

## Impact of Government Expenditure on Poverty Rate Reduction in East Java Province

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### ABSTRACT

East Java is a province with a number of poor people, but on the other hand, both nationally and province, there is a reduction in poverty and inequality. This study aims to examine the effect of government expenditures on reducing poverty through economic growth and increasing the Human Development Index (HDI) in East Java Province 2015-2019. This research uses explanatory research type. Research variables include independent variables in the form of government expenditure, intervening variables namely economic growth and HDI or Human Development Index, and the dependent variable, namely poverty. Data analysis was performed using path analysis. The test results show that government Expenditure (GEXP) has no effect on Economic Growth (EG). Government Expenditure (GEXP) has no effect on the Human Development Index (HDI). Government Expenditure (GEXP) has no effect on Poverty (P). Economic Growth (EG) has no effect on poverty (P). The Human Development Index (HDI) has a significant effect on Poverty (P). Based on these results, it can be concluded that poverty alleviation can be achieved if there is an increase in the quality of human resources as reflected in the HDI.

Keywords: Government Expenditure, Economic Growth, Human Development Index (HDI), and Poverty



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### INTRODUCTION

Poverty is a problem experienced by many countries in various parts of the world, especially in developing countries. Poverty is a serious and fundamental problem that requires appropriate handling. Poverty is not only from an economic perspective, poverty is also not only related to the low level of income of the community, it is also not only related to low levels of consumption, but poverty is complex, namely the problem of poverty has an impact on various aspects, so that poverty can trigger a gap between economic and non-economic aspects, thus there will be a condition of instability in various aspects of life.

According to Ala (1981 in Arsyad, 1992: 69) poverty is multidimensional, which means that it is related to the diversity of human needs, poverty can also be seen from various aspects, namely general policy in this case poverty consists of various primary aspects, namely in the form of poor assets. - assets, socio-political organization, knowledge and skills, then secondary aspects in the form of poor social networks, financial resources and information, which in this case the dimensions of poverty manifest in the form of malnutrition, water, unhealthy housing, health facilities inadequate, and lack of access to education.

Indonesia is a developing country which has a relatively large population. As a developing country, Indonesia is inseparable from the problem of poverty, which is reflected in the inability of some people to meet their demands of life at a level that is considered human, especially aspects of consumption and income. Economic development in a country is a measure used to improve people's welfare, with economic development it is hoped that economic conditions and economic stability will increase. Development is a conscious effort to reduce poverty and serve as a means for the welfare of the community.

Poverty reduction efforts are also inseparable from the amount of government expenditure issued by local governments. Government expenditure continues to increase from year to year in the hope that it will improve people's welfare and poverty levels. Government expenditure also does not only look at the amount but also sees the accuracy of targeting in government expenditure (Osinubi, 2005). Government expenditure reflects government policy. If the government has established a policy to purchase goods and services, government expenditure reflects the costs that must be incurred by the government to implement the policy (Mangkoesobroto, 2002).

Poverty alleviation efforts are also inseparable from the total government expenditure issued by local governments. Government expenditure continues to increase from year to year in the hope that it will improve people's welfare and poverty levels. Government expenditure also does not only look at the amount but also sees the accuracy of targeting in government expenditure (Osinubi, 2005). Government expenditure reflects government policy. If the government has established a policy to purchase goods and services, government expenditure reflects the costs that must be incurred by the government to implement the policy (Mangkoesobroto, 2002).

The role of the government is needed in an effort to alleviate the problem of poverty, through government intervention it is hoped that it can provide a stimulus or stimulation to increase economic growth and development, equitable distribution of the results of economic development so that justice is created both between levels of society and between regions. The creation of economic justice will reduce and even mitigate the occurrence of disparities between communities and even play a role in poverty. Another equally important role is to improve the quality of Indonesia's human capital, this is very important considering that human resources are an agent of development in a country. So that the higher the quality of human resources, the economic resources and other resources can be managed properly in order to achieve prosperity.

The basic objectives of economic development to be achieved by a nation are education and health. Health is the main thing in achieving welfare because it is the main requirement to increase work productivity. Besides that, health must also be balanced with proper education. Education plays an important role for a country, especially a developing country, to absorb modern technology in order to develop capacity and increase the capability of human resources in order to create sustainable economic growth and development. In this case the distribution of education and health is also important in addition to the importance of income distribution, an increase in education and health is a way out of the trap of a vicious cycle of poverty (Todaro, 2003: 404-406).

To realize the prosperity and welfare of the people and alleviate poverty, the government uses a strategy to improve the quality of human resources, which is reflected in the increase in the Human Development Index (HDI), by allocating funds and budgets to the field of public facilities which are indicators of the Human Development Index (HDI) such as education, health, infrastructure or expenditure in the economic sector and so on. Government expenditure directed towards education is expected to be able to improve the quality of human resources to be more educated and have skills so that it is very potential in the world of work and will have implications for increasing work productivity, with an increase in work productivity it will have an impact on increasing labor income so that it can meet their needs and welfare can be achieved.

East Java is one of the provinces in Indonesia which has the highest population and population growth rate after West Java Province. Based on data released by the National Statistics Agency (BPS), East Java is the province with the largest number of poor people in Indonesia, followed by Central Java and then West Java. The poor population in East Java has decreased almost every year, only in 2015 it experienced an increase, the most significant decrease in the number of poor people in East Java occurred in 2009, which amounted to 628,710 people. Referring to the poverty and inequality data, it can be said that the poverty and inequality rates in Indonesia are still relatively high, in addition, East Java is the province with the largest number of poor people, but on the other hand, both at the national and provincial levels, there is a reduction in poverty and inequality. When viewed from BPS data, the East Java Human Development Index (HDI) is at 15 in 2019 with a value of 71.50. This value is still far below the province of DKI Jakarta, which is in the first rank with an HDI of 80.76 ([www.bps.go.id](http://www.bps.go.id)).

The economic growth of East Java in 2005-2019 has fluctuated. The lowest economic growth was recorded in 2009 at 5.01% and the highest in 2010 at 6.68. In the period 2014-2019 or the last five years it was relatively stable at 5%. Based on the above background, which states that government expenditure in East Java has fluctuated but tends to increase every year, and economic growth in East Java also fluctuates every year but tends to decline, on the other hand there is a decrease in the number of poor people in East Java. . East Java's economic growth is relatively high nationally, but the poverty rate is still high. This means that although the rate of economic growth in East Java has a tendency to increase from year to year, this increase is not always accompanied by a significant reduction in poverty. Second, the large population that continues to increase every year is not matched by an even distribution of the population.

The economic growth of East Java in 2005-2019 has fluctuated. The lowest economic growth was recorded in 2009 at 5.01% and the highest in 2010 at 6.68. In the period 2014-2019 or the last five years it was relatively stable at 5%. Based on the above background, which states that government expenditure in East Java has fluctuated but tends to increase every year, and economic growth in East Java also fluctuates every year but tends to decline, on the other hand there is a decrease in the number of poor people in East Java. . East Java's economic growth is relatively high nationally, but the poverty rate is still high. This means that although the rate of economic growth in East Java has a tendency to increase from year to year, this increase is not always accompanied by a significant reduction in poverty. Second, the large population that continues to increase every year is not matched by an even distribution of the population.

The causes of poverty in East Java are among others caused by the following factors, including the low level of educational participation, low human development index, lack of employment which causes low income, rapid population growth, lack of government attention, and uneven distribution. The occurrence of this phenomenon indicates that there is a gap between Keynesian theory which states that higher government expenditure has implications for increased economic growth. Of course, the increased economic growth will have an impact on increasing development and economic equality so as to reduce the number of poor people. So that researchers are interested in examining more deeply the existing phenomena and conducting deeper research on

”The Effect of Government Expenditure on Reducing Poverty through Economic Growth and Increasing the Human Development Index (HDI) in East Java Province 2015-2019”.

## METHOD

This research uses explanatory research type. This research contains several variables, in this case the independent variable in the form of government expenditure, namely in the fields of health, education and infrastructure. The intervening variables are economic growth and HDI or Human Development Index. While the dependent variable is poverty. The object of this research, East Java Province which consists of 38 districts/cities.

The method of data analysis in this study will be carried out using path analysis using the help of SPSS software. The path coefficient is calculated by creating structural equation data, namely regression equations that show the relationship. In this case the equation is:  $EG_{it} = \beta_1 GEXP_{it} + \varepsilon_1$  (equation 1),  $HDI_{it} = \beta_2 GEXP_{it} + \varepsilon_2$  (equation 2),  $P_{it} = \beta_3 GEXP_{it} + \beta_4 EG_{it} + \beta_5 HDI_{it} + \varepsilon_3$  (equation 3)

## RESULTS AND DISCUSSION

Based on the results of path analysis, the results of testing the effect of Government Expenditure (GEXP) on Poverty (P) in East Java Province with Economic Growth (EG) and Human Development Index (HDI) as intervening variables can be seen in Table 1 below.

**Table 1 Path Coefficient Value**

No.	Independent Variable	Dependent Variable	Beta ( $\beta$ )	t-value	p-value	Result
1.	GEXP	EG	0,109	1,502	0,135	Not significant
2.	GEXP	HDI	0,142	1,968	0,051	Not significant
3.	GEXP	P	0,591	14,885	0,000	Significant
4.	EG	P	-0,060	-1,369	0,173	Not significant
5.	HDI	P	-0,668	-15,296	0,000	Significant

Source: Appedix 7

Based on Table 1 it can be stated that the results of the path coefficient test for the effect of government expenditure (GEXP) on Economic Growth (EG) have a positive path of 0.109 with a t-value of 1.502 and a probability (p) of 0.135 which means that government expenditure (GEXP) has no significant effect on Economic Growth (EG). This means that the hypothesis which states that government expenditure has a positive and significant effect on economic growth in East Java Province is not proven or H1 is rejected.

The results of the path coefficient test for the effect of government expenditure (GEXP) on the Human Development Index (HDI) have a positive path of 0.142 with a t-value of 1.968 and a probability (p) of 0.051, which means that government expenditure (GEXP) has no significant effect on the Human Development Index (HDI). Thus, the hypothesis which states that government expenditure has a positive and significant effect on HDI in East Java Province is not proven true or H2 is rejected.

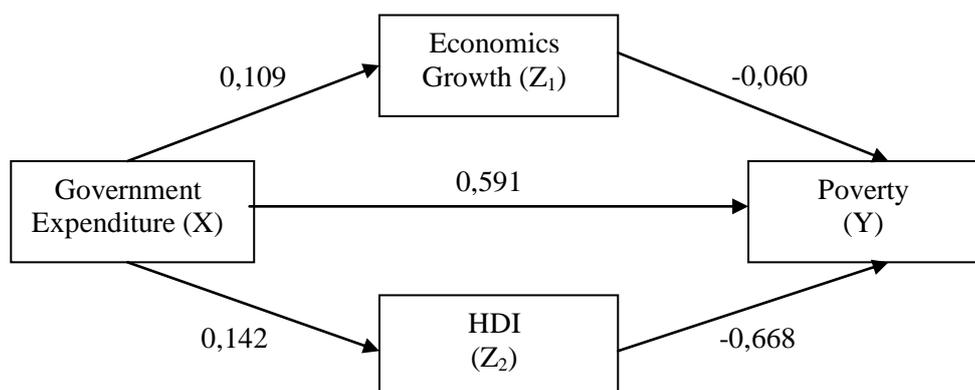
The results of the path coefficient test for the effect of government expenditure (GEXP) on poverty (P) have a positive path of 0.591 with a t-value of 14.885 and a probability (p) of 0.000, which means that government expenditure (GEXP) has a significant effect on poverty (P). These results still do not support the research hypothesis, because the hypothesis in this study suspects that government expenditure has a negative effect on poverty. Thus, the hypothesis which states that

government expenditure has a negative and significant effect on poverty in East Java is not proven true or H3 is rejected.

The results of the path coefficient test for the effect of economic growth (EG) on poverty (P) have a negative path of -0.060 with a t-value of -1.369 and a probability (p) of 0.173 which means that economic growth (EG) has no significant effect on poverty (P). This means that the hypothesis which states that economic growth has a negative and significant effect on poverty in East Java is not proven true or H4 is rejected.

The results of the path coefficient test for the effect of the Human Development Index (HDI) on Poverty (P) have a negative path of -0.668 with a t-value of -15.296 and a probability (p) of 0.000 which means that the Human Development Index (HDI) has a significant effect on poverty (P). This means that the hypothesis which states that HDI has a negative and significant effect on poverty in East Java is proven to be true or H5 is accepted.

In summary, based on the results above, it can be seen that the calculation of the path coefficient for the tested equation is as follows.



**Picture 1. Result of Path Analysis**

Source: Appendix 3

The first research hypothesis states that government expenditure has a positive and significant effect on economic growth in East Java Province. The test results show a negative path coefficient of 0.109 with a t-value of 1.502 and a probability (p) of 0.135, which means that government expenditure (GEXP) has no significant effect on Economic Growth (EG). This means that the hypothesis which states that government expenditure has a positive and significant effect on economic growth in East Java Province is not proven or H1 is rejected. The positive coefficient means that government expenditure and economic growth have a unidirectional relationship. In this case an increase in government expenditure causes an increase in economic growth or conversely a decrease in government expenditure causes a decrease in economic growth. The insignificant effect shows that government expenditure has not been effective in driving economic growth. Referring to the data on expenditures of municipal governments in East Java Province for 2015-2019, in general it has increased every year, while economic growth tends to fluctuate. Government expenditure policies without paying attention to allocation patterns will not produce optimal positive impacts. It is not even possible that government expenditure policies are counterproductive to the intended target. In this case, the large expenditure of the district and city governments in East Java Province is not automatically able to encourage economic improvement; in fact what happens is the opposite is a decline in economic growth. Government expenditure policies must also see the pattern of allocations. The better the budget allocation used for productive activities, the better the impact that should be achieved from government expenditure.

The second research hypothesis states that government expenditure has a positive and significant effect on HDI in East Java Province. The test results show a negative path coefficient of 0.142 with a t-value of 1.968 and a probability (p) of 0.051, which means that government expenditure (GEXP) has a significant effect on the Human Development Index (HDI). Thus, the hypothesis which states that government expenditure has a positive and significant effect on HDI in East Java Province is not proven true or H2 is rejected. The results of this study illustrate that the expenditure of district and city governments in East Java Province so far, especially in the fields of education and health, is considered relatively small and has not been effective in improving the quality of human development. This condition can be caused by the inadequate budget realization in financing the needs in the education and public health sectors.

The third research hypothesis states that government expenditure has a positive and significant effect on poverty in East Java Province. The test results show a positive path coefficient of 0.591 with a t-value of 14.885 and a probability (p) of 0.000, which means that government expenditure (GEXP) has a significant effect on poverty (P). These results still do not support the research hypothesis, because the hypothesis in this study suspects that government expenditure has a negative effect on poverty. Thus, the hypothesis which states that government expenditure has a negative and significant effect on poverty in East Java is not proven true or H3 is rejected. The results of this study illustrate that the nominal increase in spending by district and city governments in East Java is not followed by a significant reduction in poverty. This can be due to the fact that government expenditure does not necessarily directly affect the poor. If this happens it can cause the government's goals not to be achieved in order to improve the welfare of the entire community. Then the local government needs to take steps to improve by using regional financial resources optimally to improve education services and expand health services, in order to improve the quality of human resources, all of which are used for the welfare of the community, as one way of overcoming poverty that is still become a problem for local governments. The problems faced in the Province of East Java today are related to the low human development problem and the high poverty rate. Two of these problems, one of the causes is the low support for limited funding sources. This limited source of funds has resulted in relatively low government expenditure to finance the public sector. The low level of public investment in East Java Province is reflected in the low allocation of government expenditure for this sector.

The fourth research hypothesis states that economic growth has a negative and significant effect on poverty in East Java Province. The test results show a negative path coefficient of -0.060 with a t-value of -1.369 and a probability (p) of 0.173, which means that economic growth (EG) has no significant effect on poverty (P). This means that the hypothesis which states that economic growth has a negative and significant effect on poverty in East Java is not proven true or H4 is rejected. A negative path coefficient means that the better or the higher the economic growth, the lower the poverty rate. It's just that, statistically the impact of economic growth in urban districts in East Java Province is not significant. This is due to the fact that there are still urban districts with good economic growth, but not yet followed by a reduction in the poverty rate. Economic growth or an increase in GRDP is an important measure and indication to assess the success of a region's economic development in terms of its economy. However, the high GRDP does not guarantee that all residents in an area have enjoyed prosperity. GRDP is only a general description of the welfare of the community.

The fifth research hypothesis states that HDI has a negative and significant effect on poverty in East Java Province. The test results show a negative path coefficient of -0.668 with a t-value of -15.296 and a probability (p) of 0.000, which means that the Human Development Index (HDI) has a significant effect on poverty (P). This means that the hypothesis which states that HDI has a negative and significant effect on poverty in East Java is proven to be true or H5 is accepted. The influence of HDI on poverty is negative, this means that the higher the HDI, the lower the poverty.

The quality of human resources can be a major cause of poverty. The quality of human resources can be seen from the Human Development Index (HDI). According to Mudrajad (2006), IPM is useful for comparing human development performance both between countries and between regions. The Human Development Index (HDI) is an indicator that explains how residents of an area have the opportunity to access the results of a development as part of their rights to earn income, health, education, and so on. With a healthy and well-educated society, an increase in the productivity of the community will also increase the expenditure for consumption, when the expenditure for consumption increases, the poverty rate will decrease. On the other hand, the low Human Development Index (HDI) results in low work productivity of the population. Low productivity results in low income generation. So that low income causes a high number of poor people (Sukmaraga, 2011).

## CONCLUSION

The test results get the first conclusion, government expenditure (GEXP) has no effect on Economic Growth (EG). Second, government expenditure (GEXP) has no effect on the Human Development Index (HDI). Third, government expenditure (GEXP) has no effect on poverty (P). Fourth, economic growth (EG) has no effect on poverty (P). And fifth, the Human Development Index (HDI) affects poverty (P).

Referring to these conclusions, it is recommended that district/city governments increase HDI through poverty alleviation for the following year period so that they continue to refer to the previous programs, namely pro-poor, pro-jobs, and pro-growth but with more emphasis on creating jobs that are more adequate. In addition, coordination between stakeholders and supporting agencies in stages from the provincial to district / city levels must be optimized to avoid overlapping or missing targets for poverty reduction.

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