

Government Expenditure and Its Role Against North Maluku Economic Growth

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Article history: Submitted: July 17, 2023 | Revised: July 29, 2023 | Accepted: August 16, 2023

Abstract

The purpose of this study is to analyze the effect of personnel spending, capital spending, goods and services spending on economic growth in North Maluku. Then also analyze the effect of economic growth on welfare in North Maluku. The method of data analysis is using time *series data* for 2010-2015 and using multiple linear regression analysis . The results found that based on the results of this study indicate that local government personnel spending has a significant effect and is positively correlated to the economic growth of North Maluku Province. This means that, if there is an increase in spending on government personnel, it will encourage an increase in the regional economy. Furthermore, also that government spending has a positive and significant effect on economic growth in North Maluku Province. This means that, if there is an increase in government capital spending, it will be able to increase economic growth in North Maluku Province. Then also the results of the study show that spending on goods and services has a significant effect and is positively correlated to economic growth in North Maluku Province. This means that, increasing spending on goods and services will be able to boost economic growth.

Keywords

Government Expenditure, Economic Growth, Community Welfare, North Maluku

Introduction

Economic development is essentially a process of continuous improvement of a society or social system as a whole towards a better life, in which the development process aims to increase the standard of living for people's welfare as well as human dignity which includes increasing various basic necessities, increasing standards life and the expansion of economic and social choices for the whole society (Todaro & Smith, 2006) .

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The problem faced by local governments regarding budget allocation is the number of allocations and each program with limited resources. The regional government must be able to allocate the revenue it receives for productive regional spending. The regional government allocates funds in the form of a capital expenditure budget in the APBD to increase fixed assets. This capital expenditure allocation is based on regional needs for facilities and infrastructure, both for the smooth implementation

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of government tasks and for public facilities. Therefore, in an effort to improve the quality of public services, local governments should change the composition of their spending. So far, regional spending has been used more for routine spending which is relatively less productive (Nisa & Qonita, 2023). Expenditure utilization is better allocated for productive things, for example to carry out development activities, then more government revenue should be for public service programs, this opinion implies the importance of allocating spending for various public interests (Nisa & Qonita, 2023).

(Agustina et al., 2022) gives the opinion that the effectiveness of government activities in regional economic activities seems to be getting bigger and increasing, along with economic progress from year to year. The size of government activities is one of the indicators, namely the size of regional government consumption spending from the total regional government expenditure. Fiscal policy is intended to influence the course of the economy in order to avoid unwanted conditions such as inflation and other unfavorable economic conditions. In line with the results of research (Mononimbar et al., 2022) which show that between economic growth and government spending there is a one-way causality relationship where economic growth affects government spending in accordance with Wagner's law which states that the development of government spending occurs as the economy increases.

Fiscal decentralization is a regional government policy in providing a positive influence if it is balanced by the fiscal capacity according to the autonomous regions. In Law No. 33 of 2004 the sources of revenue that can be used by local governments in fiscal decentralization are Local Own Revenue (PAD), General Allocation Funds (DAU), Special Allocation Funds (DAK), profit sharing funds, regional loans and others. etc., the receipt of regional income is carried out legally. This source of income can be managed by the Regional Government in financing the administration of government under its authority. It is hoped that the regional government can increase the progress of its region through PAD which is a benchmark for the region in carrying out regional autonomy.

(Mononimbar et al., 2022) says that the effect of the allocation of government spending on economic growth in this case is GRDP and the implications for Regional Original Income. Government spending has a stronger relationship with GRDP or economic growth because development spending is shown to finance the function of *an agent of development* and from the results of this expenditure it will produce products that are very necessary to increase the level of progress of the economy.

Several studies regarding the effect of regional spending on economic growth and social welfare have had different results, including research (Sutono, 2022) in the study revealed that the absorption of regional government spending has no significant effect on HDI, while the absorption of public expenditure has a significant effect on HDI. Taken together, the absorption of local government spending and the absorption of public spending have a significant effect on the HDI. Different results were obtained in research (Parera, 2022) The results showed that the direct relationship between the direct expenditure variable on economic growth showed a positive but not significant correlation. The direct expenditure variable had a negative and significant effect on poverty, both directly and through the economic growth variable. The results show that the direct spending of the Papua provincial government has an indirect effect on the

poverty rate in this area. The direct expenditure variable has a positive effect on improving HDI performance, both directly and through economic growth variables. That is, the correlation between direct spending on regional inequality shows a positive relationship, both directly and through economic growth variables. Indirect spending variables have a negative relationship to economic growth in Papua province. The correlation between indirect spending on poverty levels in Papua province shows negative relationship, both directly and through economic growth. Indirect expenditure variable has a negative correlation with HDI performance, both directly and through economic growth variables. Furthermore, the indirect expenditure variable has a positive correlation with regional inequality in this area, both indirectly either directly or through intervening variables of economic growth .

Research conducted by (Deswanto et al., 2017) with the title Effect of regional spending based on economic classification on economic growth and social welfare in the districts/cities of West Kalimantan Province in 2010-2015 with the research results obtained that personnel spending, capital spending, and social assistance spending had a positive and significant effect on economic growth, while grant spending has a negative and significant effect on economic growth and spending on goods and services has a negative but not significant effect on economic growth. Furthermore, capital expenditure and economic growth have a positive and significant effect on people's welfare while goods and services have a negative and significant effect on people's welfare. Grant spending has a negative effect and social assistance spending has a positive but not significant effect on social welfare.

Formulation of the problem

Based on the description of the background that has been put forward, the problem in this study is whether personnel spending, capital spending, goods and services spending, and social assistance spending affect economic growth and people's welfare in North Maluku Province. Then does economic growth affect the welfare of the people in North Maluku Province.

Literature Review

Definition of Economic Growth

According to the view of classical economists, there are basically four factors that affect economic growth, namely (1) population, (2) total stock of goods and capital, (3) land area and natural wealth, (4) level of technology used (Ananda , 2017) . According to Kuznets economic growth is the process of increasing the long-term production capacity of a country to provide economic goods to its population. According to (Todaro & Smith, 2006) , economic growth is influenced by several factors, namely:

1. Population and Labor Force Growth

Population growth is closely related to the number of the working workforce which incidentally is one of the factors that will affect economic growth. The ability of this population growth is influenced by how much the economy can absorb productive work force.

2. Capital Accumulation

Capital accumulation is a combination of new investments which include land, fiscal equipment and human resources combined with current income to be used to increase output in the future.

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3. Technology advances

Technological progress according to economists is the most important factor in the occurrence of economic growth. This is because technological advances have a big impact because they can provide new ways and improve old ways of doing a job.

Economic Growth Theory

There are several models of economic growth that have developed to date, namely: Classical Economic Growth Theory, Neo-Classical Growth Theory, Interregional Growth Model, Harrod-Domar Growth Theory and Kuznets Growth Theory.

Classical Economic Growth Theory

The classical economic growth theory is one of the foundations of growth theory which has been used from the past until now. The classical economic growth theory was put forward by economic figures such as Adam Smith and David Ricardo. According to (Todaro & Smith, 2006) distinguishes two main aspects of economic growth, namely: total output growth and population growth. In the total output growth of a country's production system is divided into three, namely:

1. Available Natural Resources

If natural resources have not been used optimally, the population and capital stock play a role in output growth. Conversely, output growth will stop when the use of natural resources is maximized.

2. Human Resources

The population will adjust to the need for a workforce that works from the community.

3. Stock of Capital Goods

The amount and growth rate of output depends on the growth rate of the capital stock.

Neoclassical Growth Theory

The neo-classical growth theory was developed by two economists, namely: Robert Solow and Trevor Swan. Neoclassical theory argues that economic growth originates from the addition and development of factors that affect aggregate supply. This growth theory also emphasizes that the development of factors of production and technological progress are determining factors in economic growth (Mankiw, 2006) . Neoclassical theory also divides three types of inputs that influence economic growth, namely:

1. Effect of capital in economic growth

2. The influence of technology on economic growth

3. The influence of the working workforce on economic growth

Public welfare

Community welfare is the welfare of all individuals as a whole members of society. Some of the indicators used to measure the level of welfare include using criteria based on household consumption expenditure, both food and non-food (poverty approach).

Stiglitz (2011) in (Sari & Suriadi, 2022) states that to define welfare, a multidimensional formula must be used. The main dimensions that must be taken into account are (1) material standard of living (income, consumption and wealth; (2) health; (3) education; (4) individual activity, including work; (5) political voice and governance; (6) social relations and kinship, (7) environment (present and future conditions), and (8) inconvenience, both economic and physical in nature. All of these dimensions indicate the quality of life of the community and objective and subjective data are needed to measure them. .

Human Development

UNDP defines human development as the development of people through the development of human capabilities, by people through active participation in the processes that shape their lives and for people by improving their lives. Human development as a participatory and dynamic process. Human development is a perfect concept with a description of sustainable development.

The success of development, especially human development, can be assessed partially by looking at how much the most basic problems in society can be overcome. These problems include poverty, unemployment, illiteracy, food security, and upholding democracy. The Human Development Index (IPM) is a comparative measure of life expectancy, education and standard of living for all countries. HDI is used as an indicator to assess the quality aspects of development and to classify whether a country is a developed, developing, or underdeveloped country and also to measure the effect of economic policies on quality of life (Todaro & Smith, 2006) .

Regional Expenditures

According to Kepmendagri Number 29 of 2002, regional expenditures are all regional cash expenditures within a certain fiscal year period that become a regional burden. According to Permendagri No. 59 of 2007 concerning Amendments to Permendagri No. 13 of 2006 concerning Guidelines for Regional Financial Management discloses the meaning of regional spending, namely the obligations of regional governments that are recognized as a deduction from net worth. Regional expenditures are expenditures made by local governments to exercise authority and responsibility to the community and the government above them (Sinulingga et al., 2022) .

Regional Expenditure Classification

According to Permendagri Number 13 of 2006 concerning Guidelines for Regional Financial Management which is the elaboration of Government Regulation Number 58 of 2005, that:

- a. Expenditure classification in the context of implementing government affairs which is the authority of the district/city province, which consists of expenditure on mandatory affairs and expenditure on optional affairs.
- b. Expenditure classification according to function refers to PP No. 24 of 2005 concerning government accounting standards, namely expenditure consisting of public services, order and peace, economy, environment, housing and public health facilities, tourism and culture, education and social protection.

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- c. Classification according to spending groups consists of direct spending and indirect spending.

Research Methodology

The location of this research is in North Maluku Province with the data used in the analysis including quantitative data, with secondary data sources which include data on:

1. Economic growth
2. Public welfare
3. Employee Shopping
4. Capital Expenditures
5. Shopping for Goods and Services
6. Shopping for Social Assistance

Secondary data sources are related agencies, including Bappeda, BPKAD North Maluku Province, or the Central Bureau of Statistics (BPS), as well as reports related to this research.

Data analysis method

Time series data for 2010-2015 and uses Multiple Linear Regression analysis, to explain the relationship pattern between the independent variables and the dependent variable to determine the direct effect of a set of independent (exogenous) variables on the dependent (endogenous) variable (Riduwan and Sunarto; 2015) in (Yuliani, 2019). With the following equation:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon_1$$

Note: X_1 = Employee Spending
 X_2 = Capital Expenditures
 X_3 = Shopping for goods and services
 Y = Economic Growth
 $\beta_1 \dots \beta_8$ = Regression coefficient of independent variable (X_i)
 β_0 = Intercept / Constant
 ε_1 = Error from the first equation

Discussion And Results

The Influence of Government Personnel Spending on Economic Growth in North Maluku Province.

Based on the results of this study, it shows that regional government personnel spending has a significant effect and is positively correlated to the economic growth of North Maluku Province. This means that, if there is an increase in spending on government employees, it will encourage an increase in the regional economy. Theoretically, there is a relationship between personnel spending and economic growth. The increase in personnel spending, especially in salaries and benefits, for example, has had an impact on public consumption. Meanwhile, consumption is one component that forms the total value of goods and services produced in an economy. The increase in

economic growth in a region cannot be separated from the support of public consumption spending. This finding is in line with the results of research (Deswantoro et al., 2017) which also found that personnel spending had a positive and significant effect on economic growth.

The Effect of Government Capital Expenditures on Economic Growth in North Maluku Province.

Based on the results of the research, it shows that government spending has a positive and significant effect on economic growth in North Maluku Province. This means that, if there is an increase in government capital spending, it will be able to increase economic growth in North Maluku Province. This is in line with the theory which explains that government spending, which is government investment, is the key word determining the rate of economic growth, because besides encouraging a significant increase in output, it will also automatically increase input demand, which in turn will increase employment opportunities and people's welfare. consequences of increasing income received by the community (Todaro & Smith, 2006) . Research (Nasiru, 2012) , by analyzing the relationship between government spending and economic growth in Nigeria (1961-2010) with the ECM and Granger Causality approaches, the results show that capital expenditure causes economic growth. The implication of this finding is that any reduction in capital expenditure will have a negative impact on economic growth in Nigeria. Similarly, Okoro (2013), using time series data for 32 years (1980-2011), investigates the impact of government spending on economic growth in Nigeria. With the application of the Granger Causality test, Johansen Co-integration Test and Error Correction Model, the results show that there is a long-term relationship between government spending and economic growth in Nigeria (Nasiru, 2012) .

Based on the results of the study, it shows that economic growth has a significant and positive correlation with the welfare of the people in North Maluku Province. This means that, if there is an increase in economic growth, it will improve people's living standards. This is in accordance with research conducted by (Arka & Yasa, 2015) that economic growth has a positive effect on the welfare of district/city communities in the Province of Bali.

Conclusions And Recommendations

Conclusion

Based on the research results that have been put forward, the conclusions of this study are as follows:

1. The conclusion is that personnel expenditures, capital expenditures, goods and services expenditures for local government have a significant effect and are positively correlated to economic growth in North Maluku Province. This means that local government spending is able to have an impact on economic growth in North Maluku Province.
2. Furthermore, regional spending has a very good impact on the welfare of the people of North Maluku. This can be seen from the findings showing that personnel spending, capital spending, goods and services spending and local

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government social assistance spending have an effect on people's welfare or the human development index (IPM) in North Maluku Province.

3. The conclusion is that economic growth has a significant and positive correlation with the welfare of the people in North Maluku Province. This means that, if there is an increase in economic growth, it will improve people's living standards.

Suggestions

Based on the conclusions put forward, the suggestions for this research are as follows:

1. Expenditures for government employees directly have an impact on increased consumption activities, thereby influencing economic growth. Achieving the level of economic growth from the side of government spending also plays a significant role. Increasing salaries and providing other income such as performance allowances is an effort to increase the welfare and performance of civil servants. The increase was carried out with the hope of increasing performance in serving the community.
2. The importance of encouraging economic growth in every regional economic development activity, the local regional government needs to revise the allocation of expenditure to a more productive type of expenditure and revise the amount or percentage of tax levy for the industrial sector. Furthermore, the greater the allocation of capital expenditure for public investment will later have a positive impact on economic growth.
3. Expenditure on goods and services is carried out by the government to support services to the community that affect the economic movement of a region.
4. Capital expenditure has a positive and significant effect on the Human Development Index in North Maluku Province. HDI is very important because it emphasizes humans as agents of change in the development process of a country. In general, government capital expenditure is allocated to build facilities and infrastructure which are then expected to increase the intensity of economic activity.
5. Expenditure on social assistance affects people's welfare which in turn has an impact on regional economic growth. The purpose of providing social assistance to underdeveloped areas is intended to reduce the problems faced by underdeveloped regions to increase the capacity of the community according to the needs and conditions of each region. In addition, the provision of social assistance funds also aims to empower disadvantaged communities so that they can increase economic activity to play an active role in development so that in the end it can improve welfare, quality, survival and restore socio-economic and cultural functions.

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