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THE EFFECT OF LOCAL GOVERNMENT EXPENDITURE ON DEVELOPMENT INEQUALITY WITHIN AND OUTSIDE JAVA ISLAND

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ABSTRACT

This study aims to determine the effect of local government spending on infrastructure, education and health sectors on development inequality in Java and the Eastern Region. This research uses a quantitative approach, using panel data consisting of 18 provinces over a period of five years (2017-2021). The data analysis involves three main steps: (1) testing the model using the Chow test, Hausman test, and Lagrange multiplier test; (2) conducting classical assumption tests including normality, multicollinearity, and heteroscedasticity tests; and (3) performing hypothesis testing using t-test, F-test, and determination coefficient (R^2) test. Research results shows that spending in the infrastructure sector has a negative impact on development gaps. Every 1% increase in local government spending on infrastructure can reduce the development gap by 1%. On the other hand, spending in the education sector has a positive and significant impact, where a 1% increase in spending will increase the development gap by 1%. Expenditures in the health sector do not have a significant impact on the development gap between Java Island and the Eastern Region.

Keyword: Local development inequality, Local government spending, Infrastructure sector, Education sector, Health sector

ABSTRAK

Penelitian ini bertujuan untuk mengetahui pengaruh pengeluaran pemerintah daerah pada sektor infrastruktur, pendidikan dan kesehatan terhadap ketimpangan pembangunan di Pulau Jawa dan Kawasan Timur. Penelitian ini menggunakan pendekatan kuantitatif, dengan menggunakan data panel yang terdiri dari 18 Provinsi dalam jangka waktu lima tahun (2017-2021). Analisis data melibatkan tiga langkah utama: (1) pengujian model dengan Chow, Hausman, dan Lagrange multiplier test; (2) pengujian asumsi klasik seperti normalitas, multikolinearitas, dan heteroskedastisitas; dan (3) pengujian hipotesis dengan t-test, F-test, dan koefisien determinasi (R^2). Hasil penelitian menunjukkan bahwa pengeluaran di sektor infrastruktur berdampak negatif terhadap kesenjangan pembangunan. Setiap peningkatan 1% dalam pengeluaran pemerintah daerah untuk infrastruktur dapat mengurangi kesenjangan pembangunan sebesar 1%. Sebaliknya, pengeluaran di sektor pendidikan berdampak positif dan signifikan, di mana peningkatan 1% pengeluaran akan meningkatkan kesenjangan pembangunan sebesar 1%. Pengeluaran di sektor kesehatan tidak memiliki dampak signifikan terhadap kesenjangan pembangunan antara Pulau Jawa dan Kawasan Timur.

Kata kunci: Ketimpangan pembangunan wilayah, Pengeluaran pemerintah daerah Sektor infrastruktur, Sektor pendidikan, Sektor kesehatan

INTRODUCTION

Indonesia is a country with the largest archipelago in the world that has a variety of potential natural resources spread throughout Indonesia. This diversity has led to differences in government treatment in carrying out the development process. Development is a change that is not only quantitative (increase in GDP) but also qualitative (the latest technology) that moves forward and not just things that become bigger or smaller or stay the same (Sbardella et al., 2017). In general, development is all activities carried out to develop all aspects of community life in order to realize an equal and equitable life as a whole to achieve national prosperity. Development is characterized by changes in all aspects, including in reducing the level of development gap.

Gaps are imbalances that occur in people's lives, both at the individual and group levels. Development gaps tend to see differences between regions (BPS, 2017). The development gap occurs because development activities are focused on certain areas, such as DKI Jakarta, which is one of the provinces on the island of Java that was once the capital of Indonesia. Therefore, most development activities are centered in DKI Jakarta Province.

Development in the Eastern Region tends to lag behind when compared to development in Java. This is because Java Island has received greater attention from the government both in implementing development and strengthening the economy. This is why the Eastern Region is still in the process of development. The following Table 1 is the amount of Gross Regional Domestic Product (GRDP) contribution from each island in Indonesia.

Table 1. GRDP Contribution by Island in Indonesia in 2017-2020

Number	Island	Year			
		2017	2018	2019	2020
1	Sumatra	21.73%	21.55%	21.28%	21.36%
2	Java	58.38%	58.43%	58.91%	58.75%
3	Kalimantan	8.23%	8.18%	8.05%	7.94%
4	Bali and Nusa tenggara	3.11%	3.05%	3.06%	2.94%
5	Sulawesi	6.12%	6.33%	6.46%	6.66%
6	Maluku and Papua	2.42%	2.47%	2.24%	2.35%

The contribution of GRDP between islands in Indonesia during 2017-2020 experienced fluctuations, this was due to the Covid-19 pandemic which hit Indonesia at the beginning of 2020. Based on the data above, Java Island occupies the first position as the largest contributor to GRDP in Indonesia, followed by the islands of Sumatra, Kalimantan, Sulawesi, Bali and Nusa Tenggara, as well as Maluku and Papua. The difference in economic growth rates between islands indicates a gap between regions in Indonesia. Table 2 shown the Williamson Index used to measure the level of inequality between regions. Referring to the Williamson Index in Table 2, the level of inequality between provinces in Indonesia, especially in Java and the Eastern Region during the 2017-2021 period is relatively high with an average level of inequality > 0.5.

Table 2. Williamson Index in Java and the Eastern Region 2017-2021

Number	Province	Year					Average
		2017	2018	2019	2020	2021	
1	DKI Jakarta	0.510	0.512	0.520	0.491	0.483	0.503
2	West Java	0.699	0.699	0.691	0.674	0.732	0.699
3	Banten	0.627	0.628	0.627	0.629	0.634	0.629
4	Central Java	0.644	0.637	0.631	0.655	0.652	0.643
5	D.I Yogyakarta	0.480	0.480	0.470	0.470	0.470	0.474
6	East Java	0.961	0.965	0.971	0.974	0.982	0.970
7	NTB	0.800	0.596	0.569	0.731	0.704	0.680

Number	Province	Year					Average
		2017	2018	2019	2020	2021	
8	NTT	0.658	0.663	0.663	0.629	0.630	0.648
9	North Sulawesi	0.498	0.502	0.502	0.489	0.497	0.497
10	Gorontalo	0.148	0.146	0.143	0.191	0.193	0.164
11	Central Sulawesi	0.537	0.911	1.000	1.112	1.236	0.959
12	South Sulawesi	0.680	0.691	0.683	0.695	0.770	0.703
13	West Sulawesi	0.359	0.351	0.342	0.331	0.335	0.343
14	Southeast Sulawesi	0.622	0.614	0.611	0.571	0.486	0.580
15	Maluku	0.259	0.250	0.243	0.221	0.443	0.283
16	North Maluku	0.276	0.275	0.277	0.354	0.581	0.352
17	West Papua	1.474	1.468	1.463	1.498	1.449	1.470
18	Papua	2.125	2.195	1.522	1.415	1.838	1.819

To improve people's welfare, the government is obliged to invest funds in certain sectors such as infrastructure (housing and public facilities), education and health. Government spending on housing and public facilities can help the entire community, especially low-income communities. Then, the use of funds for education can make it easier for people to access quality education. Meanwhile, the use of funds for health can increase life expectancy and reduce mortality rates.

Basically, government spending refers to the use of state funds and resources to support government activities in achieving public welfare. Government spending on infrastructure, education and health is an important factor in reducing regional development disparities. The rise and fall of government spending in these three sectors causes changes in the level of development balance that can have a significant impact on the welfare of the people in each region.

In the research of Arrfah and Syafri (2022), which shows the variable of government spending on housing and public facilities has a positive and significant effect on inclusive growth. Inclusive growth is economic growth that is evenly distributed throughout society and provides opportunities for everyone (OECD, 2017). This indicates that local government spending on infrastructure has an effect in reducing the level of regional development inequality. In this case, previous research is useful to support the results of related research and is useful in expanding knowledge about inclusive growth and regional development inequality. However, there are weaknesses in previous studies, namely the independent variables used are only based on related functions.

This study is a departure from previous research because it provides a broad explanation of local government expenditure and the differences in regional development inequality between Java and the Eastern Region. However, this study has shortcomings, namely the exclusion of other factors in this study and the data limitations that resulted in the research period used only ranged from five years. This study aims to determine the effect of local government spending on infrastructure, education and health sectors on development inequality in Java and the Eastern Region.

LITERATURE REVIEW

Economic Development

Development is a change that is not only quantitative but also qualitative (Sbardella et al., 2017). Development is not only about how to increase income or how to increase the amount of goods and services, but how economic development can benefit the entire community. Economic development is a process of change towards improvement that is carried out in a conscious and planned manner to improve the standard of living or a better standard of living for all citizens. So it can be concluded, the term change in economic development describes an increase both quantitatively and qualitatively.

Ridwan and Nawir (2021) regarding the views of Joseph Schumpeter, who stated that the main key to economic development is entrepreneurship. A country's economic development can occur when entrepreneurs are able to create innovations and new combinations in the production and investment process. Entrepreneurs can not only increase profits and welfare, but they can also succeed in the competition for monopoly control of the market. Innovation refers to technological development in various forms, such as the invention of new products or the opening of new markets that stem from the creative ideas of entrepreneurs with the aim of improving the overall economy.

Regional Development Gaps

Development imbalance is a situation that is uneven between regions (BPS, 2017). According Suntari and Yunani (2019) argues that there are several factors that influence regional development imbalances, including: 1) natural resource disparities, 2) demographic disparities, 3) differences in the allocation of development funds, 4) concentration of economic activities, 5) uneven mobility of production. The existence of these factors can be concluded that inequality occurs because of differences in various aspects. These differences arise because there is no regulation in carrying out the development process, which has an impact on the imbalance in the ability of a region to carry out development. Differences in the development process will lead to higher disparities in regional development, resulting in conflict and social jealousy between regions.

North (2016) put forward his theory of neo-classical economic growth. In this theory, there is an estimated link between the progress of a region's development and regional development inequality. This theory assumes that in the early stages of development, regional development gaps tend to be high. This process will continue until the gap reaches its peak. After going through this process and development continues, the regional development gap will decrease. Based on the above theory, it is concluded that developing regions tend to have higher levels of development inequality than developed regions. Developed regions are said to have gone through periods of high levels of development inequality. Therefore, development inequality in developed regions is no longer high when compared to developing regions.

Local Government Expenditures

Local government expenditure is the use of funds and resources of an area to support local government activities in achieving community welfare (Rahmawati, 2022). Government spending is the most important part that has been regulated by law in providing public programs and services to be accessible to the community with the aim of reducing inequality problems (Albassam, 2020). The following is the allocation of local government funds to three development sectors:

1. Education budget allocation of at least 20% of the Regional Revenue and Expenditure Budget (APBD) in accordance with the provisions of the 1945 Constitution article 31 paragraph (4) and Law No.20 of 2003 concerning the National Education System article 49 paragraph (1).
2. Health budget allocation of at least 10% of the regional budget excluding salaries Law No.36 of 2009 on health.
3. The General Transfer Fund must be used at least 25% for regional infrastructure directly related to accelerating the development of public service facilities and the economy to increase employment opportunities, reduce poverty and reduce the gap in public services between regions (DJPK, 2020).

In research Solikin (2018), said that Wagner's law and Keynes' hypothesis have a link between economic growth and government spending. Wagner states that the reciprocity moves

from economic growth to government spending. Meanwhile, the Keynes hypothesis states the opposite, namely government spending causes economic growth. Wagner said that over time government spending will increase, this is in line with the increase in economic growth. Wagner also said that if per capita income in an economy increases, then government spending will also increase proportionally. On the other hand, Keynes' hypothesis explains that the higher government spending, the higher economic growth. Thus, Keynes suggested government spending as a way to revive a slumping economy. This is due to his belief that the economy is not always in equilibrium as believed by classical economists (Solikin, 2018).

It is important for the government to allocate funds to economic development projects such as infrastructure, education and health in each region so that the benefits can be felt evenly (Donegan et al. 2021). Infrastructure spending is spending that is directly related to the construction of public service facilities to help people meet their needs so as to reduce inequality between regions. Education spending will produce an educated and skilled workforce that becomes physical capital in the economy to achieve economic development progress. Then, health spending is an investment in human resources to achieve community welfare.

METHOD

This research uses a quantitative approach with Secondary Data Analysis (ADS). ADS uses data obtained from a particular agency or institution as the main data source. This analysis uses panel data consisting of time data for a five-year period from 2017-2021 and regional data for 18 provinces, namely 6 Java Island Provinces and 12 Eastern Region Provinces. This research was conducted to examine how local government spending in infrastructure, education, and health sectors affect development inequality in Java and the Eastern Region. There are several steps in analyzing the data, namely: First, testing the model through three stages of testing, namely the Chow test, Hausman test and Lagrange multiplier test. Second, testing classical assumptions, such as normality test, multicollinearity test, and heteroscedasticity test. This test is important to ensure that the regression model used is the best model in terms of estimation accuracy, absence of bias, and consistency. Therefore, it is important to conduct classical assumption testing. Third, hypothesis testing consists of t-test, F-test, and determination coefficient (R^2) test. Below is an illustration of the theoretical framework.

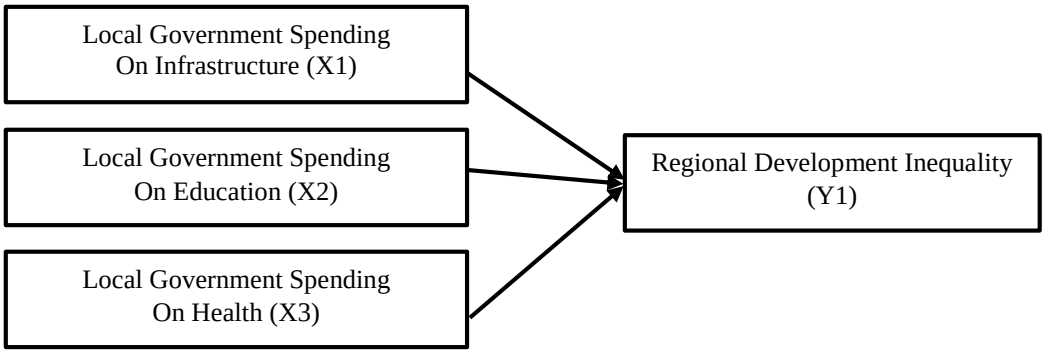

Figure 1. Theoretical Framework

RESULTS AND DISCUSSION

Panel Data Regression Model Test (Java Island and Eastern Region)

Random Effect Model (REM) is the best model for research on Java Island. Meanwhile, Fixed Effect Model (FEM) is the best model for research in the Eastern Region. Below presents a table of regression model tests such as the (Chow Test, Hausman Test and Lagrange Multiplier Test) on Java and the Eastern Region.

Table 3. Chow Test (Java Island)

Effects Test	Statistic	d.f	Prob.
Cross-section F	911.436650	(5.21)	0
Cross-section Chi-square	161.536053	5	0

According to the Table 3, the Chi-square Cross-section Probability value obtained is 0.0000 < 0.05. This proves that FEM is better than Common Effect Model (CEM).

Table 4. Hausman Test (Java Island)

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.581153	3	0.9007

According to the Table 4, the random cross-section probability value obtained is 0.9007 > 0.05. This proves that REM is better than FEM.

Table 5. Lagrange Multiplier Test (Java Island)

	Test Hypothesis		
Breusch-Pagan	Cross-section	Time	Both
	51.75242	2.192715	53.94514
	(0.0000)	(0.1387)	(0.0000)

According to the Table 5, the Breusch-Pagan Probability value is 0.0000 < 0.05. This proves that REM is better than CEM. So, after going through three stages of testing, it was proven that REM was the best model for research on Java Island.

Table 6. Chow Test (Eastern Region)

Effects Test	Statistic	d.f	Prob.
Cross-section F	42.126453	(1.,45)	0
Cross-section Chi-square	145.475298	11	0

According to the Table 6, the Chi-square Cross-section Probability value is 0.0000 < 0.05. This proves that FEM is better than CEM.

Table 7. Hausman Test (Eastern Region)

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	14.953494	3	0.0019

According to the Table 7, the random cross-section probability value obtained is 0.0019 < 0.05. This proves that FEM is better than REM. So, after going through two stages of testing, it was proven that FEM was the best model for research in the Eastern Region.

Panel Data Regression Model (Java Island and Eastern Region)

In the previous model testing, it was found that the best research model for Java Island was REM. Meanwhile, the best research model for the Eastern Region is FEM.

Table 8. REM Model (Java Island)

Variable	Coefficient	Std. Error	t- Statistics	Prob.
C	-0.419843	0.666183	-0.630222	0.5340
LOGX1	-0.026906	0.006394	-4.207740	0.0003
LOGX2	0.076503	0.025977	2.945048	0.0067
LOGX3	-0.035305	0.020915	-1.687966	0.1034
Adjusted R-squared	0.402826			
F. Statistics	7.520699			
Prob (F-Stat)	0.000881			

According to the research analysis, the results obtained from the Java Island panel data regression are as follows:

Y= -0.419843 – 0.026906*X1 + 0.076503*X2 – 0.035305*X3

The regression above produces a t-statistic X1 of -4.207740 > t table 1.70562, with a probability value of 0.0003 < 0.05, and has a coefficient of -0.026906. This analysis proves that regional government spending on infrastructure on Java Island has a significant negative impact on development gaps in the region. The t-statistic value X2 is 2.945048 > t-table 1.70562, with a probability of 0.0067 < 0.05, and a coefficient of 0.076503. This analysis proves that the education budget from regional governments has a significant positive impact in reducing development gaps between regions on Java island. The t-statistic value is -1.687966 < t-table of 1.70562, with a probability value of 0.1034 > 0.05, and the coefficient is -0.035305. This shows that regional government spending in the health sector does not have a significant influence on regional development inequality on Java island.

The f-statistical value is 7.520699 > f-table value is 2.98 and the probability value is 0.000881 < 0.05. This analysis proves that regional government budgets for infrastructure (X1), education (X2), and health (X3) simultaneously have a significant impact on regional development inequality (Y) on Java Island.

The value of Adjusted R-squared is 0.402826. This demonstrates that changes in the level of inequality in regional development (Y) can be accounted for by the factors of regional government expenditure in infrastructure (X1), regional government expenditure in education (X2), and regional government expenditure in health (X3) by 40.2826%, with the remaining 59.7174% being attributed to other variables not examined in this study.

Table 9. FEM Model (Eastern Region)

Variable	Coefficient	Std. Error	t-Stat	Prob.
C	-5.621851	1.917565	-2.931766	0.0053
LOGX1	-0.039417	0.015624	-2.522846	0.0152
LOGX2	0.195878	0.063625	3.078650	0.0035
LOGX3	0.049348	0.045933	1.074354	0.2884
Adjusted R-squared	0.468523			
F.stat	4.715093			
Prob (F-Stat)	0.000034			

According to research analysis, the Eastern Region panel data regression results are as follows:

Y= -5.621851 – 0.039417*X1 + 0.195878*X2 + 0.049348*X3

The regression above shows that the t-statistic X1 is -2.522846 > t table of 1.67252, and with a probability value of 0.0152 < 0.05, and has a coefficient of -0.039417. This analysis proves that regional government budgets for infrastructure in the Eastern Region have a significant negative impact on regional development gaps. The t-statistic value of X2 is 3.078650 > t-table 1.67252, with a probability of 0.0035 < 0.05, and a coefficient of 0.195878. Regional government spending on education has a positive and significant impact on development gaps in the Eastern Region. The t-statistic value of X3 is 1.074354 < t-table 1.67252, with a probability of 0.2884 > 0.05 and a coefficient of 0.049348. This shows that local government spending on health does not have a significant impact on development disparities in the Eastern region.

The f-statistic value is 4.715093 > f-table value is 2.77 and the probability value is 0.000034 < 0.05. This proves that the variables of regional spending in the field of infrastructure (X1), regional spending in the field of education (X2) and regional spending in the health sector (X3), simultaneously have a significant influence on the regional development inequality variable in the Eastern Region (Y).

The Adjusted R-squared value is 0.468523. This proves that the variable regional development inequality (Y) can be explained by the variables regional government spending in the infrastructure sector (X1), regional government spending in the education sector (X2), regional government spending in the education sector (X2), and regional government spending in the health sector (X3) it was 46.8523% and the remaining 53.1477% was explained by other variables not included in this study.

Discussion

The Effect of Local Government Spending on Infrastructure Sector on Development Inequality in Java and Eastern Region

The research for Java Island shows that the t-statistic X1 is -4.207740 > t-table of 1.70562, with a probability value of 0.0003 < 0.05, and the coefficient value is -0.026906. The Eastern Region research results show that the t-statistic X1 is -2.522846 > t-table of 1.67252, with a probability value of 0.0152 < 0.05, and a coefficient value of -0.039417. This indicates that local government spending on infrastructure in Java and the Eastern Region has a significant negative impact on the regional development gap. The results of the above study support the research of Arrfah and Syafri (2022), which states that the variable government spending on housing and public facilities has a positive and significant impact on inclusive growth. Thus, it can be concluded that increasing local government spending on infrastructure will help reduce the level of development inequality in Java and the Eastern Region (Wu et al., 2020).

The Effect of Local Government Expenditure in Education Sector on Development Inequality in Java and Eastern Region

Research in Java Island found that the t-statistic result is 2.945048 > the t-table value of 1.70562, with a probability of 0.0067 < 0.05, and a coefficient of 0.076503. Research in the Eastern Region found that the t-statistic has a value of 3.078650 > t-table which is 1.67252, and the probability is 0.0035 < 0.05, with a coefficient of 0.195878. This indicates that local government spending in the education sector has a positive and significant impact on the regional development gap in Java and the Eastern Region. In conclusion, the larger the local government education budget, the higher the regional development gap in Java and the Eastern Region.

This finding confirms the results of Prastiwi and Handayani (2021) research which states that government spending in education has a positive but insignificant effect on the Human Development Index (HDI). The insignificant impact of government spending on the education sector on the Human Development Index is due to the fact that only Wonogiri Regency, Klaten Regency, and Blora Regency in Central Java allocated more than 20% of the budget for education in 2019. While other districts/cities still allocated less than 20%. The Human Development Index (HDI) is used as a measure to assess success in improving the quality of human life (community/population) and also to determine the level of development of a region or country. Supporting the research results, Muliza et al., (2017) stated that the education budget is still not fully focused on improving the quality of education and training for teachers and students. On the other hand, most of the funds are allocated for the development of educational infrastructure.

The Effect of Local Government Spending on the Health Sector on Regional Development Inequality in Java and the Eastern Region

Research in Java Island found that the t-statistic has a value of -1.687966 < t-table 1.70562, and has a probability of 0.1034 > 0.05. In addition, the study also found a coefficient value of -0.035305. However, research in the Eastern Region shows that the t-statistic value is

1.074354 < t-table of 1.67252 with a probability of 0.2884 > 0.05 and a coefficient of 0.049348. This indicates that local government spending on the health sector has no significant impact on the regional development gap in Java and the Eastern Region. So it can be concluded that local government spending on the health sector does not have a significant impact in reducing the development gap between regions in Java and the Eastern Region.

The findings of this study are in line with research conducted by Mongan (2019), the result of which is that local government expenditure in the health sector has a negative and significant impact on HDI. Any increase in government spending in the health sector will reduce HDI. This statement is supported by research by Muliza et al., (2017), which states that health spending has no significant effect on HDI. This is because government spending in the health sector has not been on target and most of the budget is more focused on curative spending (construction of health facilities) than preventive spending (prevention).

CONCLUSION AND RECOMMENDATION

Conclusion

A study on the impact of regional government spending in infrastructure development, education and health on the development gap on Java Island and Eastern Region concluded that regional government spending in the infrastructure sector had a negative impact on the development gap between Java Island and the Eastern Region. So, we can conclude that every 1% increase in local government spending on the infrastructure sector will help reduce the development gap in Java and the Eastern Region by 1%. Furthermore, regional government expenditure in the education sector positively and significantly influences the development gap between Java Island and the Eastern Region. The information provided shows that every 1% increase in local government spending on education will result in an increase in the level of development gap between Java Island and the Eastern Region by 1%. At the same time, regional government spending in the health sector does not have a significant impact on development gaps between regions in Java and the Eastern Region.

Recommendation

Regional governments should focus their policies more on certain sectors as a form of long-term government investment that can increase economic development, especially human development such as the infrastructure, education and health sectors. Apart from that, the government must also focus more on allocating government spending in these three sectors so that government spending can be realized on target so that the benefits can be felt evenly by the community.

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