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The influence of capital expenditures and original regional income (pad) on economic growth in central maluku regency

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ABSTRACT

This writing aims to determine the influence of Capital Expenditures and GRDP on economic growth in the Central Maluku Regency area. Using time series data for the 2013-2022 period obtained from BPS Central Maluku Regency, the data was then processed using the Eview program with a multiple linear regression equation model and the mathematical derivative equation $Ln\_Y = \alpha + \beta1\ Ln\_X1 + \beta2\ Ln\_X2 + \varepsilon$. Then transformed based on the regression results as follows: $Y = 10.492 + 0.028\ LN\_X1 + 0.222\ LN\_X2 + \varepsilon$ This equation is then explained that, if all the independent variables which include the Capital Expenditure variable (LN_X1), the Original Regional Income variable (LN_X2) have a value of 0 percent or have not changed, then the Economic Growth value is 10.492. The regression coefficient value for the Capital Expenditure variable (LN_X1) has a positive value of 0.028. This shows that if Capital Expenditures increase by 1%, then Economic Growth will increase by 0.028 or 2.8%. Meanwhile, the regression coefficient value for the Regional Original Income variable (LN_X2) has a positive value of 0.222. This shows that if Original Regional Income experiences an increase of 1%, then Economic Growth will increase by 0.222 or 22.2% assuming other independent variables are considered constant. The results of the partial test (t test) of the Capital Expenditure variable (X1) have no significant effect on Economic Growth. The variable Original Regional Income (X2) partially has a significant effect on economic growth. Meanwhile, the R square value is 0.677987 or 67.79%, which explains that simultaneously the capital expenditure and PAd variables have a significant effect on economic growth by 67% while the remaining 32.21% is influenced by other factors outside the factors studied.

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1. INTRODUCTION

Regional autonomy is a policy regulated by the central government so that regional governments can independently manage their own government. In Law no. 32 of 2004 (revised to become Law No. 23 of 2014) and Law no. 33 of 2004 explains in detail that regional governments are expected to become more independent in managing their government according to the principles of autonomy

and assistance duties and reduce dependence on the central government, both in financing development and in terms of managing regional finances.

Regional economic growth will stimulate an increase in the income of the population in the area concerned, along with increasing population income, this will have an impact on increasing community income. If the regional government sets a development budget that is more. greater than routine expenditure, this regional budget expansion policy will boost regional economic growth (Adi, Priyo Hari, 2005). Thus, capital expenditure has a positive influence on economic growth. The main objective of fiscal decentralization is to create regional independence. Regional governments are expected to be able to explore local financial sources, especially through Regional Original Income (Brata, Aloysius Gunadi, 2004, p. 21). PAD is a source of regional spending, if PAD increases then the funds owned by regional governments will be higher and the level of regional independence will also increase, so that regional governments will take the initiative to further explore regional potential and increase economic growth.

An economy is said to be experiencing a change in its development if the level of economic activity is higher than that achieved in the previous period. According to Sadono Sukirno (1996: 33), economic growth and development have different definitions, namely that economic growth is the process of continuously increasing per capita output in the long term. Increasing Economic Growth is also a concern for all regions in Maluku Province, especially Central Maluku Regency in issuing various regional government policies so as not to compete with other regions.

Meanwhile, Regional Original Income (PAD) is a source of financing for the continuity of development implementation. Where Regional Original Income (PAD) has a strategic position in the development implementation process every year. The amount of PAD can be an indicator in assessing the role and ability of regions to finance development and their own households. Adam Smith (1776) outlined how to analyze economic growth through two factors, namely the total output factor and the population growth factor. Calculation of total output is carried out using three variables, including natural resources, human resources, and capital stock. Meanwhile, the second factor, namely population growth, is used to determine market size and the rate of economic growth. David Ricardo's best known thought regarding economic growth is the law of diminishing returns. This idea is about how population or labor growth can affect the decline in marginal product due to the limited amount of land.

Regional development is carried out to achieve three important goals, namely achieving growth, equity and sustainability (Fitrah Afrizal, 2013). Regional development and sectoral development need to always be implemented in harmony, so that sectoral development that takes place in the regions regional, truly with regional potential and priorities. For overall development, regions are truly a political, economic, social, cultural and defense and security unit in realizing national goals. Law no. 22 of 1999 concerning regional autonomy led to changes in regional financial management policies where regional autonomy became the role of regional governments in managing finances (Apriana & Suryanto, 2010). (Halaskova & Halaskova, 2016) states that every region has the possibility to influence the quality of services provided to the community. In encouraging economic growth, regional financial management can be economical, effective and efficient, accountable and transparent.

Capital expenditure consists of expenditure on land, expenditure on equipment and machinery, expenditure on buildings and structures, expenditure on roads, irrigation and networks as well as expenditure on other fixed assets. Fixed assets owned as a result of capital expenditure are the main prerequisite for providing public services by local governments. To increase fixed assets, local governments allocate funds in the form of capital expenditure budgets in the APBD. This capital expenditure allocation is based on regional needs for facilities and infrastructure, both for the smooth implementation of government tasks and for public facilities.

Regional expenditure is prepared using a performance budget approach which is oriented towards achieving results from planned input by taking into account the work performance of each regional work unit in carrying out its duties, principal and functions. The following is the development of Central Maluku Regency Capital Expenditures 2012-2022. Economic growth is an indicator of successful development in an economy. The progress of an economy is determined by the amount of growth indicated by changes in national output. In classical economic growth theory, analysis is based on the trust and effectiveness of free market mechanisms. This theory emphasizes the importance of investment formation for economic growth. The higher the investment, the better the

economy will be. Investment not only has an influence on aggregate demand but also on aggregate supply through its influence on production capacity. In a longer perspective, investment will increase capital stock (Ahmad Ma'aruf and Latri Wihastuti, 2008).

2. METHOD

By using secondary data, sourced from: BPS Maluku Province; Central Maluku Regency BPS; BPKAD Central Maluku Regency; Bapplitbangda Central Maluku Regency. Then the data is processed using the Eviews application with an equation model

$$Ln\_Y = \alpha + \beta 1\, Ln\_X1 + \beta 2\, Ln\_X2 + \varepsilon$$

Information:

α: Constant
$\beta 1$, $\beta 2$ $\beta 2$: Regression coefficients
NPF: NonPerforming Financing
ROA: Return on Assets
X1: Capital Expenditures
X2: Original Regional Income
ε: Error (interference error)

3. RESULTS AND DISCUSSION

Results

After being tested using the Eviews application tool in accordance with the testing steps, the following regression output was obtained: Capital Expenditure t-statistic value (Ln_X1) was 0.2345 with a Prob (Significance) value of 0.820, greater than 0.05; So, based on decision making based on significance/probability values, the Capital Expenditure variable (Ln_X1) partially has no significant effect on the Economic Growth variable (Y). The t-statistic value of the Regional Original Income variable (Ln_X2) is 2.7588 with a Prob (Significance) value of 0.0247 which is smaller than 0.05; so that on the basis of decision making based on the significance value of the Original Regional Income variable (Ln_X2) it partially has a significant influence on the dependent variable Economic Growth Y. The t-Statistic value of the Original Regional Income variable (Ln_X1) is 2.758 greater than the T_Table value of 2.262, then the conclusion is based on the basic decision making value TLN.X2_count > T_Table, meaning that the independent variable Ln_X2 partially has a significant effect on the dependent variable Y.

Based on the Regression Output, it is known that the Prob (F-statistic) value of Capital Expenditures (Ln¬¬_X1) and the independent variable Regional Original Income (Ln_X2) is 0.010, where this value is smaller than 0.05. This means that the variables Original Regional Income and Capital Expenditures (Ln_X1 and Ln_X2) simultaneously have a significant effect on the dependent variable Economic Growth (Y). Meanwhile, when testing the coefficient of determination (R2) from the EVIEWS output results above, the Adjusted R Square (coefficient of determination) value was 0.597%, which means that the simultaneous influence of the independent variable (X) on the dependent variable (Y) was 59.70%. Meanwhile, the remaining 41.30% is influenced by other variables outside this regression equation or variables that are not studied.

The results of the multiple linear regression equation are transformed to obtain the following multiple regression equation: LN_Y = α + β1 LN_X1 + β2 LN_X2 + εwhere: Y = 10.492 + 0.028 LN_X1 + 0.222 LN_X2 + ε Based on the model above, the constant value (a) has positive value of 10.492. This shows that if all the independent variables which include the Capital Expenditure variable (Ln_X1), the Original Regional Income variable (Ln_X2) have a value of 0 percent or have not changed, then the Economic Growth value is 10.492. The regression coefficient value for the Capital Expenditure variable (Ln_X1) has a positive value of 0.028, indicating that if Capital Expenditure increases by 1%, then Economic Growth will increase by 0.028 or 2.8% assuming the other independent variables are considered constant. The regression coefficient value for the PAD variable (Ln_X2) has a positive value of 0.222, meaning that if PAD experiences an increase of 1%,

then Economic Growth will increase by 0.222 or 22.2% assuming the other independent variables are considered constant. A positive sign means that it shows a unidirectional influence between the independent variable and the dependent variable.

3.1. The Effect of Capital Expenditures on Economic Growth

The development of Central Maluku Regency must prioritize a sustainable development model (Sustainability Development), namely development that prioritizes a balance between economic, social and cultural development. The development of Central Maluku Regency seeks to integrate efforts for economic growth with efforts to realize social justice, environmental sustainability, and community participation. This means that the budget allocation for capital expenditure should also be more directed towards infrastructure development that supports economic growth, such as building roads to production areas or providing employment opportunities which can have a multiplier effect on the community's economy, but sometimes in its use, capital expenditure is often used without ignoring the principle of justice. social, environmental sustainability, community participation. So, even though the value of capital expenditure from the Central Maluku Regency regional government is large at a certain time orientation, it still does not have a significant impact on community welfare, which is the main indicator of economic growth.

3.2. The Influence of Original Regional Income (PAD) on Economic Growth

The receipt of original regional income consisting of regional taxes, regional levies, wealth management results and other income still has the potential to be maximized by the regional government in Central Maluku Regency, because PAD encourages economic growth where PAD functions as one of the regional government's fiscal components. in equalizing regional development and equalizing income for local communities so as to facilitate economic activities and consumption which can increase GRDP. According to Saragih (2003), increasing PAD is actually access to regional economic growth whose positive economic growth has the opportunity to increase PAD. The regional government's perspective is not enough to simply issue regulatory products related to taxes or levies but is more focused on building regional economic strength. When economic activity increases, the flow of government revenue through PAD also increases.

3.3.   The Simultaneous Effect of Capital Expenditures and Regional Original Income on Economic Growth

In order to encourage the creation of conducive regional economic growth, one component that is relied upon and is a significant variable is Capital Expenditure. The existence of a Capital Expenditure Budget which originates from central assistance and Regional Original Income, has a strategic role, because the target of its use is to finance development in the field of facilities and infrastructure that can support the smooth running of private businesses and the fulfillment of community services. If Capital Expenditures made by regional governments are used for development infrastructure will create efficiency and effectiveness in various sectors, higher community productivity and in turn there will be increased economic growth in the Central Maluku Regency area.

4.   CONCLUSION

Based on the results of the hypothesis test, partial capital expenditure does not have a significant effect on economic growth, which is indicated by the significance value (Prob.) of capital expenditure being greater than the regression coefficient α (0.05) according to the basis for making t-test decisions based on the significance value (Prob.) and this is also in accordance with the comparison of the T_calculated value with T_Table. Based on the results of the hypothesis test, Original Regional Income partially has a significant effect on economic growth, which is shown by the significance value (Prob.) of Original Regional Income being smaller than the regression coefficient α (0.05) according to the basis for t test decision making and and this is also in accordance with the comparison of the T_count value with T_Table, where the T_count of Original Regional Income is greater than T_Table. Simultaneous Capital Expenditures and Regional Original Income based on the results of the determination test (R2) have an influence on Economic Growth of 59.7%. Meanwhile, the remaining 41.3% is influenced by other variables outside this regression equation or variables that were not examined in this thesis.

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