

EFFECT OF GOVERNMENT SPENDING ON EMPLOYMENT THROUGH INVESTMENT AND ITS IMPACT ON THE EASTERN AND WESTERN INDONESIA

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ABSTRACT

Indonesia is a country consisting of 34 provinces with a touch of economic development, in particular uneven employment opportunities in the entire region. According to the theory of causality or dependency theory, unpredictable factors such as the primary key economic and government spending and investment did not provide equitable influence and impact on the growth of job opportunities in Eastern Indonesia (KTI) and the Western Region of Indonesia (KBI).

This study aimed to analyze the effect of government spending and investment towards job opportunities in Eastern and at the KBI both direct and indirect as well as the total influence in both regions. The data used is secondary data, quantitative shaped panel data from 34 province with year period of 2007 to 2013 were obtained from BPS (Central Bureau of Statistics) with SEM (Structural Equation Modeling) and the AMOS Software Version 21.0 as the analytical tools.

Research shows that government spending has significant positive effect on the Investment and Employment either directly, indirectly or in total. Similarly, the effect of investments on opportunities in both the EI Work and in KBI. But the effect on EI greater than the effect on the KBI, however, the effect of government spending towards investment in KTI is smaller than in the KBI.

Keywords: Government Spending, Investment, Employment, KTI and KBI

1. INTRODUCTION

1.1 Background

Employment in Indonesia is crucial, which is never aligned with the number of job seekers. As a result, the number of unemployed increased, even about half a million Indonesian workers going abroad in search of work and a decent living every year (National Portal RI, 2012). This condition is not in accordance with Article 27 paragraph 2 of the 1945 Constitution which reads "Each citizen has the right to work and decent living". The main thing in

overcoming unemployment is by opening more employment opportunities, while government spending and investment is a response to the opening of employment opportunities.

Economic factors required to solve the problem is the size of the portion of government spending, the distribution of investment and employment opportunities to all parts of the Province and Region. Table 1 presents data (BPS Indonesia, 2014) of the amount of government spending, Investment and Employment in Indonesia in the period of 2001 to 2014.

Table 1 Government Spending, Investment, Employment Opportunities and Growth in Indonesia from 2001 to 2014 year

Year	Government Expenditure (Billion Rp.).	Increase (%)	Investment (Billion Rp.)	Increase (%)	Employment Opportunity (man)	Increase (%)
2001	97.646	-	293.793	-	83.729.256	-
2002	110.334	12,9	307.585	4,7	85.320.112	1,9
2003	121.404	10,1	309.431	0,6	87.367.795	2,4
2004	126.249	3,9	354.561	14,6	89.289.886	2,2
2005	134.626	6,6	393.501	10,9	92.415.032	3,5
2006	147.564	9,6	403.719	2,6	95.177.102	3,0
2007	153.310	3,9	441.362	9,3	97.583.141	2,5
2008	169.297	10,4	493.822	11,9	102.049.857	4,6
2009	195.834	15,7	510.100	3,3	104.485.444	2,4
2010	196.399	0,3	553.443	8,5	107.405.572	2,8
2011	219.574	11,8	567.279	2,5	111.281.744	3,6

1 1						
2 0 1 2	240.873	9,7	622.30 5	9,7	112.802 .805	1,4
2 0 1 3	258.938	7,5	655.91 0	5,4	114.021 .189	1,1
2 0 1 4	264.894	2,3	687.39 3	4,8	115.959 .549	1,7

Source : Booklet BPS Indonesia 2014.

Based on the data in Table 1, it can be explained that it seems that the relationship between Government Spending, Investment and Employment did not grow in the same direction, for example, from 2006 to 2007 the growth in government spending fell from 9.6 percent to 3.9 percent. This decline actually led to the growth of investment from 2.6 percent to 9.3 percent. While the Employment decreased from 3.0 percent to 2.5 percent. Different conditions from 2007 to 2008, the growth of government spending rose from 3.9 percent to 10.4 percent, while the Investment and Employment is also rose from 9.3 percent to 11.9 percent and from 2.5 percent to 4.6 per cent and so on, respectively.

In this regard, this study aims to analyze and measure: 1) the influence of Government Expenditure on investment in Eastern Indonesia (KTI) and the Western Region of Indonesia (KBI); 2) the Effect of Government expenditure on employment either directly or indirectly through investments in Eastern Indonesia (KTI) and in the Western Region of Indonesia (KBI); 3) the effect of Investment on Employment Opportunities in Eastern Indonesia (KTI) and in the Western Region of Indonesia (KBI); and 4) the difference in effect between the two regions at 1, 2, and 3.

2. LITERATURE REVIEW

2.1 Effect of Investment on Employment Opportunities

The main factors that determine an economy capable of providing employment opportunities is capital accumulation or investment that will result in various projects that provide employment opportunities. However, investment is only a necessary condition for the creation of projects. Terms

insufficiency still many, including favorable economic situation so that investors are excited to invest (Wahyuningtyas, 2010). If the economic situation is not conducive, for example in a recession, then, the goods produced will not find significant demand so that investors are reluctant to invest despite capital availability. As a result there will not be a lot of production process that will create job opportunities to absorb the labor force (Abdul Hakim, 2002). The size of the interest or excitement either Investment Foreign Direct Investment (FDI) and Domestic Investment (DCI) in a State is depend on various factors (Nugroho, 2008) such as: SDA, HR, Political and Economic Stability, Stability of Government Policy, Ease in Licensing, Inflation, Employment and Labour Ethics, level of criminality, currency regulation, access to finance, Tax Rates, Labor Regulations, Tax Regulations, Infra Structure conditions, Bureaucracy, efficiency rate, interest rate, social and cultural factors, and others.

In addition, investments can have a huge multiplier effect (Risvi, 2009) because it will encourage increased investment both in terms of production and consumption side. The increase in both sides will lead to the formation of economic growth and increased employment (Hendarmin, 2012). These views are in accordance with the theory of Lewis, Ranis-Fei theory and the theory of Harrod Domar, even investment theory itself is a direct effect on three things; the expansion of employment, economic growth and poverty reduction

2.2 Influence of Government Expenditure on Employment

Government spending is part of fiscal policy (Abdul Hakim, 2002) to set the course of the economy each year that are reflected in the budget document for

the national and local area. The purpose of fiscal policy is in order to stabilize prices, the level of output and employment. According to Barro (2001) and Sun'an (2008), the contribution of productive expenditure will be a positive influence on Employment, contrary to unproductive expenditure will impact negatively on Employment. Most of the direct government spending earmarked for opening new employment opportunities eg reception Civil Service, Police and Military (Prog, 2008). Research conducted by Noah Karley (2000) on the African continent in 2000 discovered the effect of government spending on Employment was positive and significant. Other studies in line with Noa are researches conducted by Cavallo (2005), Berument (2008), and Hendarmin (2012).

But Mankiw (2003) and Suindyah (2009) explains that with the increase in government spending (fiscal expansion) it will hinder investment, which in turn lowers the chance of employment. Landau (in Suindyah, 2009) proves that government spending on the military field negatively correlated to employment, while positively correlated to education. While Lin (1994) and Maipita (2012) says that government spending will increase employment at the rate of shrinking. Lin also stated that Wagner's Law applies only to developed countries. While the theory of Keynes in a liquidity trap conditions, very effective government spending to expand employment opportunities.

2.3 Effect of Government Spending on Investment

Government spending can draw in (Crowding inclusive) or urgent exit (Crowding Out) an investment, depending on the factors that mempegaruhinya (Risvi, 2009). There are several factors that affect the investment (Liste, 2012) namely;

Interest rate, national income, the condition of infrastructure (infrastructure), licensing bureaucracy, quality of human resources, regulations and labor laws, political stability and security, social and cultural.

Regarding crowding in, according to the Keynesian, an increase in government spending will be followed by an increase in investment (domestic and foreign) assuming other factors that affect the variability of government spending is constant (Liste, 2012). As for crowding out according to the Monetarists-Classical, rising government spending while the LM curve is inelastic will make the investors to reduce investments.

Some empirical researches crowding in and crowding out are researches conducted by Prasetya (2011) and Sasana (2009), both Crowding In. A number of other studies that also crowding in is Wahyuningtyas, Agustina Endah (2010), Olney (2013), Harijono (2010). While the research conducted by Ramey (2012) influential Crowding Out, Ahmadi (2012) is not significant and has no effect. Other research Crowding Out as research conducted by Valerie A. Ramey and NBER (2012).

3. CONCEPTUAL FRAMEWORK & HYPOTHESES

3.1 Conceptual Framework

Conceptual Framework begins by stating functional model chosen, followed by determining the shape of the nonlinear function, and then convert into a linear function of the form used to describe the conceptual framework. The stages are summarized in Table 2.

Table 2 Functional Forms, and transformation Nonlinear Models to Linear Models

Functional Models	Nonlinear Shape Functions	Linear Shape Functions
$Y_1 = f(X_1, X_2, X_3)$	$Y_1 = \alpha_0 X_1^{\alpha_1} e^{(\alpha_2 X_2 + \alpha_3 X_3 + \epsilon_1)}$	$\ln Y_1 = \ln \alpha_0 + \alpha_1 \ln X_1 + \alpha_2 X_2 + \alpha_3 X_3 + \epsilon_1$ $Y_1^* = \alpha_0^* + \alpha_1 X_1^* + \alpha_2 X_2 + \alpha_3 X_3 + \epsilon_1$
$Y_2 = f(X_1, X_2, X_3, X_4, Y_1)$	$Y_2 = \beta_0 X_1^{\beta_1} Y_1^{\beta_5} e^{(\beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon_2)}$	$\ln Y_2 = \ln \beta_0 + \beta_1 \ln X_1 + \beta_5 \ln Y_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon_2$ $Y_2^* = \beta_0^* + \beta_1 X_1^* + \beta_5 Y_1^* + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon_2$
$X_3 = f(X_1, X_2)$	$e^{X_3} = X_1^{X_2}$	$X_3 = X_2 \ln X_1 = X_2 X_1^*$
$X_4 = f(X_2, Y_1)$	$e^{X_4} = Y_1^{X_2}$	$X_4 = X_2 \ln Y_1 = X_2 Y_1^*$

Source: Elaborated own

Linear Model Based on Table 2 can be described as a conceptual framework Figure 1.

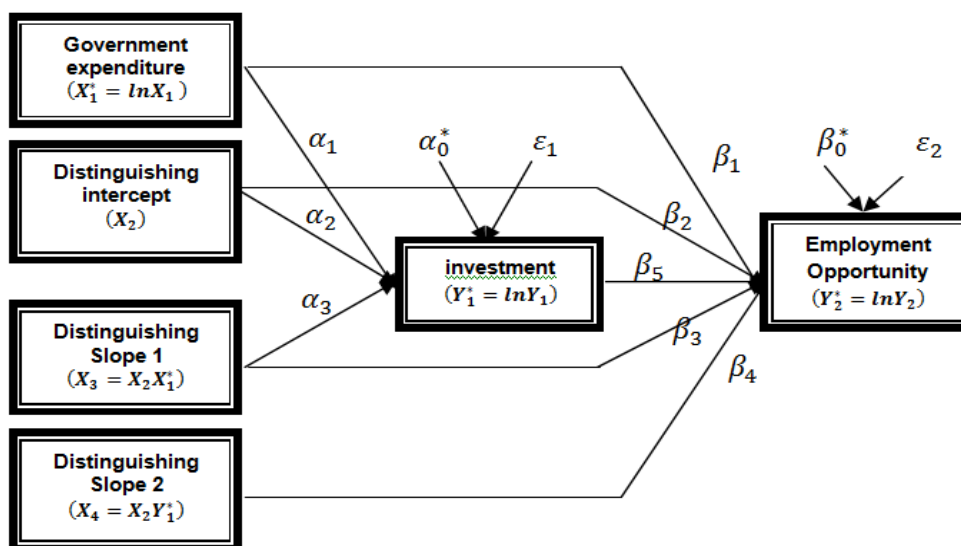


Figure 2 Conceptual Framework research.(The asterisk (*) are variables in the form of the natural logarithm (ln))

In the second picture all lines of causality that led to the investment using the symbol α , the coefficient α_1, α_2 and α_3 . While heading to the Employment using the coefficient β symbol β_1 until

β_5 . This coefficient is a coefficient Coefficient Slope, coupled with the constant intercept and $\beta_0 \alpha_0^* \wedge^* \wedge^*$ and residual factor ϵ_1 and ϵ_2 . Based on Figure 2 is obtained reduce form equations as shown in Table 3.

Table 3 General Equation of KTI, and KBI

For	Equations	information
General (in X_2)	$Y_1^* = (\alpha_0^* + \alpha_2 X_2) + (\alpha_1 + \alpha_3 X_2) X_1^* + \epsilon_1$	
	$Y_2^* = (\beta_0^* + \beta_2 X_2) + (\beta_1 + \beta_3 X_2) X_1^* + (\beta_5 + \beta_4 X_2) Y_1^* + \epsilon_2$	
	$Y_2^* = [(\beta_0^* + \beta_2 X_2) + (\beta_5 + \beta_4 X_2)(\alpha_0^* + \alpha_2 X_2)] + [(\beta_1 + \beta_3 X_2) + (\beta_5 + \beta_4 X_2)(\alpha_1 + \alpha_3 X_2)] X_1^* + [(\beta_5 + \beta_4 X_2)\epsilon_1 + \epsilon_2]$	Reduce Form
KTI ($X_2 = 1$)	$Y_1^* = (\alpha_0^* + \alpha_2) + (\alpha_1 + \alpha_3) X_1^* + \epsilon_1$	
	$Y_2^* = (\beta_0^* + \beta_2) + (\beta_1 + \beta_3) X_1^* + (\beta_5 + \beta_4) Y_1^* + \epsilon_2$	
	$Y_2^* = [(\beta_0^* + \beta_2) + (\beta_5 + \beta_4)(\alpha_0^* + \alpha_2)] + [(\beta_1 + \beta_3) + (\beta_5 + \beta_4)(\alpha_1 + \alpha_3)] X_1^* + [(\beta_5 + \beta_4)\epsilon_1 + \epsilon_2]$	Reduce Form
KBI ($X_2 = 0$)	$Y_1^* = (\alpha_0^*) + (\alpha_1) X_1^* + \epsilon_1$	
	$Y_2^* = (\beta_0^*) + (\beta_1) X_1^* + (\beta_5) Y_1^* + \epsilon_2$	
	$Y_2^* = [(\beta_0^*) + (\beta_5)(\alpha_0^*)] + [(\beta_1) + (\beta_5)(\alpha_1)] X_1^* + [(\beta_5)\epsilon_1 + \epsilon_2]$	Reduce Form

Source: Derived from Table 2

KTI. This is consistent with the theory Crowding In which one of the goals of the increase in government spending (Law Wagner) are fixes various state infrastructure such as transport facilities, education and health infrastructure so that investors interested to invest or increase the investments.

6.2 Effect of Investment on Employment in KBI and KTI.

Effect of Investment on Employment in KBI was 0.09 and significant, while in the KTI was 0.23 and significant. This means that if the investment is increased by 1 percent in both regions, it will be followed by a rise of Employment in KBI 0.09 per cent and 0.23 percent in the KTI. This is consistent with some theories include Lewis theory, the theory of Ranis-Fei and Harrod-Domar theory about the increase in investment will have an impact on the increase in employment opportunities.

6.3 Effect of Government Spending on Employment in KBI and KTI.

6.3.1 Direct Impact

Direct Effect of Government Spending on Employment Opportunities in the KBI was 0.16 and significant, while in the KTI was 0.35 and significant. This means that if government spending increased by 1 percent, it will be followed by a rise of Employment of 0.16 per cent in KBI and 0.35 percent in the KTI. This is consistent with the theory that one of the goals of the increase in government spending (Keynes's theory) is to address unemployment or increase employment opportunities, such as recruitment of civil servants, police, military and boost employment opportunities in the private sector.

6.3.2 Indirect Influence

Indirect influence of government spending through Investment on Employment in KBI was 0.21 (2,31x0,09) and significant, while in the KTI was 0.29 (1,25x0,23) and significant. This means that if government spending increased by 1 percent, it will be followed by a rise of Employment of 0.21 per cent in KBI and 0.29 percent in the KTI. This is in accordance with the combined theory and theory Crowding In Lewis, Ranis-Fei, and the theory of Harrod-Domar.

6.3.3 Effect of Total

Effect of Total Government Expenditure on Employment Opportunities in the KBI was 0.37 (0.16 + 0.21) and significant, while in the KTI was 0.64 (0.35 + 0.29) and significant. This means that if government spending increased by 1 percent, it will be followed by a rise of 0.37 per cent Employment in KBI and 0.64 percent in the KTI. This is consistent with one of the goals of the increase in government spending is unemployment.

6.4 Differences Influence of Government Expenditure on the Investment and on the Employment and Investment Effect on Employment in the KBI at KTI.

Differences Direct Impact

The direct effect of the difference in the KBI with DGHE; government spending on investment was - 1.06, meaning that the effect of government expenditure towards investment in KBI was greater than in KTI. While differences in the effect of government spending on employment was 0.19 means that the influence of government spending on employment in the KBI was smaller than in the KTI. While the difference in the effect of the investment on employment was 0.14, meaning that the effect of the investment on employment was smaller in KBI.

6.5 Differences Indirect Influence

Differences indirect Influence in the KBI to the KTI was 0.08 meaning that the effect of government spending on the Job Opportunities through investments in KBI was smaller than in the KTI.

6.6 Differences Influence of Total

Differences in Total Influence in KBI to KTI was 0.27 meaning that the effect of government spending in total on Employment Opportunities in the KBI is smaller than in the KTI.

7. CONCLUSIONS AND SUGGESTIONS

Based on the discussion of results, both direct and indirect influence as well as the total effect was only the effect of government spending towards greater investment in KBI than in the KTI, the more the effect of the investment on employment, the effect of government spending on employment (direct, indirect,

and total) everything is bigger in Eastern than in KBI with a difference of about two-fold effect. This gives the message that for the portion of government spending with the same percentage, more investors are interested to invest in KBI than at KTI. However, the effect on employment, EI is more depend on the size of government spending than KBI. Or in other words more independent KBI / more established than KTI.

It is therefore recommended to policy makers to further enlarge the portion of government spending allocated at KTI thus investors will shift attention to this area so that the effect is greater; at this time it is slowly starting to create independence / KTI establishment in the region is lagging behind in economic development Indonesia.

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