

The Effect Of Government Spending And Investment On Unemployment And Poverty Rate In North Penajam Paser District (PPU) East Kalimantan Province

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Abstract. Sources of financing are needed to manage and develop the region, which can come from Government Revenue and Investment in the area. This study analyzes the effect of Government Spending and Investment on the Unemployment Rate and Poverty Rate. Using secondary data and Structural Equation Modeling, empirically proven that greater Government Spending will decrease the Unemployment Rate and Poverty Rate. The perfect mediating role of the Un-employment Rate on the relationship between Government Spending and the Poverty Rate While Investment does not significantly affect the Unemployment Rate and Poverty Rate. Policies are needed so that existing investments, com-pulsory involving the local workforce, aim to reduce the area's poverty level.

Key words: Government Spending, Investment, Unemployment Rate, Poverty Rate

INTRODUCTION

Poverty alleviation program indicators in an area or area are said to be successful if the poverty rate indicator decreases from year to year. North Penajam Paser Regency (PPU), East Kalimantan Province, Indonesia, has been designated by the Government as the location for the Capital of the Nusantara (IKN). Based on data from the Central Statistics Agency for North Penajam Paser Regency from 2012 to 2021, the average poverty rate is 7.6%, the average unemployment rate is 6.4%. Government spending on average is 1.669 trillion Rupiah, and investment in North Penajam Paser Regency, on average is 38.653 billion Rupiah.

Based on BPS PPU Regency data from 2012 to 2021, this study tries to analyze the effect of Government Expenditure and Investment on Unemployment Rates and Poverty Rates that occur in PPU Regency.

LITERATURE REVIEW

According to (Brady, 2019), the theory of poverty can be categorized into three groups of theories, namely: behavioral, structural, and political. This study uses the theory of structural causes of poverty. Structural theory emphasizes the demographic and labor market context, which causes behavior and poverty. The results of research conducted by (Prasetyo & Thomas, 2021), show that the Keynesian theory which states that unemployment causes poverty is valid and relevant. Keynesian theory explains how government spending plays an important role in reducing poverty. This suggests that public spending increases aggregate demand, stimulates

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growth and reduces the unemployment rate. However, according to Government Expenditures (Kartika et al., 2021), has no effect on poverty. Research conducted by (Anderson et al., 2018), that the relationship between government spending and average poverty is less negative for countries in Sub-Saharan Africa, and more negative for countries in Eastern Europe and Central Asia, compared with other regions.

This study uses a research concept framework with seven (7) hypotheses. The seven hypotheses are as follows:

- 1) There is a relationship between Government Expenditure and Poverty Level.
- 2) There is a relationship between Government Expenditure and Unemployment Rate.
- 3) There is no relationship between Investment and Unemployment Rate.
- 4) There is no relationship between Investment and Poverty Level.
- 5) There is a relationship between the Unemployment Rate and the Poverty Rate.
- 6) There is a Mediating Role of the Unemployment Rate on the relationship between Government Expenditures and the Poverty Level.
- 7) There is no mediating role for the unemployment rate on the relationship between Investment and Poverty Level.

METHOD

This study uses Structural Equation Modeling (SEM) in Figure 1, and uses secondary data for 10 years of observation (from 2011 to 2021).

There is a ten model fit and quality index (Kock 2010)(Kock 2014)(Kock 2015d), as follows:

- 1) Average Path Coefficient (APC);
- 2) Average R-squared (ARS);
- 3) Average Adjusted R-squared (AARS);
- 4) Average block Variance Inflation Factor (AVIF);
- 5) Average Full Collinearity VIF (AFVIF);
- 6) Tenenhaus GoF (GoF);
- 7) Simpson's paradox ratio (SPR);
- 8) R-squared contribution ratio (RSCR);
- 9) Statistical suppression ratio (SSR);
- 10) Nonlinear- bivariate causality- direction ratio (NLBCDR).

RESAULT AND DISCUSSION

The conceptual framework of the research can be seen in Figure 1, the data used in this research can be seen in Table 1

Table 1. Analysis data

Year	Government Expenditure (Rupiah)	Investment (Rupiah)	Unemployment Rate (%)	Poverty Rate (%)
2012	1.696.621.852.290	64.397.938.678	7,5	8,6
2013	1.746.200.000.000	37.254.602.879	8,0	7,7
2014	1.810.280.128.661	7.000.607.669	7,5	7,6
2015	1.711.636.445.703	23.000.000.000	7,3	7,9
2016	1.451.460.330.194	8.980.000.000	6,8	7,5
2017	1.629.220.637.000	12.229.055.105	4,8	7,6
2018	1.492.126.437.591	32.619.374.901	4,6	7,4
2019	1.662.856.540.838	48.506.144.973	6,0	7,2
2020	1.579.760.332.132	51.314.725.842	6,2	7,4
2021	1.915.667.102.458	101.230.675.640	5,3	7,1

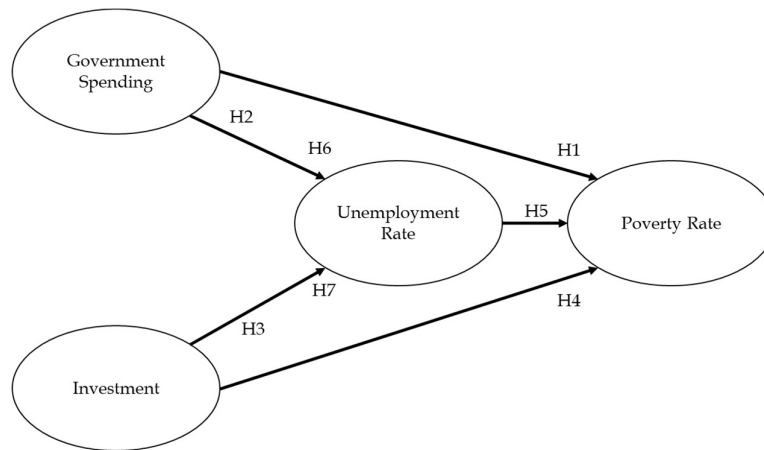


Figure 1. Conceptual framework

CONCLUSION

From the results of the analysis and testing of the hypotheses, it was found that: There is a positive and significant relationship ($\beta=0.61$, $P=0.005$) between government spending and poverty levels. This empirical evidence means, the greater the Government Spending, the greater the Poverty Level. There is a positive and significant relationship ($\beta=0.85$, $P<.01$) between Government Expenditure and Unemployment Rate. This result means that the greater the Government Spending, the greater the Unemployment Rate. There is a negative and

insignificant relationship ($\beta=-0.416$, $P=0.046$) between Investment and Unemployment Rate. There is a negative and insignificant relationship ($\beta=-0.522$, $P=0.015$) between Investment and Poverty Level. There is a positive and significant relationship ($\beta=0.76$, $P<.01$) between the unemployment rate and the poverty rate. There is a perfect Mediation Role of the Unemployment Rate variable on the relationship between Government Expenditures and Poverty Levels. It means There is no mediating role of the unemployment rate variable on the relationship between Investment and Poverty Level.

From the results of the analysis of this study, it is proven that the Keynesian Theory which explains how government spending plays an important role in reducing poverty is not proven in Penajam Paser Utara District. These results can also be important input for policy makers, that government spending must be changed in terms of priorities to increase the labor force participation rate, and not vice versa. Likewise regarding investment, it should bring benefits to increasing the workforce and ultimately reducing the Poverty Level.

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