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# Analysis of the Effect of Regional Expenditure Management on the Level of Community Welfare in Papua Province

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**ABSTRACT**

The objectives of this research are (1) to find out how much direct and indirect spending affect the poverty rate through economic growth, (2) to find out how much direct and indirect spending affect the HDI level through economic growth, (3) find out how much direct spending and indirect spending affect the gini ratio through economic growth. To fulfill the research objectives and test the hypotheses that have been set, the analysis used is *path analysis* to facilitate data processing, so the analysis used in processing the data is the Amos Program Version 22. The research results show that: a direct relationship between direct expenditure variables and growth The economic correlation shows a positive but not significant correlation. The direct expenditure variable has 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 variables have a negative correlation with HDI performance, both directly and through economic growth variables. Furthermore, indirect expenditure variables have a positive correlation with regional inequality in this area, both indirectly directly or through intervening variables of economic growth.

**Keywords:** Economic Growth, Regional Expenditures, Welfare

## INTRODUCTION

The development of the Papuan economy will be influenced by government policies, especially policies in the fiscal sector. namely regarding government expenditure (routine expenditure and development expenditure). In reality, government policy in the fiscal sector also depends on economic conditions, where fiscal policy differs during conditions before and after the implementation of special autonomy in Papua. High and sustainable economic growth is one of the main conditions for economic continuity in Indonesia or a country, so that economic growth is one of Indonesia's development goals. It is hoped that with high economic growth, it will be able to overcome social inequality and improve the welfare of the people or society. Currently in almost every country, the government intervenes in economic activities. Government intervention in these economic activities aims to improve people's welfare. In an effort to create fiscal health referred to, there are two strategic steps that must be met. First, gradually reduce the APBN deficit towards

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a balance or surplus. Second, seek to reduce the amount *(stock)* of public debt and its ratio to Gross Domestic Product.

Fiscal Policy contains two main instruments in the macro economy, namely government expenditure *and* the taxation system; included in government spending are all purchases or payments for goods and services for the national interest, while the taxation system has two roles, namely reducing the amount of people's income and influencing the level of potential output (Adisasmita, 2008). Fiscal policy places more emphasis on regulating government income and spending. Fiscal policy instruments are government revenues and expenditures which are closely related to taxes. From a tax perspective, it is clear that changing the applicable tax rate will have an effect on the economy. If taxes are reduced, people's purchasing power will increase and industry will be able to increase output. And conversely, an increase in taxes will reduce people's purchasing power and reduce industrial output in general. Budget Policy/Budget Politics , which includes; *First* , the Budget Deficit ( *Deficit Budget* ) Expansive Fiscal Policy (Budget Deficit) is a government policy to make expenditures greater than state income in order to stimulate the economy. Generally it is very good to use if economic conditions are recessive. *Second* , the Budget Surplus ( *Budget Surplus* ) Contractive Fiscal Policy (Budget Surplus) is a government policy to make its income greater than its expenditure. It is better if the surplus budget policy is carried out when the economy is in an expansionary condition which starts to heat up *(overheating* ) to reduce demand pressure. *Third* , a Balanced Budget *or* a balanced budget occurs when the government determines that expenditure is equal to income. The political goals of a balanced budget are creating budget certainty and increasing discipline. (Parkin, 1995)

In its development, the application of fiscal policy and monetary policy gave birth to a policy *mix* which then led to the development of studies on the coordination of fiscal and monetary policies. Several studies on policy coordination found that, in the long term, fiscal and monetary policies do not conflict with each other in achieving economic growth. In this condition there is no need for policy coordination (Hagger, 2019). In the short term, the absence of coordination between fiscal policy and monetary policy will reduce policy effectiveness (Giavazzi, 2019).

In theory, especially in certain Keynesian theories, fiscal and monetary policies effectively influence real output. Expansionary fiscal policy, namely through fiscal stimulus, can increase aggregate demand through domestic consumption and investment. Under conditions of price stickiness, real short-run output will increase. In the midst of weak global demand due to the global financial crisis, fiscal stimulus can analyze the domestic economy. Furthermore, strong aggregate demand can have a multiplier effect and increase aggregate supply in the real sector, according to an undercapacity economy, so that it can ultimately increase output in the short term.

Macroeconomic stability is a fundamental factor to ensure sustainable economic growth. Efforts to maintain macroeconomic stability are carried out through certain steps to strengthen the resilience of the domestic economy against various shocks *that* arise, both from within and from abroad. Coordination of fiscal, monetary, real sector and regional policies is absolutely necessary to anticipate economic turmoil and promote economic growth. (Lucket, 1977)

Fiscal policy through government spending in the Papua APBD is expected to stimulate gross domestic product. Government spending can stimulate the economy through increased consumption and investment. Consumption and investment are components of the Gross Domestic Product (GDP). Routine government spending is used for unproductive spending and leads to consumption, while development spending is more investment in nature. This requires the productivity of each component of government spending to be able to contribute to GRDP for the next period on an ongoing basis. Of course, these component expenditures must be allocated to productive and investment expenditures. This is the reason the authors conducted this research by focusing only on government spending through fiscal policy and monetary policy through instruments; money supply, exchange rate, interest rate and inflation rate.

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Likewise, a high rate of economic growth is expected to reduce the level of poverty, but the phenomenon that occurs with a high rate of economic growth is also accompanied by a high poverty rate as well. Starting from the description of the background above, the writer is interested in conducting research with the title "Analysis of the Influence of Regional Expenditure Management on the Level of People's Welfare in Papua Province".

## RESEARCH METHOD

This research was conducted in the Province of Papua, and the duration of the research was 1 year. This research was conducted at the Central Statistics Agency (BPS) in Papua Province via internet facilities, estimation, analysis and research were carried out using annual data from 2001-2021 with research locations in the whole Papua Province. The selection for the 2001-2021 period was due to the fact that during this period the economy of the Papua Province was in a period after the implementation of special autonomy, so that in early 2001 the economy of the Papua Province began to develop and improve the economic structure both micro and macro through government policies in the economic sector. In this study, the data used are secondary data, namely data obtained from related agencies or institutions concerned. The data includes: !) Quantitative data: This data is a time series data consisting of data on direct spending, indirect spending, non-mining economic growth, poverty rate, HDI and gini ratio in Papua Province from 2001-2019. 2) Qualitative Data: This data is data obtained from literature studies and various other supporting literature sources. To fulfill the research objectives and test the hypotheses that have been set, the analysis used is the *path* analysis model. To facilitate data processing, the analysis used to process the data is the Amos Program. This method is believed to have superior properties, namely technically very accurate, easy to interpret calculations and as a linear and non-linear estimation tool (Gujarati, 2004). Starting from the conceptual framework in Figure 2.2 (research framework), this equation can be translated in the form of an equation that describes a functional relationship between the dependent, independent and intervening variables, while for the variables Direct Expenditure (X 1) and Indirect Expenditure ( $X_2$ ), in this study using *Time Lag* with the assumption that Government Expenditure has a multiplier effect in the following year, for this we can describe this equation as follows:

The discussion regarding the expenditure of the regional government of Papua Province, uses the following analysis method:

1. The influence of variables $X_1$, $X_2$, on ($Y_1$) non-mining economic growth

To fulfill the research objectives and test the hypotheses that have been set, the analysis used is multiple regression with the *path* analysis model method. This method is believed to have superior properties, namely technically very accurate, easy to interpret calculations and as a linear and non-linear estimation tool (Sofyan, 2009). The regression performed on the derived regression equation model is as follows:

$Y_1 = f\,(X_1, X_{2,})$

The influence of variables $X_1$, $X_2$, on ( $Y_2$ ) the poverty rate, ( $Y_3$ ) the HDI level and ( $Y_4$ ) the level of regional inequality. To fulfill the research objectives and test the hypotheses that have been set, the analysis used is multiple regression with a *path* analysis model. Regression was carried out on the regression equation model derived for the influence of variables $X_1$, $X_2$, on ( $Y_2$ ) poverty rates, ( $Y_3$ ) HDI levels and ( $Y_4$ ) Regional Inequalities are as follows:

1. $Y_1 = f\,(X_1, X_{2,})$
2. $Y_2 = f\,(X_1, X_{2,} Y_1)$
3. $Y_3 = f\,(X_1, X_{2,}, Y_1, Y_2)$
4. $Y_4 = f\,(X_1, X_{2,}, Y_1, Y_{2,} Y_3)$

Furthermore, to conform with this research, it is assumed that Y is economic growth which is an independent variable, while X is the dependent variable consisting of direct spending (X1), indirect

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spending (X2), and To facilitate presentation, a functional equation can be formed in the model path analysis (path analysis) with reduce form as follows:

$$Y_1 = \alpha_0 + \alpha_1 X_1 + \alpha_2 X_2 + \mu_1 \ldots\ldots \textit{(1)}$$
$$Y_2 = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \mu_2 \ldots\ldots \textit{(2)}$$
$$Y_3 = C_0 + C_1 X_1 + C_2 X_2 + C_3 Y_1 + C_4 Y_2 + \mu_3 \ldots\ldots \textit{(3)}$$
$$Y_4 = C_0 + C_1 X_1 + C_2 X_2 + C_3 Y_1 + C_4 Y_2 + C_4 Y_3 + \mu_4 \ldots\ldots \textit{(4)}$$
$$Y_4 = C_0 + C_1 X_1 + C_2 X_2 + C_3(\alpha_0 + \alpha_1 X_1 + \alpha_2 X_2 + \mu_1) + C_4(\beta_0 + \beta_1 X_1 + \beta_2 X_2) + C_4(\beta_0 + \beta_1 X_1 + \beta_2 X_2) + \mu_3$$

where : $C_0 + C_3 \alpha_0 + C_4 \beta_0 = \gamma_0$

$C_1 + C_3 \alpha_1 + C_4 \beta_1 = \gamma_1$

$C_2 + C_3 \alpha_2 + C_4 \beta_2 = \gamma_2$

$C_3 \mu_1 + \mu_2 = \mu_{12}$

$C_4 \mu_1 + \mu_2 + \mu_3 = \mu_{123}$

So the equation becomes

$$Y_4 = \gamma_0 + \gamma_1 X_1 + \gamma_2 X_2 + \mu_{1,2,3,4} \ldots\ldots \textit{(5)}$$

## RESULTS AND DISCUSSION

### 1. Direct Spending Influence Analysis Government

As explained above, the effect of exogenous variables on endogenous variables is functioned through direct and indirect relationships. In the following, an analysis will be given regarding the findings of the research results through the processed data, then its relation to previous theories or the same research. Furthermore, this research will explain the results of its findings and the novelty of the new knowledge obtained to solve existing problems.

#### a. Direct Influence on Economic Growth

The results of data processing show a positive influence between government direct spending on economic growth in the province of Papua . The direct effect of direct expenditure variables on economic growth shows a positive effect of 0.198 but not significant. These results are in accordance with the hypothesis and previous research related to the functional relationship of these two variables. It's just that the findings from this study showed an insignificant effect . The results of this study have also supported some of the results of previous studies such as research conducted by Anton Hendranata (2006); Pramono Hariady (2008); Ilyas (2013); Steffi Ikhsan (2014); Teddy Desly Sunday, (2015); Made Dwi Ratnadi, (2016), regarding the positive effect of direct spending on economic growth. Government spending, which is channeled through direct spending, is part of government spending consisting of personnel spending, goods and services spending, and capital spending. This expenditure is non-consumptive in nature or in the form of capital investment in government projects, either in the form of physical projects such as the construction of highways, water dams, or non-physical projects such as development projects in the fields of education, religion and other social activities.

#### b. Effect of Direct Government Expenditures on Poverty Levels

The influence of direct spending variables on poverty both directly and through economic growth variables shows a negative and significant correlation. The direct expenditure variable has a negative effect of -7,839 and is significant for poverty, both directly and through economic growth variables. This shows that when the Papua provincial government's direct expenditure budget is increased, it indirectly affects the reduction in the poverty rate in this area. It's just that the transmission affects it directly without going

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through the intervening variables. Direct spending, which consists of spending on personnel, goods and services and capital spending, has a direct, significant impact on reducing the poverty rate. This means that the investment made by the government in the form of capital spending on public goods has a better multiplier effect. Government spending such as road construction or irrigation has a direct effect on poverty in this area, although not through economic growth. The results of this study have supported and strengthened the results of previous studies, such as the results of research conducted by Teddy Desly Minggu, (2015); NI made dwi ratnadi, (2016); Adisti Adila (2009); Nadia Ika Purnama (2017); A. Idham Pananrangi (2010); Sudarlan (2015); Iva Ashari Ananda (2015); and Novita Dewi (2017). Likewise previous theories that support the results of this study.

**c. Effect of Direct Government Spending on HDI**

The effect of direct spending by the Papua provincial government on the Human Development Index (IPM) is positive and significant, The direct expenditure variable has a positive effect of 1,971 on improving HDI performance, both directly and through economic growth variables. either directly or indirectly through economic growth variables. These results indicate that the direct spending of the Papua provincial government has a direct and indirect impact on the HDI of this area. The results of this study also strengthen the results of previous studies, such as the results of research conducted by Dwi Atmojo (2017); Ning Malihah (2018); Iva Ashari Ananda (2015); Novita Dewi (2017); and Mahirsyah Pradana (2016). Several theories have also carried out scientific justification for the correlation between direct government spending and HDI which shows a positive correlation. As research conducted by Amartya Sen said that economic development should be translated as a process of expanding the positive freedoms enjoyed by society. Sen observes that the real problem in developing countries is the declining quality of life as measured by the low income that is part of the HDI component. Development as a process that expands human *entitlements* and *capabilities* to live in the area according to what they want (kuncoro, 1997). Thus, the output of a development does not only appear physically, but the quality of human resources is the main indicator.

**d. Effect of Government Direct Spending on Regional Inequality**

One of the targets of the government's budget or spending in the APBN for Papua province is to achieve equitable distribution of development in all districts/cities in Papua province. The effect of direct spending on regional inequality is 0.558 indicating a positive relationship, both directly and through economic growth variables. The results of this study indicate that the direct expenditure effect of the Papua provincial government on regional inequality actually has a positive and significant correlation, both directly and through an intervening variable, namely economic growth. The results of this study contradict the results of previous research, such as research conducted by Vebby Yunita (2014) and Zahra Assagafe (2002) which show a positive correlation between government spending and regional inequality. These results indicate that the distribution of direct spending by the Papua provincial government to regions in the districts/cities is going well, so that the benefits of the budget are right on target. The allocation of government spending that is not on target will certainly have an impact on increasing regional inequality that occurs in the region.

**Table 1.** Typology of Klassen Sectoral/ Regional Approach

| **Quadrant I** | **Quadrant II** |
|---|---|
| Sector/Region is developed/growing and rapidly | Sectors/Regions are progressing but under pressure |
| gi>g, gki>gk | gi<g, gki>gk |
| **Quadrant III** | **Quadrant IV** |

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| | |
|---|---|
| Developed sectors/regions that can still develop rapidly | Sector/Region relatively lagging behind |
| gi>g, gki<gk | gi<g, gki>gk |

Source: Syafrizal, 2008

Where:

gi : GRDP growth rate in province i
gki : income per capita propens i
g : GRDP growth rate
k : average per capita income

According to regional typology (Kuncoro 2004), regions are divided into 4 classifications

1. Fast-developed and fast-growing regions are regions that have higher economic growth rates and per capita income than the regional average
2. Developed and depressed regions are regions that have a higher per capita income than the regional average
3. Fast developing areas are regions that have a growth rate, but the per capita rate is lower than the regional average
4. Relatively underdeveloped areas are regions that have low levels of economic growth and per capita income.

Williamson and Theil's Entropy Index are used to see how big the level of income disparity between regions is to measure inequality between regions. From the results of the calculation of the Williamson Index in the province of Papua in 2015, it was 0.63 (a value close to 1 ), then based on the trend of the Williamson Inequality Index, in 2015 in Papua there was a high inequality of income distribution, that is, there was economic growth between regions that was not evenly distributed, in 2016 was 0.64 (value close to 1 ), then based on the Wiliamson Inequality Index trand, in 2016 in Papua there was high inequality in income distribution, namely there was uneven economic growth between regions, , in 2017 it was 0.64 (value close to 1 ) , then based on the trend of the Wiliamson Inequality Index, in 2017 in Papua there was high income distribution inequality, namely there was uneven economic growth between regions, , in 2018 it was 0.65 (a value close to 1 ), then based on the growth of the Williamson Inequality Index, in in 2018 in Papua there was a high inequality of income distribution, namely there was uneven economic growth between regions, in 2019 it was 0.66 (a value close to 1 ), then the trand of the Wiliamson Inequality Index, in 2019 in Papua there was a high inequality of income distribution , namely that there is uneven economic growth between regions, the Williamson Index which continues to experience improvement can also be interpreted as a success in equitable development in Papua, this is also seen by the number of developments in per capita income which is increasing in Papua at this time. The Williamson Index is experiencing a treus experiencing improvement can also be interpreted as a success in efforts to equalize development in Papua at this time

**2. Analysis of Indirect Government Expenditures Effect on Poverty, HDI and Regional Gaps**

The next analysis is to explain the effect of indirect spending as an exogenous variable on poverty, HDI and regional inequality, The indirect expenditure variable has a negative effect of -0.583 on economic growth in the province of Papua. This shows that when the provincial government of Papua. either directly or through variables of economic growth in the province of Papua. The functional relationship or correlation

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between exogenous variables and endogenous variables is explained through the grand theory described previously and supported by several previous research results as scientific justification for the results of this study.

**a. Direct Effect of Indirect Government Spending on Economic Growth**

The effect of indirect spending on economic growth based on the results of data processing is that it has a negative relationship. The effect of indirect spending on the poverty rate in Papua province is -3,518 indicating a negative relationship, both directly and through economic growth. That is, if the government's indirect spending is increased by 1 percent, it will cause a decrease in economic growth by -0.583 percent. This result is clearly contrary to previous theories which show the opposite result. In principle, the government's indirect expenditure becomes the government's social investment to encourage economic growth in the area. The results of this study contradict some of the results of previous studies, such as the results of research conducted by Anton Hendranata (2006) which shows a positive relationship between government spending and economic growth. Likewise with research conducted by Pramono Hariady (2008) and Ilyas (2013) which shows a positive and significant correlation of the effect of indirect government spending on economic growth.

The results of this study actually reinforce the findings made by Steffi Ikhsan (2014), which shows that direct spending does not have a positive and significant correlation to the increase in the sector studied, as well as the allocation of indirect spending has a positive correlation but the level of significance is still lacking when viewed partially to economic growth in Manado City.

**b. The Effect of Indirect Government Spending on Poverty Levels**

effect between indirect expenditure variables and poverty in Papua Province, both directly and through economic growth, shows a negative and significant correlation. This means that the higher the government's indirect spending will have an impact on reducing the number of poverty in this area. These findings corroborate the results of research that has been conducted by previous researchers, such as A. Idham Pananrangi (2010); *Teddy* Desly Sunday, (2015); and Nadia Ika Purnama (2017). The results of this study also corroborate the findings made by Minggu, Rumate and Rotinsulu (2016), that the development of the number of poor people has a negative relationship with increased indirect spending. The greater the indirect spending, it is hoped that it will further increase regional economic activity (economic expansion occurs) and will ultimately increase people's welfare and of course reduce poverty.

**c. Influence of Indirect Government Spending on HDI**

As previously discussed, the human development index (IPM) is an important indicator for measuring the development achievements of a region. Papua province is no exception, where the average HDI score for the last 5 (five) years, namely 2015-2019, is still at 59.06 percent. This figure is still far from the national average. The results of this study indicate that indirect spending has a negative and significant effect on HDI, both directly and through economic growth variables. This shows that the indirect contribution of the Papuan provincial government to the HDI is not optimal, especially with the variable economic growth. Even though HDI is an absolute measure used to measure development performance in a region. Moreover, the APBD has allocated a large enough budget to encourage an increase in the HDI. This result also shows that the HDI in the Papua province which is far below the national HDI average is due to the low contribution of government indirect spending to this variable.

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**d. The Influence of Indirect Government Spending on Regional Inequality**

This research shows that indirect government spending has a positive and significant effect on regional inequality in the province of Papua, both directly and through economic growth. These findings are different from some of the findings of previous studies, such as research conducted by Vebby Yunita (2014) and Zahra Assagafe (2002) who found a negative correlation between government spending on regional inequality variables. However, the results of this study actually corroborate the results of research conducted by Alberd Kurniawan Gulo (2017), that there is a positive and significant correlation between government spending on regional inequality in Jambi and Bengkulu Provinces.

## CONCLUSION

The problem formulation contains 8 (eight) effects of exogenous variables on endogenous variables either directly or through *intervening variables* : The direct effect of direct spending on economic growth shows a positive but insignificant correlation. This means that the Papua provincial government's direct spending has not made a significant contribution to economic growth in this area during the research observation period, namely 2001-2017. The direct expenditure variable has 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 influence on improving HDI performance, both directly and through economic growth variables. That is, when the Papuan provincial government increases direct spending at the same time it encourages an increase in the HDI in this area. The influence of direct spending on regional inequality shows a positive effect, both directly and through economic growth variables. This means that personnel spending, goods and services spending and capital spending by the Papua provincial government have contributed greatly to the decline in regional inequality in districts/cities in Papua province.

a. The indirect expenditure variable has a negative effect on economic growth in the province of Papua. This shows that when the Papua provincial government encourages indirect spending, it actually has a negative impact on economic growth in this area.
b. The influence of indirect spending on the poverty rate in Papua province shows a negative effect, both directly and through economic growth. This shows that when the Papuan provincial government pushed for an increase in indirect spending, it actually reduced the rate of poverty in the region.
c. The indirect expenditure variable has a negative effect on HDI performance, both directly and through economic growth variables. This means that, when the Papua provincial government increases its indirect spending it actually suppresses HDI performance directly and affects the decline in economic growth in this area.
d. Furthermore, the indirect expenditure variable has a positive influence on regional inequality in this area, either directly or through the intervening variable of economic growth. This is a separate note from the results of the previous analysis regarding the correlation of these two variables.

### Policy Implications

The results of this study provide evidence that the spending of the Papua provincial government, both direct and indirect spending, has not provided a multiplier effect on other economic variables such as economic growth, poverty rate, HDI and has not been able to reduce regional inequality that occurs in this area. Thus, it is hoped that the realization of the direct expenditure budget of the Papua provincial government, among others; personnel spending, goods and services spending, and capital spending are expected to have an impact and contribute to increasing economic growth and reducing poverty rates as

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well as increasing the human development index and reducing regional inequality that occurs in the province of Papua. In addition, based on the findings of this study, it is also hoped that the realization of the indirect budget for the Papua provincial government includes; Personnel spending, interest spending, subsidy spending, grant spending, social assistance spending, profit-sharing spending, financial assistance spending, and unexpected spending are expected to have an impact and contribute to increasing economic growth and reducing the poverty rate as well as increasing the human development index and reducing regional inequality. happened in the province of Papua.

Suggestion, based on the conclusions of the research results, as described above, the suggestions from researchers regarding financial management, especially in the allocation of direct and indirect spending in the Papua provincial government are:

a. From the results of this study, it is hoped that the policy of the Papua Provincial government in allocating regional expenditures, both direct and indirect expenditures, will provide a good contribution to increasing the level of people's welfare in Papua Province.
b. The results of this study provide an illustration that regional spending has not been able to boost economic performance in Papua Province. Equitable distribution of the budget is an important note from the results of the previous analysis, meaning that the unequal distribution of social assistance will not encourage the aggregate *demand side.*
c. Therefore, in budget planning it is necessary to identify and update data related to the distribution of regional expenditures in Papua Province. Regional spending should have gone through a selective process from the Papuan provincial government to improve financial performance to anticipate regional inequalities indicating that this budget allocation raises many problems, especially in the aspect of equity and fairness between regions (districts/cities) in Papua province.

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