THE EFFECT OF GOVERNMENT INVESTMENT AND SPENDING ON POVERTY IN INDONESIA

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Keywords: Investment, Government Expenditure, Poverty.

ABSTRACT

This study examines and analyzed the effect of Investment and Government Expenditure on Poverty in Indonesia and uses secondary data from 2008 to 2020. The regression model used is a multiple linear regression model and classical methods. assumption test, which consists of a normality test, heteroscedasticity test, multicollinearity test. The regression tool used is Eviews 10. Based on the results of the study, it shows that investment has a negative and significant effect on the number of poor people in Indonesia, while government expenditure has an effect and is significant on the number of poor people in Indonesia and investment and government expenditure have an effect on the number of poor people in Indonesia. The test results for the coefficient of determination show that there is a relationship between the independent and dependent variables of 92.23%, and the remaining 7.77% is influenced by other variables outside this study.

1. INTRODUCTION

Poverty is an important problem today in Indonesia, so that it becomes a focus of attention for the Indonesian government. The problem of poverty is very complex and multidimensional in nature, which is related to social, economic, cultural and other aspects. Poverty continues to be a phenomenal problem in parts of the world, especially Indonesia which is a developing country.

Poverty is not limited to the number and proportion of poor people. Another aspect to consider is the depth and severity of poverty. Poverty policies are necessary, not only to reduce the number of poor people, but also to reduce the depth and severity of poverty (Baharuddin, 2015).

In general, poverty is defined as a situation where there is an inability to meet basic needs such as: food, clothing, shelter, education, and health. Meanwhile, the Indonesian Central Bureau of Statistics (BPS) defines poverty as a condition of life that is completely lacking experienced by a person or household so that they are unable to meet the minimum or proper needs for their lives. Fithri & Kaluge, (2017)

Poverty in Indonesia is a disease in the economy, so it must be cured or at least reduced. The problem of poverty is indeed a complex and multidimensional problem. Therefore, poverty alleviation efforts must be carried out in a comprehensive manner, covering various aspects of people's lives, and carried out in an integrated manner.
Indonesia's poverty in 2008 the poverty rate decreased by 15.42% until in 2009 the poverty rate decreased to 14.15%, in 2020 the poverty rate increased slightly to 9.78%. The poverty rate has increased due to the impact of Covid_19. According to Tarigan et al., (2020) including during a pandemic, the prices of consumer goods did not increase much. When the BPS announced that inflation occurred, that Indonesia's economic growth from quarter to quarter was negative and eventually caused Indonesia to enter an economic recession zone, price increases did not occur. However, if the problem of the Covid-19 pandemic cannot be resolved, then it is very likely that economic growth will continue to be negative, Indonesia's potential to experience depression with soaring food prices, and a weakened public economy with declining purchasing power.

The reduction in the poverty rate that has been achieved does not rule out the possibility that it will increase again. The analysis shows that the difference between the poor and near-poor is very small, which means that the vulnerability to poverty is very high, so that coping strategies should focus on those with low incomes.

According to Nasution dalam Setijawan et al., (2021), ent is capital expenditure used to purchase equipment with the aim of increasing the production capacity of goods or services. Investment according to its type is divided into two, the first is investment from the government and the second is investment from the private sector. Government investment is local government investment that can be carried out through policy instruments, for example government spending, while private investment is private or public sector investment that can come from abroad or within the country.

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Poor Population in Indonesia (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>15.42</td>
</tr>
<tr>
<td>2009</td>
<td>14.15</td>
</tr>
<tr>
<td>2010</td>
<td>13.33</td>
</tr>
<tr>
<td>2011</td>
<td>12.49</td>
</tr>
<tr>
<td>2012</td>
<td>11.96</td>
</tr>
<tr>
<td>2013</td>
<td>11.47</td>
</tr>
<tr>
<td>2014</td>
<td>11.25</td>
</tr>
<tr>
<td>2015</td>
<td>11.22</td>
</tr>
<tr>
<td>2016</td>
<td>10.86</td>
</tr>
<tr>
<td>2017</td>
<td>10.64</td>
</tr>
<tr>
<td>2018</td>
<td>9.82</td>
</tr>
<tr>
<td>2019</td>
<td>9.66</td>
</tr>
<tr>
<td>2020</td>
<td>9.78</td>
</tr>
</tbody>
</table>

*Table 1.1 Number of Poor Population in Indonesia 2008 – 2009

<table>
<thead>
<tr>
<th>Year</th>
<th>Investment (billion Rupiah)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>22,093.5</td>
</tr>
<tr>
<td>2009</td>
<td>37,799.8</td>
</tr>
<tr>
<td>2010</td>
<td>60,626.3</td>
</tr>
<tr>
<td>2011</td>
<td>76,000.7</td>
</tr>
<tr>
<td>2012</td>
<td>92,182.0</td>
</tr>
<tr>
<td>2013</td>
<td>128,150.6</td>
</tr>
<tr>
<td>2014</td>
<td>156,126.3</td>
</tr>
<tr>
<td>2015</td>
<td>179,465.9</td>
</tr>
<tr>
<td>2016</td>
<td>216,308.3</td>
</tr>
<tr>
<td>2017</td>
<td>262,350.5</td>
</tr>
<tr>
<td>2018</td>
<td>328,604.9</td>
</tr>
<tr>
<td>2019</td>
<td>386,498.4</td>
</tr>
<tr>
<td>2020</td>
<td>413,535.5</td>
</tr>
</tbody>
</table>

*Table 1.2 Investment in di Indonesia 2008 – 2019

Investment data in Indonesia fluctuates every year, where the highest investment occurs in 2020 with a total of 413,535.5 billion rupiah. And the lowest investment occurred in 2008 with a total of 22,093.5 billion rupiah. Investment is one of the important elements in boosting the economy. But the amount of investment does not necessarily make economic growth fast, but how the investment itself is managed. If economic growth improves, poverty will also improve. Investment can be a starting point for the success and sustainability of development in the future because it can absorb labor, so that it can open new job opportunities for the community which in turn will have an impact on increasing people's income which in turn can reduce poverty levels. So it can be said that if investment increases, poverty will decrease. According to Sukirno dalam Udara (2013), investments made by the community will continue to increase economic activity and employment opportunities, increase national...
income, and improve people's welfare. This role comes from several important functions of investment activity, namely (1) investment is a component of total expenditure, so increased investment can increase aggregate demand, national income, and exploit investment opportunities; (2) increased production from investment will increase production capacity; (3) investment is always followed by technological developments.

Table 1.3
Government Expenditure in Indonesia 2008 – 2020

<table>
<thead>
<tr>
<th>Year</th>
<th>Government Expenditure (Bllion Rupiah)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>292.423</td>
</tr>
<tr>
<td>2009</td>
<td>309.308</td>
</tr>
<tr>
<td>2010</td>
<td>344.613</td>
</tr>
<tr>
<td>2011</td>
<td>412.508</td>
</tr>
<tr>
<td>2012</td>
<td>478.776</td>
</tr>
<tr>
<td>2013</td>
<td>529.363</td>
</tr>
<tr>
<td>2014</td>
<td>596.504</td>
</tr>
<tr>
<td>2015</td>
<td>664.601</td>
</tr>
<tr>
<td>2016</td>
<td>776.253</td>
</tr>
<tr>
<td>2017</td>
<td>766.339</td>
</tr>
<tr>
<td>2018</td>
<td>766.163</td>
</tr>
<tr>
<td>2019</td>
<td>826.773</td>
</tr>
<tr>
<td>2020</td>
<td>856.945</td>
</tr>
</tbody>
</table>

Sumber: Badan Pusat Statistik Indonesia (2020)

Data on government expenditure in Indonesia has increased every year, where the most government spending occurred in 2020 reaching 856,945 billion rupiahs. From these data it can be seen that every year the amount of government spending is increasing. Efforts to reduce poverty are also inseparable from the amount of government spending issued by regional governments. Government spending continues to increase from year to year in the hope that it will increase people’s welfare and poverty levels. Government spending does not only look at the amount but also looks at the accuracy of targeting government spending. Dumairy dalam Sunusi et al., (2014), states that the government spends a lot of money on various activities. This expenditure is not only used to carry out daily government operations but also to finance economic activities. This does not mean that the government engages in business activities, but in the sense that the government must stimulate economic activity in general. Good government should always try to avoid and correct market failures to be efficient.

According to Juanda (2016) government spending has a very strategic position in increasing the rate of economic growth. The government through policy instruments can save the situation when the economy is experiencing a downturn due to an economic recession.

According to Anggraini et al., (2022) that government spending is not only for financing so that government activities continue to be carried out, but also for increasing productivity which refers to economic growth, reducing income gaps or called income distribution, reducing poverty so that it can improve people's welfare.

2. THEORETICAL REVIEW

Poverty
In general, poverty is a condition in which a person or group of people is unable to fulfill their basic rights to maintain and develop a dignified life. In a proper sense, poverty is understood as a state of lack of money and goods to ensure survival. In a broad sense, (Adit Agus Prastyo, 2010) said that poverty is an integrated concept that has five dimensions, namely: 1) poverty (proper), 2) powerless, 3) vulnerability in facing an emergency situation (state of emergency), 4) dependency, and 5) alienation (isolation) both geographically and sociologically.

Investment
According to (Sunariyah, 2003) “Investment is an investment for one or more assets owned and usually for a long time with the hope of getting profits in the future. Investment, which is commonly referred to as investment or capital formation, is the second component that determines the level of aggregate expenditure. Savings from the household sector through financial institutions will flow to the corporate sector. If entrepreneurs use the money to buy capital goods, the expenditure is called investment.

Investment is the expenditure of investors or companies to purchase capital goods and production equipment that will increase the ability to produce goods and services available in the economy.

Government Spending
Government spending (government expenditure) is one component of the Gross Domestic Product (GDP), together with public
consumption, investment and exports after deducting imports. This government expenditure policy is part of fiscal policy as a form of government intervention in the economy in order to overcome market failure.

The basis of the growth development model of the public sector is the changing structure of the economy and the need for growth. Preston & Tracy, (2009) explained in the public sector that society has two attributes: nonexcludability, which means producers cannot prevent the use of a good by others, and nonrivalry, which means that many people can use a good simultaneously.

**Conceptual Framework**

![Conceptual Framework Diagram]

**Picture 2.1 Conceptual Framework**

**Hypothesis**

A hypothesis is a temporary answer/conclusion taken to answer a problem posed in a research which actually still has to be tested empirically. The hypothesis in question is an allegation that may be true or may be wrong.

With reference to the theoretical rationale and based on empirical studies that have been conducted in relation to research in this field, the following hypotheses will be proposed:

- **H1** = Investment has a Negative and Significant Effect on Poverty in Indonesia.
- **H2** = Government Expenditure has a Positive and Significant Effect on Poverty in Indonesia.
- **H3** = Government Investment and Spending, the two variables have an effect on Poverty in Indonesia.

### 3. RESEARCH METHODS

#### Location and Research Object

In this research, the object of research is Poverty, Investment and Government Spending. The research location is in Indonesia.

#### Types and Sources of Research Data

The type of data used in this research is secondary data. Secondary data itself is data that supports primary data, namely all forms of data obtained through library research in the form of magazines, journals, articles and from sharing the results of previous research related to the discussion in the thesis.

As for the data on poverty, investment, government spending that is used comes from Badan Pusat Statistik (BPS) Indonesia in 2020.

#### Operational Definition

A research variable is an attribute, value/characteristic of objects, individuals/activities that have many variations between one and another that have been determined by the researcher to be studied and sought information and conclusions drawn. In this study, two types of variables were used, namely the dependent variable (Y) and the independent variable (X).

1. Poverty (Y)
2. Investment (X1)
3. Government Expenditure (X2)

The poverty of all provinces in Indonesia in this study is seen based on absolute poverty data from 2008 to 2020 obtained from the Central Statistics Agency (BPS) measured in percent (%).

Investment is domestic investment (PMDN) that produces goods and services (Central Bureau of Statistics, 2020). In this study the authors used 13-year investment rate data in Indonesia from 2008 to 2020 obtained from the Central Statistics Agency (BPS) measured in billions of rupiah (Rp).

Government Expenditure spending is called state spending. Funds come from the central government to meet development expenditures (Central Statistics Agency, 2020). In this study, the authors used data on the 13-year government spending rate in Indonesia from 2008 to 2020 obtained from the Central Statistics Agency (BPS) measured in billions of rupiah (Rp).

**Data analysis method**

The model used in testing this hypothesis is a multiple linear regression model to test the effect of investment and government spending on poverty. In
this study, the multiple linear regression model is formulated as follows:

\[ Y = a + b_1X_1 + b_2X_2 + e \]

Information:
\( Y \) : Poverty
\( X_1 \) : Investment
\( X_2 \) : Government Spending
\( b \) : Koefisien Regresi
\( a \) : Konstanta
\( e \) : Error term

4. RESEARCH RESULTS AND DISCUSSION

Results Uji Normalitas

In the regression model to see whether a variable, both the dependent variable and the independent variable, is normally distributed or not, the Normality Test is treated. The purpose of the Normality Test is to find out whether the residual or confounding variables in the regression model have a normal distribution. This can be known by comparing the calculated JB (Jarque-Bera) Probability value with an alpha level of 0.05 (5%). If Prob. JB count is greater than 0.05, it can be concluded that the residuals are normally distributed.

Based on Figure 4.1, the normality test uses the Jarque-Bera (JB-Test) method. And the test results produce a probability > 0.05 (0.845336 > 0.05). Based on these results, it can be concluded that the regression model meets the assumptions of normality.

**Results Uji Asumsi Klasik**

Uji Autokorelasi

In addition, in the regression model test that uses time series data or time series must be free from autocorrelation, therefore in this study an autocorrelation test is needed which aims to find out whether a value in a particular observation has a correlation between the confounding error in period \( t \) and the confounding error in the previous period \( (t-1) \). The results of the autocorrelation test in this study using the Breusch-Godfrey Serial Correlation LM Test method are as follows:

Breusch-Godfrey Serial Correlation LM Test:

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>F-statistic</td>
<td>0.785346</td>
<td>Prob. F(2,8)</td>
<td>0.4882</td>
</tr>
<tr>
<td>Obs*R-squared</td>
<td>2.133492</td>
<td>Prob. Chi-Square(2)</td>
<td>0.3441</td>
</tr>
</tbody>
</table>

Source:(Eviews 10 Data Diolah, 2022)

Based on the table above it can be seen that the value of Prob. Chi Square, namely 0.34, this is greater than 0.05, namely 0.3441 > 0.0.

Uji Heteroskedastisitas

The heteroscedasticity test aims to test whether in a regression model there is an inequality of residual variance from another observation. If the variance from one observation to another observation remains, then it is called heteroscedasticity. In terms of the linear regression test, heteroscedasticity must not be affected, therefore to see this test can be done by comparing the Obs*R-squared value and the \( \chi^2 \) (chi-square) table.

Heteroskedasticity Test: White

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>F-statistic</td>
<td>4.580336</td>
<td>Prob. F(5,7)</td>
<td>0.0357</td>
</tr>
<tr>
<td>Obs*R-squared</td>
<td>9.956693</td>
<td>Prob. Chi-Square(5)</td>
<td>0.0765</td>
</tr>
<tr>
<td>Scaled explained</td>
<td>8.167433</td>
<td>Prob. Chi-Square(5)</td>
<td>0.1472</td>
</tr>
</tbody>
</table>

Source:(Eviews 10 Processed Data, 2022)

Based on the results table above, it can be seen that the Pro.Chi-Square value has a value greater than a significance level of 5% or 0.05 (0.0765 > 0.05). This shows that in the regression model used there is no heteroscedasticity problem.
The multiple linear regression equation is as follows:

\[ Y = 967.6669 - 0.007040X_1 + 2.144394X_2 \]

1. A constant of 967.6669 indicates that if the Investment Variable and Government Expenditure Variable are zero, the dependent variable, namely Poverty, has a value of 967.6669%.
2. Investment variable coefficient has a value of -0.007040. This shows a negative relationship. This means that if investment increases by 1 rupiah, the poverty rate will decrease - 0.007040%.
3. The variable coefficient of government spending has a value of 2.144394. This shows a positive relationship. This means that if government spending increases by 1 rupiah, poverty will increase by 2.144394%.

Results Pengujian Hipotesis

Results Pengujian Parsial (Uji t)

Seeing whether the independent variables in this study affect the dependent variable individually, it is necessary to do a t test by looking at the tcount. The criteria in the test are if the tcount > ttable with a significant level of 5%, it can be concluded that the variable is partially independent. The following are the results of partial testing in this study:

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>967.6669 220.4319 4.389869 0.0014</td>
<td></td>
</tr>
<tr>
<td>X1</td>
<td>-0.007040 0.001010 -6.968060 0.0000</td>
<td></td>
</tr>
<tr>
<td>X2</td>
<td>2.144394 0.649465 3.301785 0.0080</td>
<td></td>
</tr>
</tbody>
</table>

Based on the table above, it can be seen that the investment variable has a tcount < ttable (-0.007040 < 1.81246) with a significant value \( p = 0.0000 < 0.05 \), which means that the investment variable is negative and significant to poverty in Indonesia.

The government expenditure variable, which is 2.144394, is greater than 1.81246 (2.144394 < 1.81246) with a \( p \) value = 0.0080 < 0.05, which means that the government expenditure variable has a significant effect on poverty in Indonesia.

Results Pengujian Simultan (Uji F)

Based on the table above, it can be seen that the Fcount value is 73.24186 while the Ftable value is 4.10 with a significance level or 0.05. This means that Government Investment and Expenditures jointly affect poverty in Indonesia.

Results Koefisien Determinasi R²

The coefficient of determination test or R² test is used to measure the relationship between the independent variables and the dependent variable. The value of the coefficient of determination is between zero and one. If the Adjusted R-Squared value is closer to zero, it means that the relationship between the independent variable and the dependent variable is very weak. If the Adjusted R-Squared value is closer to one then the relationship between the independent variables on the dependent variable is very strong.
Based on the table above, it can be seen that the results of the Adjusted R-Square in this study amounted to 0.923315, this indicates that the relationship between the independent variable and the dependent variable in this study is quite strong, namely 92.23% while the other 7.77% is influenced by other variables outside this study.

The correlation coefficient value in this study is 0.9360 or 93.60%. So in this study it can be concluded that there is a very strong correlation between the dependent and independent variables.

**Discussion**

**The Effect of Investment on Poverty in Indonesia.**

The test results show that investment has a significant but negative effect on the level of poverty in Indonesia because the probability value is 0.0000 which is less than 0.05, the investment coefficient is -0.007040. The results of this study are in line with the research of Onggi Pasorong (2005). In his research "Analysis of the effect of government spending and private investment on economic growth in Southeast Sulawesi" in this study said private investment had a negative influence on regional economic growth in Southeast Sulawesi province with the implication that private investment The negative effect is possible because: Capital-intensive investments that do not increase people's income, long-term investments that do not directly contribute to economic growth, such as investment in Industrial Plantation Forests (HTI). This is due to the fact that in the research data note, namely the meaning of the year 1993-2002 there was a monetary crisis condition so that many entrepreneurs were stuck so they could no longer produce.

**CLOSING**

**Conclusion**

Based on the results of the research and discussion that has been described, the following conclusions can be drawn:

1. Partially Investment has a negative and significant effect on Poverty in Indonesia.
2. Partially, Government Expenditure has significant and significant influence on Poverty in Indonesia.
3. Simultaneously Investment and Government Spending have a significant effect on Poverty in Indonesia.

**Suggestion**

Based on the conclusions described above, several suggestions are proposed as follows:

1. For the Indonesian government, it is hoped that it will be more capable of allocating the budget to more appropriate state financing so that the flow of expenditure issued to the state will be able to provide an appropriate effect on the value of increasing the country's economic growth, not only that the government must be more optimal in managing the disbursement of the budget that is so far it is still unstable because the large budget issued by the government has not been able to reduce the poverty rate in Indonesia.
2. For academics and researchers, it can be used as reference material for further research who are interested in examining the Effects of Government Investment and Spending on Poverty in Indonesia, for the purposes of further discussion.
3. Relevant agencies are expected to be able to provide updated and complete data for easy access to public data and future researchers.

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