

Expenditure Analysis on Government and Income Distribution in East Java

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Abstract - Government of East Java Province have outcome for infrastructure development in order to increase society well-being through equal income distribution. Economy growth which is the benchmark of region progress doesn't necessarily present society well-being. Government effort to increase society well-being through region shopping enhancement doesn't encourage either economy growth or equity of income distribution yet. The aim of this research is : examine the effect of direct and indirect shopping on income distribution through economy growth. This research is using flow analysis. The result of this research is : enhancement of direct expenditure will increase economy growth and income distribution, while indirect shopping will increase inequality of income distribution. Inequality of income distribution will decrease, but it fails with the enhancement of income distribution inequality because of indirect shopping.

Keyword: *Expenditures, Income Distribution, Economic Growth.*

I. INTRODUCTION

Each region is always expected high economy growth and income distribution in order to increase society well-being while carrying out the development. A success economy growth in a region can be seen by the awareness level of society which is looked in the enhancement of society consumption as the effect of increasing income. The successful development in a region is caused of how much outcome of government and the investment. Government expenditure is an intervention tool in economy matters which is considered the effective one. Economy growth in East Java is more increase than other Province in Java Island, it's indicated that economy in East Java is well-developed, it means that well-being can be reached by its society. Economy growth East Java is in number one rank and the biggest in Java Island especially, and Indonesia generally. In Indonesia in 2011 there were 124 local Government that have personal expenses above 60 percent and capital expenditure is only 1 (one) to 15 percent. While 16 of them are almost bankrupt because reaches 70 percent more. Among the 16 district of Eastern Java Province bore the heaviest burden of personnel and is only able to

allocate capital expenditure of one percent only. (JPNN,2011). All this time, region income doesn't sustain the whole region expenditure yet, so region government tend to rely on fund balance from center government. APBD can be fail if can't fund region development because the fund is only capable for employee shopping, tools and service and operational fund.

The problem formulations are 1) How the effect of direct and indirect expenditure on economy growth, 2) how the effect of economy growth on income distribution, 3) how the effect of direct and indirect expenditure on income distribution, 4) how the effect of direct and indirect expenditure through economy growth on income distribution. The aims of the research are 1) examine the effect of direct and indirect expenditure on economy growth, 2) examine the implication of economy growth on income distribution, 3) examine the effect of direct and indirect expenditure on income distribution, 4) examine the effect of direct and indirect expenditure through economy growth on income distribution.

II. LITERATURE REVIEW

Basic Concept of Economy Growth. Economy growth directly focus on count indicator as national, that is Gross Domestic Product (GDP), without consider weather the enhancement higher or smaller from people growth and the change of economy structure (Suryana, 2000 : 124). This research observes economy growth in a region (East Java Province), then it's called as *Produk Domestik Regional Bruto (PDRB)*. Economy growth is one of successful development indicator. *Produk Domestik Regional Bruto (PDRB)*. PDRB is products and services last number produced by society in a period, usually a year [45]. Thus, PDRB is addition of net output value (tools and service) from the whole activity. Income Distribution. Income distribution is either equity or inequality presented income sharing from economy activities [23]. It is related to how to increase the level of well-being society under the line of poverty, and narrow the income differences of each people. *Regional Income*

financial plan of region based on region regulation, thus APBD is a place to accomodate public needs which will be presented through activities and programs. On some special seats, the advantage is really perceived. (Bana, 2001: 12). Government expenditure. Government expenditure shows incurred fund by government to fulfill tools and service. Government expenditure is consumption of tools and service, and financing in order to necessity of government administration and development activities [45].

HYPOTHESYS. 1) Direct and indirect expenditure give positive effect on economy growth, 2) Economy growth gives positive effect on income distribution, 3) Direct and indirect expenditure give positive effect on income distribution, 4) Direct and indirect expenditure through economy growth give positive effect on income distribution.

III. METHOD

Design of this research is causality research design, based on Sanusi [42]. This research is designed to examine the effect of direct and indirect expenditure on economy growth. Then, it's also examine the effect of financial performance focus on direct and indirect expenditure on economy growth. And this research is also designed to explain the results of descriptive statistic and hypothesis examine (causality). **Conceptual Definition.** This research is using 3 kind of variables, that is exogenous, endogenous and intervening. The endogenous variable of income distribution (Z), the exogenous variable of direct expenditure (X1) and indirect expenditure (X2), and the intervening variable of economy growth (Y) 1)Direct expenditure is government expenditure related to program and activity, with the variables: employee shopping, tools and service shopping, and capital shopping [21]. Indirect expenditure is non-program government expenditure with the variables: employee shopping, interest shopping, subsidy shopping, social aids shopping, profit sharing shopping, financial aids shopping and unpredictable shopping [21]. Economy growth is increase process of production capacity in a country which is presented in a form of increasing the *Produk Domestik Bruto*; 4) Income distribution is division of income in society which is accepted by each production factor owner.

The samples are using district or city in East Java, that is 29 districts and 9 cities. Total of the samples researched is 38, the observation is hel 7 years, from 2009 to 2015, so the total samples are 266 district or city, which is obtained from BPS East Java Province.

Data Analysis Technique. Path analysis Steps of data management used are: (1) analyze descriptively and (2) Path Analysis, a technique to analyze relationship patttern between each variable in order to examine the effect of direct and indirect expenditure on economy growth and tits implication on income distribution. (Sarwono,2007)

The steps of path analysis examine are below this.

1. Make path diagram and formulate structueal equation. Based on the design of empirical casual relation on each research variable (picture), the detail path is following this.

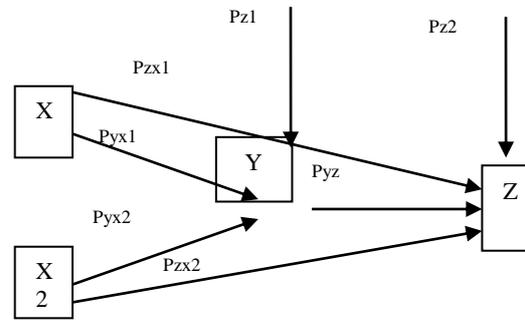


Figure 1. Diagram of detail path

Explanation figure 1:

This diagram of detail path has 2 endogenous variables, that is Economy Growth (Y) and Income Distribution (Z), and also 2 exogenous variables, Direct Expenditure (X1) and Indirect Expenditure (X2).

Based on submitted hypotheses, sub structures are made in order to explain and ease the calculation below.

a) Sub Structure I

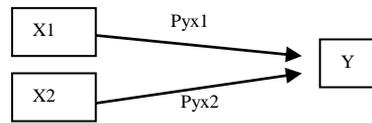


Figure 2. Casual Relation Of Direct And Indirect Expenditure On Economy Growth.

Explanation figure 2:

Sub structure-I path diagram has an endogenous variable, that is Economy Growth (Y), and two exogenous variables, that is Direct Expenditure (X1) and Indirect Expenditure (X2).

Structure equation : $Y = Pyx1 X1 + Pyx2 X2 + P_y$

b) Sub structure II

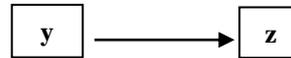


Figure 3. Sub Structure II. Casual Relation

Economy Growth On Income Distribution.

Explanation figure 3:

Sub structure II has an intervening variable, that is Economy Growth (Y) and an endogenous variable, that is Income Distribution (Z).

c) Sub Structure III

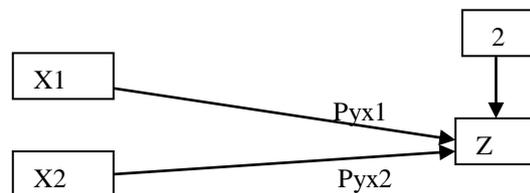


Figure 4. Sub structure III. Casual Relation Of Direct and

Indirect Expenditure On Income Distribution.

Explanation figure 4: Sub Structure III has twi endogenous variables, that is Economy Growth (Y) and Income Distribution (Z), and two exogenous variables, that is Direct Expenditure (X1) and Indirect Expenditure (X2).

Structure equation : $Z = Pzx1 X1 + Pzx2 X2 + Pzy Y + Pze2$

d) Sub Structure IV

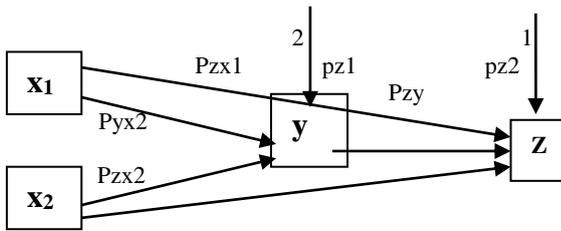


Figure 5. Sub Structure IV. Casual Relation Of Direct And Indirect Expenditure On Income Distribution Through Economy Growth.

Explanation figure 5:

Sub Structure IV has two exogenous variables, that is Direct Expenditure (X1) and Indirect Expenditure (X2), an intervening variable, that is Economy Growth (Y), and an endogenous variable, that is Income Distribution (Z).

2. Calculate path coefficient that is based on regrestion coefficient.

Path Coefficient is showed by output called 'coefficient' which is declared as Standardized Coefficient or well-known as Beta Score.

Examine the precision model (F-test).

Examine of precision model held using F-test with α signification level 5%.

3. Classic Assumption Test

- Residual normality test. This test is held to test, weather in a regrestion model, dependent variable has normal distribution or not. (Ghozali, 2007: 110).
- Heteroskedastisity Test.
- Autocorelation Test.
- Multikoleniarity Test.

4. Hypothesis Test

- F test is used to test weather independent variable simultaneously has significant effect on dependent variable or not.
- Decide F table score using 5% significant level.
- T-test is used to test partially on each variable.

IV. RESULT AND DISCUSSION

Effect of direct and indirect expenditure on income distribution through economy growth. Government expenditure which is in the form of infrastructure development projects induce the economy activity increasing. The enhancement of government investation increase employments, so it reduces the number of unemployment and the income distribution is equal, and finally the number of poverty will be decrease.

The enhancement of indirect shopping makes inequality of income distribution bigger. Because indirect shopping, which is employee salary, is only used for consumtive necessary, so it can't increase invenstation and employment, and it also makes the income distribution inequal, that is indicate by the enhancement of poverty number.

Enhancement of economy growth will increase income, but it's usually accompanied by inequal income

distribution of each people. Inside of economy matters, there are some people can't access the growth itself, such as, less-education people who can't join company, and also because of incompatibility both industrial needs and labor offered.

Agriculture sector which is expected to be economy growth support can't capable in increasing people income, because it's slower than trading sector and the industry which is dominated by big pemdal.

V. CONCLUSION

There is contradiction between the decrease in income inequality caused by growth economy with an increase in income distribution inequality caused by routine government spending. This research supports the research undertaken by Rahmanto (2000) which states that in the long term Government spending and economic growth can reduce poverty in small quantities. Also support research conducted by Wahyuni et. al (2011) which states that Government spending, investment and economic growth directly or indirectly will lead to an increase in income gap For further research can be continued on Government expenditure and distribution income and poverty level in East Java Province by increasing the year of observation

The researcher give suggestions for this research, that are:

- Government add the side of direct expenditure to fund a very needed infrastructure for society in order to support enhancement of economy activities.
- Government add the investation on industrial side, which is labor intensive, in order to decrease unemployment and increase equality of income distribution.
- Government more selective and have limitation in the way distribute the expenditure of employee, which is more used to by consumtive things all this time.
- Government turn on home industrials by giving capital aids and marketing aids to decrease the inequality of income distribution.

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