

## Economic Growth Analysis In The Province East Java

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### Abstract

This study's goal was to ascertain the impact on regional own income, capital expenditure funds, and balanced funds on district and municipality development in East Java. The population that will be observed in this research covers The region of East Java. This study uses annual data that is measured in a time series, starting from 2011-2021. The data obtained was analyzed using multiple linear regression analysis. One technique for evaluating data is multiple ilinear regression analysis relationships that have an effect between independent ivariables and iterative ivariables Based on the results and discussion as well as the supporting theories described above. So the researcher can draw the following conclusions: Regional Original Income influences East Java Province's economy is growing. Some Regional Capital Expenditure Variable are Significantly enhances the economy's expansion. Balancing Fund variable is having a very favorable impact on the economy.

**Keywords:** Local Own Revenue, Capital Expenditures, Balancing Funds and economic expansion

**JEL Classification Code:** C01,E44, E51

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### Introduction

Indonesia have abundant natural resources. This natural wealth must be managed properly to increase the welfare and prosperity of the people as mandated by the national development goals set out in the fourth paragraph of the 1945 Constitution. One of the efforts taken to achieve this goal is through equitable and sustainable economic development in all regions in Indonesia (Rochwulaningsih, Sulistiyono, Masruroh, & Maulany, 2019).

The greater a country's degree of development indicates if country is more advanced and developing. There are several indicators that determine Growth in the economy, financial system, standard of life index, urbanization, social development index, health, and education are some indicators of national development success. (Sabir, Rafique, & Abbas, 2019). One of the key metrics for assessing a country's overall national progress is economic growth and is of particular concern to the government. Increased production of products and services across all economic sectors in a nation during a specific time period is known as economic growth. (Zeraibi, Balsalobre-Lorente, & Murshed, 2021).

In essence, economic activity is the process of employing inputs to create output, which in turn results in a flow of compensation for the inputs held by the community. Economic growth indicates how much a community's economic activities will increase its overall revenue over time. Economic growth may be impacted by a number of factors, including income, expenditure,

and finance. Among these three factors, income is a key predictor of rising economic growth; consequently, economic growth encourages regional governments to fully utilize all available resources and create chances for residents to collaborate (as buyers and/or workers) to generate employment the creation of new employment that will have an impact on the growth of the local economy (Khan, Tahir, Khurshid, Husnain, Ahmed, & Boughanmi, 2020).

The development of the GRDP (Gross Regional Domestic Product) value in a region from year to year is a key measure of the pace of economic growth in that area. GRDP is the overall value of the finished items and services created by every one of the economic units, or it is the amount of added value created by each company in a certain region. The GRDP value explains the extent to which the region's ability to manage or utilize existing resources. yearly genuine economic expansion on the area can be measured based on constant GRDP. GRDP at constant prices, which is determined using prices from a particular year as the base year, demonstrates the additional value of these products and services. (Ginting, Hutasoit, & Peranginangin, 2021).

East Java Province is the second ranked province in Indonesia which has the largest population. East Java is one of the regions that adheres region autonomy system at implementation by its government. At context of administering region government according to According to the Republic of Indonesia's 1945 Constitution, regional governments are responsible for governing and administering their own affairs in accordance with the tenets of autonomy by region and co-administration. This mandate is intended to hasten the realization of social welfare through advancement, assistance, empowerment, and community involvement. (Suwarno & Wati, 2020).

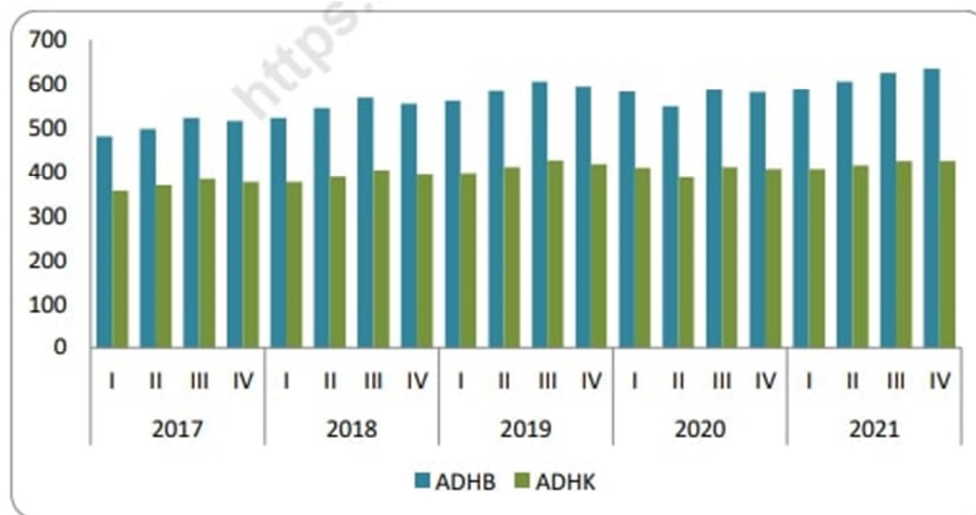
Regional Autonomy is part of decentralization, East Java is known to have abundant natural wealth. In fact, each district/city also has a wealth that is unique to each region. The existence of abundant natural potential makes a considerable improvement in a region's economy (Risal, Zauhar, Sarwono, & Hermawan, 2020). Local governments must look into possible income streams in order to boost regional original income as a result of the adoption of regional autonomy. The primary source of funding for a region is Regional Original Income, which is generated by local taxes and levies, segregated regional wealth management outcomes, and other lawful Regional Original Income. Most of the money for the local government comes from taxes. Regional expenditure is mostly financed by regional original income. Government revenue growth is very strongly correlated with government spending. Income and expenditure were highly correlated (Bustani, Khaddafi, & Ilham, 2022).

One form of government spending is with a budget in the form of Capital Investments. Capital investment and locally produced revenue are positively correlated. The higher the Locally-generated revenue of a region, The local leadership also raises its capital spending. Apart from Locally produced income and capital expenses, components of the regional economy the other is Profit Allocation Funds, Standard Deployment Money, or Special Allocation Funds make up the Balancing Fund. Because each region has different financial resources available to support its operations, there are financial imbalances between them. In order to address this financial imbalance, the government transfers monies from the State budget to support regional needs as part of the decentralization process. (Azizah, Sirojuzilam, & Fachrudin, 2022).

Regional Own Revenue, Capital Expenditures and Balancing Funds can affect increased economic growth. The growth of the economy is the expansion of economic activity that has an effect on rising levels of production of products and services that boost human prosperity. Regional autonomy may be used to boost the economy since it provides local governments more control over how to run, develop, and discover each region's potential. The gross domestic

product of a region is used as a proxy for measuring regional economic growth. (Andjarwati, T., Budiarti, Soemadijo, & Yasin, 2021).

based on information from the East Sumatra Central Statistic Agency's official website (BPS) it can be seen that throughout 2017-2021, the amount of The GRDP, or Gross Regional Domestic Product, is calculated using constant prices and current prices (ADHB) (ADHK) tends to fluctuate which is presented in figure 1



Source: BPS East Java, 2022

**Figure 1. GRDP of East Java Province**

These numbers demonstrate this during the second trimester of 2020, East Java's GRDP, both ADHB and ADHK, have some slight decrease brought about by the Covid-19 epidemic that emerged in mid-March 2020. In the same year, in the third quarter, East Java's GRDP experienced an increase, but fell again. in the fourth quarter due to restrictions on community activities. This had an impact on decreasing both government and private usage, interregional net exports and investment. The government budget has been redirected and refocused, and state and private projects have been rescheduled as a result of initiatives to restrain economic growth, which has added stress to the construction and architectural investment industry. However, it is believed that the government's various assistance programs for factories and intended households (pre-prosperous and COVID-19 affected households) can withstand a more significant slowdown in consumption.

More higher Regional Original Income, then the percentage of economic growth will also be even greater. However, this is inversely proportional to the condition of the percentage increase in economic growth which tends to decrease even though the Regional Original Income tends to increase. This is due to the province of East Java faced several economic problems that impacted regional revenues, including macroeconomic conditions that continued to fluctuate (Malerba, 2020).

Partially Locally-generated revenue having positive impact on economic expansion Localized Original Income can be further increased to support economic growth by paying more attention to sources of Regional Original Revenue, such as regional fees and foreign investment. This indicates that when regional original income increases, so does the pace of economic expansion. According to explanation put forward from research, The effect of Area Original Revenue,

Capital Expenditure Funds, and Balancing Funds on Economic Growth is the topic the scholar is interested in exploring in East Java Province

## **Literature Review**

### **Effect of Regional Original Income on Economic Growth**

The regional income that most supports regional development under the decentralization framework is known as regional own revenue. The findings of a study by Darma and Saputra (2021) indicating local revenue has a favorable and large impact on economic growth confirm this. Badgett, Waaldijk, & van der Meulen Rodgers, (2019) state that the higher Regional Original Income, then the percentage of economic growth will also be even greater. However, this is inversely proportional to the condition of the percentage increase in economic growth which tends to decrease even though the Regional Original Income tends to increase. Rahman (2023) state that partially Locally-generated revenue has a favorable impact on economic expansion, Localized Original Income can be further increased to support economic growth by paying more attention to sources of Regional Original Revenue, such as regional fees and foreign investment. Accordingly, the greater the regional original income, the rate of economic growth is also increasing.

### **Effect of Capital Expenditures on Economic Growth**

Some theory by Harord Domar, Rostow and Musgrave and the theory of Adolf Wagner which became Wagner's Law, it can be seen that there are several reasons for the increasing government spending, namely the increasing function of defense and security, increasing welfare function, increasing banking function and increasing development function (Ghazy, Ghoneim, & Pappas, 2021). Harord Domar's theory states that one way to accelerate economic growth is to strengthen national savings. The more portion of GDP that is saved will increase the capital stock thereby increasing economic growth (Rumawir, 2019). Some of the theories put forward, of course, in a linear manner show that the allocation of Regional economic growth is impacted by capital spending. If seen from some large amount of capital spending allocation provided by some district and city governments in East Java as government spending it should have a positive effect on East Java's economic development.

### **The Effect of Balancing Funds on Economic Growth**

The dissimilarity by economic expansion in every location due to differences in potential and different geographical locations makes it necessary to provide balancing funds. Balancing Transfer of cash from the national government to the regions that have not been able to fulfill infrastructure with the ability of their own regional income. The connection between economic development and balancing funds are seen from understanding that balancing funds are used to meet In the framework of decentralization, regional requirements, these money should be related by regional economic expansion which are provided with balancing funds by the center (Ahmad, Green, & Jiang, 2020).

Donations in the Central Government are closely related to each other with Expenditures in Regional Governments. This is evidenced by empirical evidence that in the long run, transfers of funds from the center have an effect on regional spending. In accordance with the objectives of the balancing fund which aims to overcome differences in Financial capacity to satisfy regional demands. Therefore, if some balancing funds are obtained in small amounts and are unable to meet the shortage of funds obtained from regional original income, it will make the costs

incurred for Capital Expenditures also less and the welfare of the people supported by these funds will decrease and causing economic growth to decline (Hirschhorn, Paulsson, Sørensen, & Veeneman, 2019).

**Research Method**

Because this research uses numbers to present its findings, its methodology is quantitative. This is consistent with the viewpoint. (Arikunto, 2016: 12) which implies that quantitative investigation is a method of inquiry that depends heavily on numbers, from data collection to data interpretation to the presentation of results.

**Population and Sample Determination**

The East Java Province will act as the study's region of observation for the population. That method uses annual data that is measured in a time series, starting from 2011-2021. The information utilized in this study is secondary information. Secondary data is some retrieval by data obtained with collected from several agencies involved in this research, or data published and taken from related institutions or agencies.

**Techniques Analysis**

The data obtained were analysis using multiple linear regression. Relationship analysis is done using multiple linear regression analysis that have an influence between the independent variables and the dependent variable. The OLS is utilized in this multidimensional linear regression study. (Ordinary Least Square) method using version 22.0 from Statistics for IBM SPSS

**Results And Discussion**

**Analysis i Regression i Linear i Multiple**

In this study, researchers used hypothesis testing which was carried out utilizing analysis of multiple linear regressions. All data absorbing will be done using the SPSS (Statistical The set for Social Science), a software for Windows OS 22.0 to make data analysis simpler.

**Testing Hypothesis Test t**

This test is conducted to test whether the independent variable (Regional Own Revenue, Regional Capital Expenditures and Balancing Funds) partially influence the dependent variable Economic Growth East Java, namely by comparing each of the t-statistic values of regression with t-table in rejecting or accepting the hypothesis. In level belief  $\alpha = 5\%$ . Results test t as following :

**Table 1.** T test results

Coefficients<sup>a</sup>

Model	Unreliable Coefficients		Consistent Coefficients	t	Sig.
	B	Std. Error	Betas		
(Constant)	3946096601390 .058	6310055198851 .594		.625	.532
1 X1	28,904	11,509	.377	2,512	.013
X2	51,471	24,448	.364	2.105	.036
X3	-21,418	9,082	-.174	-2,358	.019

a. Dependent Variable: Y

Table 2 is a table of independent variable test results, namely Income Original Area, Shopping Capital Area And Fund Balance to East Java Economic Growth partially. The hypothesis as following :

There is influence Income Original Area partially to Growth Economy in the Province Java East 2017-2021

There is Shopping influence Capital Area in a manner Partial to Growth Economy in Province Java East 2017-2021

There is influence Fund Balance in a manner Partial to Growth Economy in the Province Java East 2017-2021

Based on results regression Which There is in table 4.5 so proof from hypothesis Which have been shown are as follows:

Variable Income Original Area own probability value that is smaller than the confidence level  $\alpha = 5\%$  ie  $0.013 < 0.05$  which means it proves that the variable is Original Income Area significant effect on Growth Javanese Economy East

Variable Shopping Capital Area own mark probability reveals a value of 0.036, less than the threshold of confidence = 5%. ( $0.000 < 0.05$ ) then this can prove that Java East's capital expenditure variable has a major impact on economic growth.

Balancing Fund variable has mark probability Which more small from level belief  $\alpha = 5\%$  i.e.  $0.019 < 0.05$  so matter This prove that variable Fund Balance influential significant to Growth Javanese Economy East.

**Testing Hypothesis F test**

The F-test is utilized by juxtaposing the F- statistic with the F-table to determine if the independent variable in question has an influence instantaneously (together) on the variable that is the dependent variable. Some hypothesis is as follows:

Ho: There is a simultaneous influence (together) between Local Own Revenue, Capital Investments, and Fund Allocation for Economic Growth in East Java Province

H1 : There is no simultaneous (together) local own revenue's impact, Capital Expenditures, with Balancing Funds on East Java's Economic Growth Province

**Table 2.** Results F test

ANOVA <sup>a</sup>

Model	Sum of Squares	df	MeanSquare	F	Sig.
1 Regression	1912827335321 894200000000 0000.000	3	6376091117739 6480000000000 000.000	53,736	.000 <sup>b</sup>
1 residual	2657872205753 822200000000 0000000	224	1186550091854 3849000000000 00.000		
Total	4570699541075 7165000000000 0000.000	227			

a. Dependent Variable: Y

b. Predictors: (Constant), X3, X1, X2

Using the data in table 4.6, some regression outcome are obtained mark F-statistics as big 53,736 with probability as big 0.000, on level belief  $\alpha = 5\%$ , because the level of significance is greater than the likely estimate of the F-statistic  $\alpha 5\%$  ( $0.0000 < 0.05$ ), It means that variable independent ie Local Own Revenue, Capital Expenditures and Balancing Funds together The same substantial impact on the economic growth of East Java

## **Discussion**

### **Regional Original Income Against Economic Growth**

According to the findings of the study analysis discussed above, regional original income as a whole has an impact on economic growth in East Java. This shows that According to the Regional Economic Province of East Java, Regional Original Income has a favorable impact on Growth Original Income's own duties, namely to become the backbone of the economy and supported by research from Supriyadi, Wang, Juwita, Gunaningrat, Safitri, & Cirella, (2021) that Regional Original Income positively influences regional expenditures, giving rise to economic growth The initial income of a region is an engine of regional spending; as a result, as Regional Original Income rises, so do the funds that the local authority owns and the degree of its independence, allowing it to take the action to further explore the possibilities for the region and spur economic growth. A sustained increase in regional original income will result in a rise in regional economic growth.

The area economy must be impacted by an increase in the initial regional income. Therefore, even though local revenue has increased, the region will not be beneficial if it doesn't see significant economic growth. Furthermore, every change in economic conditions fluctuations in regional original revenue will be significantly impacted by this. That means, areas that have a good economy will have high local revenue. Thus it can be said that the better a region's economic situation will support some increase in regional original income. As a result, it may be concluded that regional economic activity benefits regional original income. If some opposite is the case, then it can indicate that there is excessive exploitation of Locally-generated revenue for without taking into account how to raise the community's own output. Receiving regional original income can boost regional economic growth, which in turn will influence overall national economic growth. Local government investment can grow with a surge in local own-source income, improving the standard of public services or in other words the growth of regional own-source revenues should be sensitive to economic growth.

### **Regional Capital Expenditures on Economic Growth**

Based on the findings of the aforementioned study investigation, it is possible to draw the general conclusion that Local Capital Investment has an impact on East Java's Economic Growth this shows that capital expenditure has a favorable impact on economic growth on East Java at accordance with Wagner's theory regarding the cause of the increase in government spending is a development of the welfare function.

The rise in public spending through Capital Expenditure is actually a reflection of the development carried out by the government itself. If the government owns a lot of assets and uses them properly as facilities and infrastructure that support people's welfare then positive economic growth can also be obtained through this, in accordance with Rostow's theory regarding the stages of economic development.

Regional Capital Expenditure describes the level of local government consumption to add assets with a fixed value and those with advantages that last for a duration exceeding one accounting

period. The higher level of Capital Expenditures, the more owned by the municipality. They are fixed assets. We anticipate that the amount of fixed assets will become a means of increasing infrastructure

### **Balancing Fund Against Economic Growth**

Based on the findings of the aforementioned study investigation, it is possible to draw the general conclusion that Regional investment has an impact on East Java's Economic Growth. this shows some influence by balancing funds concerning East Java's cities and regions' economic growth in accordance with the definition of balancing funds themselves and supported by research by Nufus, Zuhroh, & Suliswanto, (2021) which asserts that the achievement of fund balancing has a favorable impact on economic expansion. Balancing funds are money received as a transfer from the federal government funds to cover the inability to fulfill infrastructure with Regional Original Revenue. So that by providing the Balancing Fund, it is hoped that it will be able to boost the regional economy

### **Conclusion**

Considering the findings, the analysis, and the underlying ideas described above. Then researchers can draw conclusions as follows: i : Regional Original Income influences East Java Province's economy is growing. Some Regional Capital Expenditure Variable has a very favorable impact on economic growth. Balancing Fund variable has a very favorable impact on economic growth.

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