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An Explore the Government Expenditure, Income Per Capita, Investment, and Poverty Impact to Integrity Assessment Survey (SPI) In Indonesia

Muhammad amin kadafi[1], Candra fajri ananda[2], Rachmad kresna Sakti[3], Dias satria[4]

[1]Doctoral Student, Department of Economic Development, Universitas Brawijaya, Indonesia

[2,3,4] Supervisor, Department of Economic Development, Universitas Brawijaya, Indonesia

ABSTRACT:

Objectives: This research paper aims to analyze the impact between young government expenditure, per capita income, investment, and poverty, through integrity assessment survey by corruption in Indonesia

Methodology: This research is quantitative research and using the data from Provincial Central Statistics Agency (BPS), Ministry of Finance, Corruption and Eradication Commission. The data analysis technique was used by a Morans' I Test.

Results: The results were shown by the impact among investment, government expenditure, income per capita, Integrity Assessment Survey (SPI), corruption in Indonesia.

KEYWORDS: investment, government expenditure, income per capita, Integrity Assessment Survey (SPI), corruption

INTRODUCTION

Capital formation activities are seen as expenditure that will increase the ability of an economy to produce goods, increase capital stock or as expenditure that will increase the effective demand of the entire community. By carrying out a certain amount of capital formation, in the future the economy will have greater ability to produce goods and services, so that it can increase productivity as well as production capacity and quality which in turn will encourage the economy (Asbiantari et al., 2016).

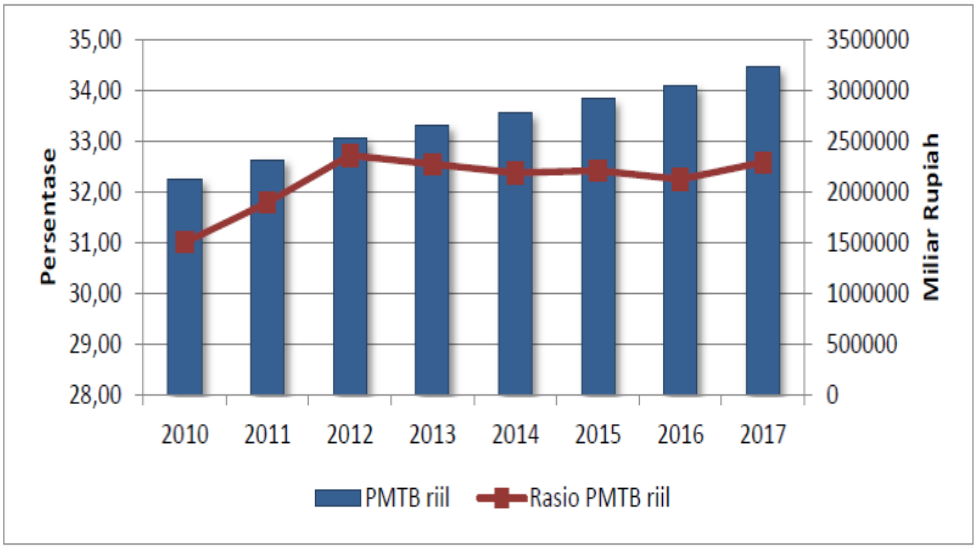

Figure 1.2. Indonesia's Gross Fixed Capital Formation Diagram 2010-2017

Source: Central Statistics Agency, 2018.

Investment in Indonesia as reflected in the value of Gross Fixed Capital Formation (PMTB) shows an increasing trend in each period. There was a significant increase in the PMTB to GDP ratio from 2010 to 2012. This was in line with economic conditions

which at that time showed high growth of above 5%. In the following period, PMTB tends to be stable with a contribution of around 32.50% to GDP. PMTB's role in the economy is crucial, considering that more than 30% of GDP is influenced by investment. PMTB is the second largest supporter of GDP value after consumption. Increasing investment is something that is always pursued, considering that the impact will absorb a lot of workers. In this way, in the long term, it will reduce economic inequality in society. The growth mechanism very easily influences inequality and poverty as defined above. Inequality and poverty levels tend to fall when there is constant growth, likewise when growth falls constantly then when inequality increases and poverty tends to increase. Therefore, in this sense, good economic growth aims to reduce the level of income inequality and also the amount of poverty. Political stability deters corruption; it is worth noting that these positive effects of political stability are enhanced when actors play in an institutional environment where voice and accountability prevail. That is, even when political stability plays out in an institutional environment with low accountability tends to discourage corruption, this deterrence is greater when the state enjoys higher accountability. The determinants of differences in corruption between regions have relevance to changes in the level of corruption in a neighboring country (Márquez et al., 2011).The background underlying this research is income inequality, which discusses the influence of globalization that is occurring in the world. In this case, globalization has played a smaller role but is able to encourage changes in society. Improving skills in the middle class is associated with widening income gaps in developed countries, while financial deepening is associated with increasing inequality in EMDC (Economically More Developed Countries) countries, indicating scope for policies that promote financial inclusion (Dabla-Norris et al. , 2015). Policies that focus on the poor and middle class can reduce inequality.If you look at the point of view of several researchers regarding corruption, corruption can be driven by imitating behavior or may have become a behavioral norm, and this is an important question in research. Future research can also study who has greater opportunities and receives more incentives to support corruption, between rich and poor, because rich people have greater motivation and opportunity to commit corruption, while poor people are more vulnerable to extortion and less able to monitor and hold powerful rich people accountable. (Policardo & Carrera, 2018).

TEORITICAL

Government Expenditures

Government expenditure (government expenditure) is part of fiscal policy (Sukirno, 2005), namely a government action to regulate the running of the economy by determining the amount of government revenue and expenditure each year, which is reflected in the National and State Budget (APBN) documents.

Government spending 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. Theories regarding government spending can also be grouped into 2 parts, namely macro theory and micro theory (Mangkoesoebroto, 2002).

Peacock and Wiseman's Theory

Their theory is based on an analysis of government revenues and expenditures. The government always tries to increase its expenditure by relying on increasing tax revenues, even though the public does not like paying large taxes to finance increasingly large government expenditure. Increasing tax revenues cause government spending to also increase. Under normal circumstances, increasing GNP causes greater government revenues, as well as greater government expenditure.

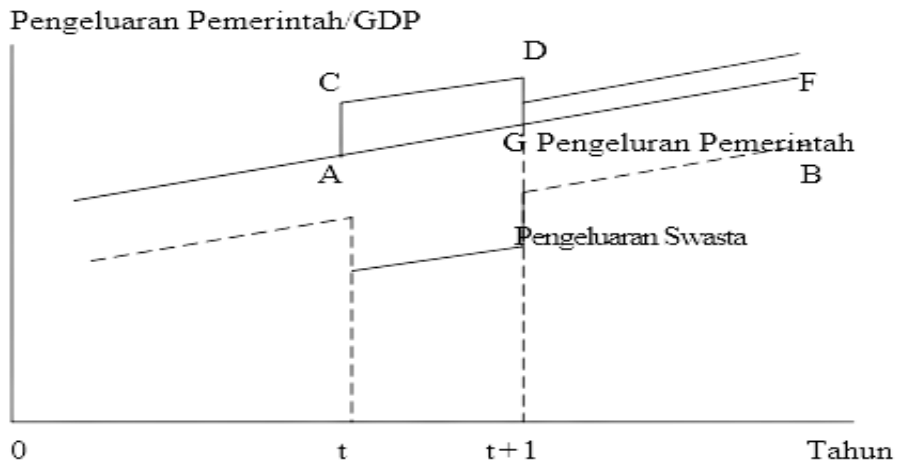

Figure 2.4. Peacock

Source: (Peacock & Wiseman, 1979).

Per Capita Income (GDP per capita)

Per capita income also has several benefits, such as indicators of state welfare, standard state prosperity growth, as a guide for the government in making economic policies, and comparative levels of prosperity between countries.

According to (Muta'ali, 2019), economic development is essentially a process that causes the per capita income of the population of a region or country to increase over a long period of time, and in fact development is synonymous with efforts to increase per capita income. By increasing per capita income, it is hoped that it can solve problems such as unemployment, poverty and inequality in income distribution.

Per capita income is regional income/net regional product divided by the mid-year population. Per capita income is the most important indicator that describes regional economic development and at the same time shows performance and development results. Per capita income is the average income of the population in a country. Per capita income is obtained from dividing a country's national income by the country's population.

$$1.\ \mathbf{PDBperkapita} = \frac{\mathbf{PDBtahunt}}{\mathbf{Jumlahpendudukpadatahunt}}$$

$$2.\ \mathbf{PNBperkapita} = \frac{\mathbf{PNBtahunt}}{\mathbf{Jumlahpendudukpadatahunt}}$$

Investment Theory

Investment is stated by (Sunariyah, 2011), "Investment is an investment in one or more assets owned and usually has a long term with the hope of getting a profit in the future, investing is the placement of money or funds with the hope of obtaining additional or certain benefits for the money or funds (Halim, 2015). The benefits of domestic investment are as follows: a) Able to save foreign exchange. b) Reduce dependence on foreign products. c) Encourage the progress of domestic industry through forward linkages and backward linkages. d) Contribute to efforts to absorb the workforce.

Limited foreign exchange in several Sub-Saharan African countries has resulted in liquidity in developing countries. Domestic capital flows are seen as an important source of additional capital for development besides human capital (Busse & Groizard, 2008).

According to (Mankiw, 2014), investment consists of goods purchased for future use. Investment is also divided into three subgroups, namely business fixed investment, and household fixed investment and inventory investment.

Poverty

The meaning or definition of poverty is very diverse, ranging from simply the inability to meet basic needs and improve conditions, lack of opportunities to obtain work, to a broader understanding that includes social and moral aspects. Michael Parkin said that poverty is a situation where household income is too low to meet basic needs. They have difficulty being able to buy the food, shelter and clothing they need every day (Bank, 2014).

Research results (Ichsan et al., 2019) founded that corruption itself does not cause poverty, but rather causes poverty through indirect channels by influencing socio-economic, political and administrative conditions. Corruption usually affects economic growth and thereby affects employment levels and income distribution, possibly leading to poverty. This study uses a dynamic panel data estimation method to test our model for ECA (Economic Commission for Africa) countries, the results show that the consumer price index as a proxy for macroeconomic performance has a positive effect on poverty. Increasing income will only lead to demand-pull inflation.

Increasing income can also affect the Human Development Index, reducing poverty. As a result, corruption has a significant influence on poverty in ECA countries. If a country wants to reduce poverty, it must improve factors such as law and supervision, as well as good governance.

METHODOLOGY

This research is classified as a quantitative type of research, using data in the form of absolute values. This research also explains (explanatory) which also explains the relationship between the independent variables and the dependent variable, and aims to explain the closeness or similarities in the causes of income inequality (Gini Ratio) and corruption between regions in Indonesia. Apart from that, this research can also see how geographically corruption spreads in Indonesia.

Research Location and Time

This research was conducted in all provinces in Indonesia, which consists of 34 provinces. Determining the research location in the provincial area so that the closest/neighboring areas can be identified. This research will be carried out starting January 2022.

Data Source

This research uses secondary data that has been published by government and non-government institutions that have good credibility.

Morans' I Test

The model used to analyze spatial dependence is the Moran index. The first step in estimating a spatial econometric model, which must be done is to test the presence of spatial dependence or heterogeneity in an observation using Moran's index. The Moran index is used to estimate spatial effects by calculating the autocorrelation index which is used to measure the relationship between income inequality and corruption between regions. The implication of the spatial autocorrelation index is that it can determine whether there is independence between observations of cross section data with different observation units in scope (country, province and city) as well as giving rise to measurement error and causing heteroscedasticity (Magelhase, Hewings and Azzoni, 2000).

The Morans'I test is carried out to determine whether there is global spatial dependency in continuous data. Morans'I is a development of person correlation on univariate series data which functions to determine whether the relationship between the dependent variable and the independent variable is strong or not as a whole. The maximum likelihood estimator is used to find the Morans'I coefficient, which must be done first before testing spatial dependencies on each observation (Lee and Wong, 2001). In testing spatial dependencies, the following hypothesis is used:

H0: I = 0 (no dependencies between locations)

H1: I ≠ 0 (there is spatial dependency between locations)

Test formula using:

$$\boldsymbol{Z_{hitung}} = \frac{\boldsymbol{I-I_0}}{\sqrt{\boldsymbol{VAR(I)}}} \sim \boldsymbol{N}(0,1) \ldots \ldots \ldots \ldots \quad (1)$$

Noted:

$$\boldsymbol{I} = \frac{\boldsymbol{n}}{\sum_{i=1}^{n}\sum_{j=1}^{n}\boldsymbol{W_{ij}}} - \frac{\sum_{i-1}^{n}\sum_{j=1}^{n}\left(x_i-\bar{x}\right)\left(x_j-\bar{x}\right)}{\sum_{i=1}^{n}\left(x_1-\bar{x}\right)^2} \ldots \ldots \quad (2)$$

$$\boldsymbol{E(I)} = \boldsymbol{I_0} - \frac{\boldsymbol{I}}{\boldsymbol{n-1}} \ldots \ldots \quad (3)$$

$$\boldsymbol{var(I)} = \frac{\boldsymbol{n^2S_1 - nS_2 + 3S_0^2}}{\boldsymbol{(n^2-1)S_0^2}} \ldots \ldots \quad (4)$$

The Morans'I test statistic has the same advantages as the Wald test, namely that it requires a null hypothesis and an alternative hypothesis (Sugiarti, 2013).

Ho: no spatial autocorrelation

H1: there is spatial autocorrelation

Local Indicator of Spatial Autocorrelation (LISA)

Morans'I which is used to identify local autocorrelation efficiency or find spatial correlation in each region is Morans'I in LISA. Identification with Morans'I in LISA aims to produce information on the relationship between one observation location and another observation location. If adjacent areas have almost the same value or form a clustered distribution pattern, the local value obtained will be higher (Lee & Wong, 2001).

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