The Effect of Local Government Revenue and Capital Expenditures on Economic growth

(Case Study of the City / Regency Government of West Java Province Period 2014-2018)

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Abstract---*This study aims to determine how the influence of local government revenue and capital expenditure on economic growth in west java province period 2014-2018. The factors tested in this study are local government revenue and capital expenditure as an independent variable, while economic growth is the dependent variable. The method used in this research is descriptive analysis method to process and analyze the data obtained and to make a conclusion of the study. Data obtained through the government's financial statements and reports of economic growth from 2014 through 2018. The author uses the method of linear regression, correlation coefficient, determination coefficient and hypothesis testing using F test for simultaneous and t test for partial. Based on this study concluded that local government revenues and capital expenditure affects to economic growth.*

Keywords---*local government revenue, capital expenditure, economic growth.*

I. Preliminary

Early thinking about development is often found in understanding which associates development with development, modernization, and even development with westernization. Historically, experts in the Western economies have introduced the concept of development to governments of newly independent states after World War II, which aims to modernize by focusing on four (4) of the central issues, namely: (i) growth, (ii) accumulated capital, (iii) structural transformation, and (iv) the dominant role of the government. This model of thinking has ushered in a number of developing countries entering the stages of modernization and industrialization as jumping points towards an advanced and prosperous life. (Ibnu Purna dan Adhyawarman, 2009)

Economic growth is one indicator to assess the success of the development of a country. In the implementation of development, high economic growth is the main target for developing countries. This happens because economic growth is closely related to an increase in the goods and services produced within the community, so that with more and more goods and services produced, then the public welfare will be increased (Mirza, 2012)

West Java's economic growth in the second quarter of 2019 is projected to reach 5.59%, driven by private and government consumption as well as the contribution of the manufacturing, trade and agriculture industries. the

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achievement of economic growth in West Java was higher than the national economic growth which was 5.07%. In the second quarter / 2019, Bank Indonesia projects that the West Java economy will again grow at a level of 5.59%. In addition to the UMK factor, West Java's economy in the second quarter will be supported by a number of other things such as an increase in salaries for civil servants disbursed in April, an increase in distribution of social assistance funds, the holding of the 2019 elections, and the rice harvest period in April. inequality in West Java has increased in 2018, caused by increasing inequality in urban areas. West Java's gini ratio has risen from 0.393 to 0.405. (Fahmi Achmad, 2019)

The Central Statistics Agency (BPS) said the economy of West Java based on the amount of Gross Domestic Product (GDP) at current prices the second quarter of 2019 Rp537,66 trillion at constant prices in 2010 reached Rp375,33 trillion. West Java's economy the second quarter of 2019 to the second quarter of 2018 grew 5.68 percent increase compared to the achievements of the second quarter of 2018 amounted to 5.61 percent. In terms of production, the highest growth was achieved by the Health Services and Social Activities Business Field at 13.48 percent.

Aan Andi Purnama (Member of Commission B DPRD Bandung), Bandung's economic growth rate reached 7.6 percent, and even had exceeded 8 percent. It makes Bandung as the region with the highest economic growth rate. In the rate of economic growth, the City of Bandung is not directly proportional to the reduction in unemployment, the poor to the improvement of people's welfare. This was triggered by the large number of investors from outside the city of Bandung. Thus, Bandung residents are mostly workers rather than business people. (Aan Andi, prfmnews, 2018)

Based on Law Number 33 of 2004 concerning Fiscal Balance between the Center and Regions Article 1 number 18 that "Local government original income, hereinafter referred to as Local government Revenue, is the revenue that is obtained by the region which is collected based on local government regulations in accordance with statutory regulations". The local government revenue sector plays a very important role, because through this sector it can be seen the extent to which an area can finance government activities and regional development.

Bati (2009) states that original local government revenue supports the realization of the implementation of complete, real and responsible autonomy in the regency or city. This means that if there is an increase in local government revenue it will lead to regional economic progress that will have an impact on increasing development in the region.

One of the supporting factors of a region's economic growth is the availability of adequate infrastructure. No one can deny the important role of infrastructure in the economic activities of a region. Some empirical facts state that the development of a region's infrastructure capacity will go hand in hand with the growth of the region's economic output (Hall, 2009). Therefore, every region now seems to compete to improve the development of the region. In Indonesia, infrastructure development receives special attention, so the government is committed to implementing the acceleration of the supply of the quantity and quality of its infrastructure (Setiawan, 2005). Within the APBD structure, the allocation of funds for infrastructure development is budgeted in the capital expenditure group. (Putra, 2016)

The capital expenditure budgeting process is unique. This process not only involves negotiations between the executives, but also relies heavily on input and advice from engineers, architects and planners. In addition, in the local government capital expenditure budgeting must also pay attention to long-term financial planning, especially for the maintenance of fixed assets resulting from the capital expenditure (Abdullah and Halim, 2006). Previously, the process of determining the amount of resource allocation for each expenditure item was based more on the previous year's Budget Realization Report (LRA) with a slight increase in the amount of the budget. (Putra, 2016)

Based on this background, the authors intend to conduct research under the title: "The Effect of Local government Revenue and Capital Expenditures on Economic Growth (Case Study on the City / Regency Government of West Java Province in 2014-2018)".

Theoretical Framework and Development of Hypotheses .

Halim (2013) mentions the notion of Local government Original Revenue, namely: "Local government Original Revenue is all local government revenue originating from local government original economic sources. Local government Original Revenues are separated into four types of revenues, namely local government taxes, local government levies, results of local government ly owned companies and results of the management of separated local government property, etc. Legitimate Local government Original Revenues. "

Meanwhile, according to Mardiasmo (2009) the understanding of Local government Original Income, namely:

"Local government revenue is the receipt of proceeds from local tax payments, local government levies resulting from the ownership of the region, the results of the management of separated local government assets and other legitimate local government original income. As stated that the original local government income is the local government revenue that comes from various local economic sources, it is hoped that each local government can build economic infrastructure both in their respective regions in order to increase their income".

According to Government Regulation No. 71 of 2010 concerning Government Accounting Standards:

"Capital expenditure is a budget expenditure to obtain fixed assets and other assets that benefit more than one or two accounting periods. Capital expenditures include capital expenditures for the acquisition of land, buildings or buildings, equipment and intangible assets. "

According to Budiono (1994), economic growth is a process of long-term per capita output growth that occurs when there is a tendency (per capita output to increase) that comes from the internal processes of the economy (the forces within the economy itself), not from outside and are while. Or in other words are self generating, which means that the process of growth itself produces a strength or momentum for the continuation of the growth in subsequent periods. The rate of economic growth of a nation can be measured using the growth rate at a constant price . The following is a formula for calculating the rate of economic growth

The Effect of Local government Revenue on Economic Growth.

An increase in local government revenue is actually an access from economic growth (Saragih, 2003). Areas with positive economic growth have the possibility of increasing local government revenue. From this perspective LGs should concentrate more on empowering local economic forces to create economic growth rather than just issuing legislation related to taxes or user charges.

Brata (2004) which states that local government revenue have positive growth rates are likely to have better per capita income levels. Local government revenue has a positive effect on regional economic growth.

H1 : Local government original income has an effect on Economic Growth

The Effect of capital expenditure on Economic Growth.

The development of facilities and infrastructure by the government can have a positive effect on economic growth (Kuncoro, 2004). Improving public sector services on an ongoing basis will improve public facilities and infrastructure, government investment will also include improvements to education, health and other supporting facilities. A fundamental requirement for economic development is a balanced level of development capital procurement with an increase in GDP / GRDP. The formation of capital must be broadly defined so that it covers all expenditures that increase productivity (Ismerdekaningsih and Rahayu, 2002).

H2 : capital expenditure has an effect on economic growth

The relationship can be contained in a research paradigm chart as follows:

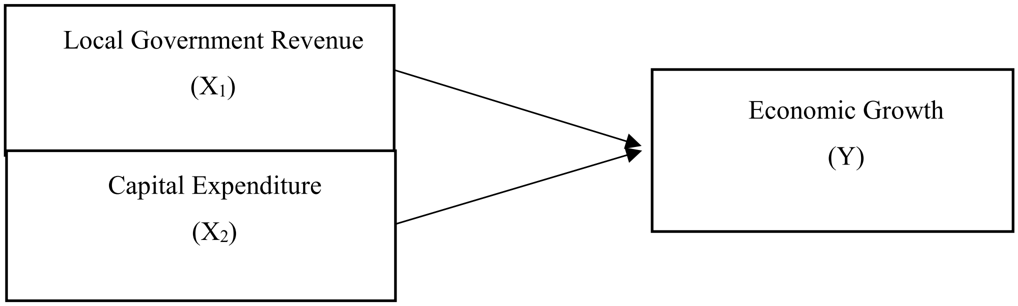

Figure 1: Research paradigm

II. Research methods

The research method used will be descriptive analysis. This study uses *cross sectional and times series* data where the data consists financial reports and data taken made from time to time in accordance with the time period of 5 (five) years in the period 2014-2018.

3.1. Population and Sample

The population in this study is the Report of the Receipt of Local government Revenue of West Java Province, GRDP Report or Economic Growth Rate Report.

The sample in this study amounted to 21 districts / cities consisting of 13 Regency and 8 cities in West Java Province.

3.2. Variable Operationalization

The dependent variable in this study is economic growth. While the independent variables in this study are Local government Revenue and capital expenditure.

Table 1: Operational Variable

Variable	Variable concept	Indicator	Scale
Local government Revenue (variable X_1) (Halim, 2007)	revenue obtained by the region from sources within its own region which is collected based on local government regulations in accordance with applicable laws and regulations	Realization of regional tax revenue, regional levies, the results of the management of separated regional assets and other valid local original revenues	Ratio
Capital Expenditure (X_2) (Government Regulation No 71/ 2010	capital expenditures are expenditures made in the context of capital formation which in the nature of adding fixed assets / inventory that provide benefits more than one accounting period, including expenses for maintenance costs that are to maintain or increase the useful life, and increase the capacity and quality of assets.	Capital expenditure realization in districts / cities	Ratio
Economic Growth	Economic growth is a process of growth in long-term per capita output that	GRDP value based on constant prices in districts	Ratio

(Y) (Budiono, 1994)	occurs when there is a tendency (per capita output to increase) that comes from the internal processes of the economy (the forces within the economy itself), not from outside and is temporary.	/ cities	

Data analysis method

In this study, data analysis methods used descriptive statistical analysis, testing classical assumptions, linear regression analysis and hypothesis testing.

Analysis of Regression

In this study, the variables classified as independent variables (X) are local government revenue and capital expenditure while the dependent variable (Y) is economic growth, the analytical method used in this study is a panel data regression model whose equation can be written as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \epsilon$$

Information:

Y: economic growth

X_1: local government revenue

X_2: capital expenditure

a: Constant

β: Regression coefficient

Hypothesis testing

In this study hypothesis testing uses a model match test, significant test individual parameters (t test) and simultaneous hypothesis test (f test) with a significance level of 5%.

hypothesis:

$H_{o1} < \beta$ Local government revenue and capital expenditure have an effect on economic growth

$H_{a1} > \beta$ Local government revenue and capital expenditure have no an effect on economic growth

III. Results

Linear Regression Test Results

The results of multiple linear regression calculations are presented in the following table:

Table 2

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	2383722.701	3489347.248		.683	.496					
	Local Government Revenue	.067	.004	.840	17.481	.000	.847	.836	.809	.928	1.077
	Capital Expenditure	.000	.001	.026	.543	.588	.251	.047	.025	.928	1.077

a. Dependent Variable: Economic Growth

Source: Output SPSS 20

To test this hypothesis, researchers set the regression equation as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \epsilon$$

Based on the results of the regression analysis in table a regression equation is obtained as follows:

$$EG = 2383722 + 0{,}067LGR + 0$$

it can be explained that regression coefficient for local government Revenue of 0.067 with a regression coefficient marked positive which shows every increase in local government Revenue, predicted to increase economic growth by 0.067 times.

Hypothesis testing

The statistical t- *test* is used to test hypotheses partially to show the effect of each individual independent variable on the dependent variable.

The Effect of Local Government Revenue on Economic Growth:

H_0; β1 = 0 local government Revenue has no effect on economics Growth

H_1; β1 ≠ 0 local government Revenue has effect on economics Growth

The error rate (α) used is 5%.

Based on the table above, the significance value for the regional income variable (0,000) < α (0.05) is obtained according to the hypothesis testing criteria that H0 is rejected. This means that the original regional income has an effect on economic growth.

The Effect of capital expenditure on Economic Growth:

H_0; β1 = 0 capital Expenditure has no effect on economics Growth

H_1; β1 ≠ 0 capital expenditure has effect on economics Growth

The error rate (α) used is 5%.

Based on the table above, that the level of significance obtained by the capital expenditure variable is (0.588)> α (0.05), according to the hypothesis testing criteria that H1 is rejected. This means that capital expenditure partially has no effect on economic growth.

The Effect of Local Government Revenue and capital expenditure on Economic Growth:

Table 3

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.684E+17	2	1.342E+17	167.453	.000[b]
	Residual	1.058E+17	132	8.014E+14		
	Total	3.742E+17	134			

a. Dependent Variable: Economic Growth

b. Predictors: (Constant), Capital Expenditure, Local Government Revenue

Source: Output SPSS 20

The statistical F- *test* is used to test hypotheses simultaneous to show the effect of all independent variable on the dependent variable.

H_0; β1 = 0 local government Revenue and capital expenditure have no effect on economics Growth

H_1; β1 ≠ 0 local government Revenue and capital expenditure have effect on economics Growth

Based on the table above, that the level of significance obtained by local government Revenue and capital expenditure variable is (0.000) < α (0.05), according to the hypothesis testing criteria that H0 is rejected. This means that local government Revenue and capital expenditure have effect on economics

Growth.

IV. Discussion

Hypothesis testing results state that the local government Revenue has an effect on economic growth with a tcount of 17,481. the level of significance was 0,000 compared to the significance value (α) = 0.05 so that the significance (0,000) <α (0.05). Based on the criteria proposed in the hypothesis, H0 is rejected. This means that the local government Revenue has an effect on economic growth.

The results of testing the hypothesis states that capital expenditure has no effect on economic growth with a tcount of 0.543. the significance level of 0,000 compared with the significance value (α) = 0.05 so that the significance (0.588)> α (0.05). Based on the criteria proposed in the hypothesis, H0 is rejected. This means that capital expenditure does not affect economic growth.

The results of testing the hypothesis of the effect of local government Revenue and capital expenditure on economic growth, can be seen by looking at the value of Fcount of 167.453. This value will be compared with F table in the distribution table F. With α = 0.05 df = n - k - 1 = 60, obtained F table for two-sided testing of 3,150. From the values obtained, it is known that Fcount (167,453)> ftabel (3,150), according to the hypothesis testing criteria, it is obtained that Hα is accepted and H0 is rejected. This means that the local government Revenue and capital expenditure affect economic growth.

The results of this study are in line with the results of Putra's (2016) study which states that simultaneous local government Revenue and capital expenditure have an effect on economic growth.

V. Conclusions and Suggestions

Conclusion

Based on the results of data analysis and discussion, the authors conclude that local government Revenue and capital expenditure have an effect on economic growth in west java province period 2014-2018.

Suggestion

Based on the conclusions of the results of the above research, the suggestions that can be given are as follows:

1. For the Government

To be able to increase local revenue, local government revenue can do the following:

a) Local government revenue can explore some potential new taxpayers.

b) Increase tourism promotion to increase tourists.

c) Improve the quality of human resources for example by increasing expertise in the field of Accounting and Taxation through training.

d) In addition, the government also further increases the economic growth in accordance with the regional Medium-Term Development Plan.

2. For Other Parties

For further research it is recommended to increase the time span of the study, expand the research sample and add other variables that can influence economic growth.

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