RICARDIAN EQUIVALENCE PARADIGM CONTRADICTION: GOVERNMENT DEBT AS A FISCAL POLICY INSTRUMENT AGAINST CONSUMPTION IN 6 ASEAN COUNTRIES

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Abstract

Fiscal policy in the form of government debt becomes an interesting debate using the Ricardian Equivalence Hypothesis. Because the Ricardian Equivalence Hypothesis is opposite to Keynes's theory. Ricardian Equivalence Hypothesis assumes that the community behaves rationally, government debt at this time will lead to public burden in the future, and the government debt will not affect society's consumption. Ricardian Equivalence Hypothesis becomes an interest in various countries of ASEAN with the majority of emerging economies. The study will examine the validity od the ricardian equivalence hypothesis in 6 ASEAN countries by using secondary data on household consumption, government debt, gross domestic bruto, government expenditure and tax revenue. The study is a data panel model in the period following the Asian crisis in1998 and the period following the global crisis in 2008. The aftermath of the Asian crisis showed a variable of government debt, gross domestic bruto and government expenditure with a significant overpost on household consumption while the tax revenue variable had a negative relationship to household consumption. The results estimation of the global post-crisis estimates indicate gross domestic bruto variable with significant overage on household consumption while the government debt variable, government expenditure and tax revenue have a negative relationship to household consumption.

Keywords: Government Debt; Ricardian Equivalence; Consumption; ASEAN; Panel Data Model

JEL classification: E62

1. INTRODUCTION

Fiscal policy in the form of government debt becomes an interesting debate with the theory named Ricardian Equivalence Hypothesis presented by Barro (1974). Ricardian Equivalence Hypothesis views that government debt incurred by the government does not have an impact on the economy through public consumption variables, but paradigms Ricardian Equivalence Hypothesis is still being pros and cons by various researchers because it contradicts Keynesian theory. Many studies support its validityRicardian Equivalence Hypothesis, including research by Mosikari & Eita (2017) in the country of Lesotho, Marzouk & Oukhallou (2017) in the country of Morocco and Ayunasta, Setiaji & Hakim (2020) in the country of Indonesia after the 2008 global crisis.

Meanwhile, there are some researchers reject the enactment Ricardian Equivalence Hypothesis and finding results that are in line with the Keynesian view, Keynes argues that fiscal policy to finance more spending will affect public consumption. Research results that refuse

Ricardian Equivalence Hypothesis namely Shamsi, Waqas & Zahid (2016) in Pakistan, Abada (2016) in Nigeria, then research by Cassar, Davidson & Xuereb (2018) in Malta, Ofori-Abebrese & Pickson (2018) in African countries namely Boswana, Gambia, Ghana, Kenya and Nigeria. Further research conducted by Nosakhare (2019) in Nigeria and research conducted by Ayunasta, Setiaji & Hakim (2020) in Indonesia after the 1998 Asian crisis.

Public consumption can change if a country experiences an economic crisis, such as the Asian crisis in 1998 and the global crisis in 2008. Interestingly, after the crisis occurred it resulted in an increase in government debt in the majority of ASEAN countries in an effort to restore economic stability, thus impacting the country's economic growth. . Determining the direction of a country's fiscal policy can increase the output in the economy (Chaerani, 2018). Economic growth can also be used as material for calculating income received by the community for activities in consumption activities. According to research conducted by Ofori-Abebrese & Pickson (2018) the results obtained a positive influence betweengross domestic bruto with public consumption in 5 African countries, namely Botswana, Gambia, Ghana, Kenya and Nigeria.

While different results were obtained by Mosikari & Eita (2017) in the country of Lesotho which found a negative relationship betweengross domestic bruto with public consumption in the country of Lesotho. The economic growth rate is also influenced by the strategic policies undertaken by the government in infrastructure development projects, this is a benchmark in the government's efforts to carry out appropriate fiscal policies. This fiscal policy is important for regulating government spending in order to increase the country's economy effectively. However, the high government spending has an impact on the increasing need for sources of state revenue. Nosakhare's research (2019) in Nigeria found that government spending had a negative impact on consumption levels.

However, these findings contrast with the research by Kusairi, Maulina & Margaretha (2019) in 18 Asia Pacific countries which found the results of government spending had a positive effect on consumption. In order to accommodate the financing of government spending which is increasing every year, it is necessary to increase the amount of tax revenue to support the balance of the budget. Research by Meissner & Rostam-Afschar (2017) in Germany found changes in tax revenues had a significant effect on consumption levels, but these findings contradict Saraswati's research (2018) in Indonesia which found tax revenues had no impact on consumption rates in Indonesia.

There is research gap This makes researchers interested in exploring the effect of government debt on household consumption and testing whether it applies or notRicardian Equivalence Hypothesis in the ASEAN-6 countries which include Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam during the aftermath of the 1998 Asian crisis and after the 2008 global crisis. By using the variables taken, namely household consumption, economic growth orgross domestic bruto, government spending, tax revenue, and government debt.

In paradigm Ricardian Equivalence Hypothesis, It is assumed that consumer behavior has a rational view of seeing the government debt problem and its impact in the future. Current tax cuts will impact the future. This will trigger consumers to save their current income to finance taxes in the future, so that current consumption will not change. In principle, debt and tax cuts do not affect consumption (Barro, 1989).

The research hypothesis is formulated as follows:

H1 :Gross Domestic Bruto suspected to have a positive and significant effect on the rate of household consumption in ASEAN 6 countries.

H2: Government spending is thought to have a positive and significant effect on the rate of household consumption in ASEAN 6.

H3: Tax revenue is suspected to have a positive and significant effect on the rate of household consumption in ASEAN 6 countries.

H4: Government debt is suspected to have a positive and significant effect on the rate of household consumption in ASEAN 6 countries.

2. RESEARCH METHOD

The scope of this study will review household consumption variables, gross domestic bruto, government output, tax receipts and government debt in 6 ASEAN countries that include Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam in 2 time periods, namely after the 1998 Asian crisis and after the 2008 global crisis. The type of data in this study is quantitative and secondary data taken through sources fromWorld bank and IMF, the secondary data used is panel data, which is a combination of 2 data including time series data (time series) with cross-place data (cross section) collected from 1997-2018.

The operational definition of variables in this study has 2 kinds: the dependent and independent variables. Consists of household consumption as the dependent variable. Meanwhile several variables includegross domestic bruto, government spending, tax revenue, and government debt as independent variables.

The research model is applied to a model as follows:

$$Cit = ß0 + ß1\ Gdpit + ß2\ Geit + Taxit + ß4\ Gdit + andt$$

Information :

C   = Consumption

Gdp   = Gross Domestic Bruto

Ge   = Government spending

Tax   = Tax revenue

e   = Error term

3. RESULTS AND DISCUSSION

3.1 Results

Model Selection

The regression technique to be tested on panel data includes CEM (common effect), FIVE (fixed effect), and REM (random effect). Selection using model testing namely Chow testing, Hausman testing and testing Long Range Multiple. First, the selection of the best model after the Asian crisis was carried out with the Chow test, it is known that the Chow test produces a probability value of 0.0000. So that figure explains (0.000 < 0.05) at a = 0.05. So, the best model between CEM and FEM used is FEM. After that in the Hausman test, it is known that the Hausman test produces a probability count value of 0.5080. This figure explains (0.000 < 0.05) at a = 0.05. So, the best model between FEM and REM to be used is REM. Furthermore, it is known that the LM test shows a probability value of 0.0013, this figure explains (0.00 <0.05) at a = 0.05. So, the best model between REM and CEM to be used is REM. This reveals that the best model in the post-crisis regression analysis of Asia is REM (random effect model).

Ricardian Equivalence Paradigm Contradiction:
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(P-ISSN 2354 – 6417)
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The second is to select the best model after the global crisis, it is known that the Chow test shows a probability value of 0.0000. This figure explains (0.000 < 0.05) at a = 0.05. So, the best model between CEM and FEM used is FEM. After that, it is known that the Hausman test shows a probability value of 0.8099, this figure explains (0.000 <0.05) at a = 0.05. So, the best model between FEM and CEM that is used is REM. Furthermore, the LM test is carried out, it is known that the LM test shows a probability value of 0.000, this figure explains (0.000 < 0.05) at a = 0.05. So the best model between REM and CEM that is used is REM (random effect model). This confirms that the best model used in the post-global crisis regression analysis is REM (random effect model).

Post-Asian Crisis Statistical Test Results

Table 1.
Post-Asian Crisis Significance Test Results

Independent variable	Coefficient	Standard Erorr	Statistical t value	Probability
C	-1.185273	0.755337	-1.569198	0.1218
GDP	0.901852	0.078424	11.49971	0.0000
GE	0.140051	0.051743	2.706684	0.0088
TAX	-0.057582	0.047711	-1.206901	0.2321
GD	0.048354	0.015964	3.028965	0.0036

Source: Data processed by eviews 10

By using the best estimation model in post-crisis Asia, namely REM, seen from Table 1, the table above shows that the variablesgross domestic bruto has a t-statistic value of 11.49971, thus explaining (11.49971 > 1.670) at t table = 1.670. The statement shows that the variablegross domestic bruto significantly affects the household consumption rate in ASEAN 6 countries. The government expenditure variable has a t-statistic of 2.706684, thus explaining (2.706684 > 1.670) at t table = 1.670. The statement shows that the government spending variable positively affects the household consumption rate in 6 ASEAN countries. The tax revenue variable has a t-statistic of -1.206901, thus explaining (-1.206901 < 1.670) at t table = 1.670. The statement shows that the tax revenue variable does not significantly affect the household consumption rate in ASEAN 6 countries. The government debt variable has a statistical value of 3.028965. So that explains (3.028965 > 1.670) at t table = 1.670. So that this statement shows that the government debt variable has a positive effect on the rate of household consumption in 6 ASEAN countries.

Then the results of the F-statistic test were obtained for 0.000, thus confirming (0.000 < 0.05) at a = 0.05. So the F test reveals that the variable gross domestic bruto, government spending, tax revenues, and government debt positively affect the household consumption rate in 6 ASEAN countries. And then a determinant coefficient of 0.963372 is found, meaning that 96% of the variable variations in household consumption in ASEAN 6 countries can be explained by variables gross domestic bruto, government spending, tax revenue, and government debt. Meanwhile, the remaining 0.04% can be explained by other variables outside the model.

119

Post Global Crisis Statistical Test Results

Table 2.
Post Global Crisis Significance Test

Variable	Coefficient	Standard Error	Statistical t value	Probability
C	0.873593	0.864869	1.010086	0.3164
GDP	0.838805	0.104297	8.042442	0.0000
GE	0.115331	0.095179	1.211720	0.2303
TAX	-0.000670	0.000650	-1.031175	0.3065
GD	0.000264	0.001093	0.241463	0.8100

Source: Data processed by Eviews 10

Meanwhile in testing with the best analytical model on the global crisis that will be used, namely REM (random effect model) which can be seen from Table 2, the table above shows the variablesgross domestic bruto has a t-statistic value of 8.042442. So that explains (8.042442 > 1.670) at t table = 1.670. This means that the results of the t test state that the economic growth variable positively affects the household consumption rate in ASEAN 6 countries. The government expenditure variable gets a t-statistic value of 1.211720. So that explains (1.211720 <1.670) at t table = 1.670. This means that the results of the t test state that the government expenditure variable negatively affects the household consumption rate in ASEAN 6 countries. The tax revenue variable gets a t-statistic value of -1.031175. So that explains (-1.031175 < 1.66629) at t table = 1.670. That is, the t test states that the tax revenue variable has a negative effect on the rate of household consumption in the country

ASEAN 6. The government debt variable has a t-statistic value of 0.241463. So that explains 0.241463 < 1.66629) at a = 1.670. This means that the results of the t test state that the government debt variable negatively affects the household consumption rate in ASEAN 6 countries.

The results of the F test show that the statistical probability value is 0.0000, this confirms that the value is smaller than a = 0.05. So, the F test reveals the variables GDP, government spending, tax revenues and government debt simultaneously have a positive effect on the rate of household consumption in ASEAN 6 countries. After that, the results of the determinant coefficient are 0.96, meaning 96% variation from household consumption in ASEAN countries. -6 can be explained by variablesgross domestic bruto, government spending, tax revenue, and government debt. While the remaining 0.04% is explained from other variables outside the model.

Research Interpretation

Based on a series of model selection tests, it confirms that the best model in the 1998 post-crisis estimation and 2008 post-crisis estimation is the REM approach (random effect model). The similarity of the panel data regression results generated from the REM approach model reveals differences in the results of the post-Asian and post-global crises regression estimates. The results of the post-crisis regression estimation of Asia get the result that variablegross domestic bruto, government spending and government debt have a positive effect on the rate of household consumption, while the tax revenue variable has a negative

effect on the rate of household consumption. And suppose you look at the results of the post-global crisis regression estimation. In that case, you get that variablegross domestic bruto has a positive effect on the rate of household consumption. In contrast, the variables of government spending, tax revenues and government debt have a negative effect on the rate of household consumption. The REM model after the Asian crisis was obtained, namely:

$$CONSit = -1.185273 + 0.901852*GDPit - 0.140051*GEit - 0.057582* TAXit + 0.048354*GDit + et.$$

And here are the results of the REM model after the global crisis, namely:

$$CONSit = 0.873593 + 0.8388805*GDPit + 0.115331*GEit - 0.000670*TAXit + 0.000264*GDit + eit.$$

Where :
CONS   : Household Consumption
GDP   : Gross Domestic Bruto
GE   : Government Expenditures
TAX   : Tax revenue
GD   : Government Debt

3.2 Discussion

The Effect of Economic Growth on Household Consumption

Based on the results of the post-crisis Asian regression estimation on variablesgross domestic bruto has a statistically positive effect at a = 0.05 on the rate of household consumption in 6 ASEAN countries. Variable coefficient valuegross domestic bruto worth 0.901852. This confirms that every USD 1 increase in economic growth increases the household consumption variable of USD 0.901852. Furthermore, the post-crisis regression results in 2008 on variablesgross domestic bruto has a statistically positive effect at a = 0.05 on the rate of household consumption in 6 ASEAN countries. Variable coefficient valuegross domestic bruto equal to 0.838805. That is when every increasegross domestic bruto of 1 USD has an impact on increasing household consumption variables of 0.838805 USD.

Effect estimation resultsgross domestic bruto on household consumption in the 1998 post-crisis estimate and the 2008 post-crisis estimate showed the same results, namely the relationship between variablesgross domestic bruto has a positive influence on household consumption variables in 6 ASEAN countries. So it is consistent with research conducted by Ofori-Abebrese & Pickson (2018) in 5 African countries, namely Botswana, Gambia, Ghana, Kenya and Nigeria, which found a positive relationship betweengross domestic bruto and public consumption. And in line with Ayunasta, Setiaji & Hakim's (2020) research in Indonesia, it found that economic growth had an effect on the rate of household consumption after the Asian crisis and after the global crisis.

Effect of Government Expenditures on Household Consumption

Based on the estimation results of the post-crisis Asian regression, the variable government spending has a statistically positive effect at a = 0.05 on the rate of household consumption in 6 ASEAN countries. The result of the variable coefficient of government spending is 0.140051. This explains that every USD 1 increase in government expenditure increases household consumption variables of USD 0.140051. Meanwhile, the post-global crisis regression results on government expenditure variables have a statistically negative

effect of a = 0.05 on the rate of household consumption. The coefficient value of the government expenditure variable is 0.115331. This explains that an increase in government spending of 1 USD resulted in a decrease in the household consumption variable of 0.115331 USD.

The results of estimating the effect of government spending on household consumption in post-crisis Asia estimates are consistent with Kusairi's research (2019) in 18 Asia-Pacific countries finding that government spending positively affects consumption rates. Meanwhile, the estimation results of the global crisis are in line with the results obtained by Nosakhare's research (2019) in Nigeria which stated a negative relationship to consumption, as well as in research conducted by Saraswati (2018) in Indonesia found that changes in the amount of government spending did not have an impact on consumption after Asian crisis and post global crisis.

Effect of Tax Revenue on Household Consumption

Based on the results of the 1998 Asian post-crisis regression on the tax revenue variable, it has a statistically negative effect of a = 0.05 on the rate of households in 6 ASEAN countries. The coefficient value of the tax revenue variable is -0.057582. This confirms that every USD 1 increase in tax revenue results in a USD 0.057582 decrease in the household consumption variable. Furthermore, the post-global crisis regression results on the tax revenue variable have a statistically negative effect at a = 0.05 on the rate of households in 6 ASEAN countries. The coefficient value of the tax revenue variable is -0.000670 which confirms that every increase in tax revenue of 1 USD results in a decrease in the household consumption variable of 0.000670 USD.

The results of the estimation of tax revenue on household consumption in the post-Asian crisis and post-global crisis show the same results as the effect of tax revenue on the rate of household consumption in 6 ASEAN countries. So that it is in line with the research results obtained by Saraswati (2018) in Indonesia which shows that there is no impact from tax revenues on the rate of consumption in Indonesia and Chaerani's research (2018) in Indonesia which reveals a reduction in taxes hasmultiplier effects on the income of a country because higher income causes consumption to increase.

Effect of Government Debt on Household Consumption

Based on the results of the Asian post-crisis regression on the government debt variable, it has a statistically positive effect at a = 0.05 on the consumption rate in ASEAN 6 countries. The coefficient value of the government debt consumption variable is 0.048354. This confirms that every USD 1 increase in government debt increases the household consumption variable of USD 0.048354. Furthermore, the post-global crisis regression results on government variables have a statistically negative effect at a = 0.05 on the consumption rate of ASEAN 6 countries. The coefficient value of the government debt variable is -0.000264, this confirms that every increase in the government debt variable of 1 USD results in a decrease on the household consumption variable of 0.000264 USD.

The results of estimates of the effect of government debt on household consumption in the 1998 post-crisis estimate and the 2008 post-crisis estimate show different results. In post-crisis estimations, Asia found a relationship between the government debt variable as an independent variable positively impacting consumption. This finding supports the results of research by Cassar, Davison & Xuereb (2018) in Malta, which found household consumption behavior not in accordance with theory.Ricardian Equivalence Hypothesis. The same results were also obtained in Ofori-Abebrese & Pickson's (2018) study in African

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countries, namely Botswana, Gambia, Ghana, Kenya and Nigeria in 1981-2014, which found that household consumption remained unchanged regardless of foreign debt. .

The results of the same research were also carried out by Shamsi & Waqas (2016) in Pakistan, Belingher (2015) in Romania, Abada (2016) in Nigeria, Nosakhare (2019) in Nigeria and Ayunasta, Setiaji & Hakim (2020) in After the 2008 Asian crisis, the results of the Indonesian state found that foreign debt had an influence on household consumption. It can be concluded that the estimation results after the Asian crisis in 6 ASEAN countries obtained results that are in line with the views of the Keynesians, the Keynesian theory argues that fiscal policy to finance more spending will affect public consumption.

Unlike the post-global crisis estimation results, these results support Mosikari & Eita's research (2017) in Lesotho, finding that an increase in foreign debt or will reduce household consumption per capita. And according to the results obtained by Marzouk & Oukhallou (2016) in Morocco, they found that the government's debt policy had no effect on public consumption. And research conducted by Ayunasta, Setiaji & Hakim (2020) in Indonesia found that after the global crisis in 2008, foreign debt had no effect on consumption. When viewed from the post-global crisis estimation results, the effect of government debt variables on household consumption is in accordance with the validity of the theoryRicardian Equivalence Hypothesis presented by Barro (1974).

4. CONCLUSIONS

Based on a series of empirical test results regarding whether or not it appliesRicardian Equivalence Hypothesis in 6 ASEAN countries after the 1998 Asian crisis and after the 2008 global crisis by using government debt variables,gross domestic bruto, government spending, and tax revenues on the rate of household consumption. It can be concluded as follows:

1. The estimation results of the post-crisis Asian regression show a relationship with variables such as gross domestic bruto, government spending, and government debt statistically affect the household consumption rate in 6 ASEAN countries. While the estimation results on the tax revenue variable statistically do not significantly affect the household consumption rate in 6 ASEAN countries. Based on the regression estimation results, most of the fiscal policies in the post-crisis period of Asia impacted the household consumption rate. Proving the theory of Ricardian Equivalence Hypothesis about the absence of the influence of fiscal policy does not apply in the post-Asian crisis period and vice versa these results accept Keynesian theory in the economies of 6 ASEAN countries in the post-Asian crisis period.

2. Judging from the variable government debt in the post-crisis period in Asia, it shows a positive effect on the rate of household consumption. And this statement proves that the economies of 6 ASEAN countries in the post-crisis period of Asia rejected the application of Ricardian Equivalence Hypothesis and accepted Keynesian theory.

3. The post-global crisis regression estimation results reveal a variable relationshipgross domestic bruto statistically has a significant effect on the rate of household consumption in 6 ASEAN countries. While the estimation results on the variables of government spending, tax revenue and government debt do not significantly affect the household consumption rate in 6 ASEAN countries. Based on the results of the regression estimates, most of the fiscal policies in the post-global crisis period explained that there was no impact on the rate of household consumption. Proving the theory of Ricardian Equivalence Hypothesis about the absence of the influence of fiscal policy supported in the aftermath of the global crisis and

conversely proves that Keynesian theory does not apply to the economies of 6 ASEAN countries in the post-global crisis.

4. Judging from the government debt variable in the estimated regression of the post-global crisis period, it does not significantly affect the rate of household consumption. And this statement explains that the economies of 6 ASEAN countries in the post-global crisis period accepted the enactment of Ricardian Eqivalence Hypothesis and do not accept Keynesian theory.

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