant impact on increasing state revenue through taxes and levies. Greater economic activity broadens the tax base, increases consumption, trade, and investment, which in turn increases the potential revenue from income tax, value-added tax, local taxes, and various forms of levies. The equitable distribution of economic growth across all regions also promotes fiscal autonomy at the local level through increased Local Original Revenue (PAD). As a result, the success of economic policies directly contributes to the sustainability of funding for both national and local development.

To optimise the impact of economic growth on state revenue, the government needs to ensure that the policies formulated are adaptive, inclusive, and long-term oriented. Tax reforms that expand the tax base, improve taxpayer compliance, and digitise tax and revenue administration are strategic steps to minimise revenue leakage. In the context of a global and rapidly evolving technological landscape, integrated economic and fiscal policies will be key determinants in maintaining growth stability, strengthening fiscal capacity, and achieving equitable development goals.

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