

THE IMPACT OF THE RELATIONSHIP BETWEEN GOVERNMENT EXPENDITURE AND POVERTY IN INDONESIA 1993-2023

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Abstract

Poverty is a multidimensional problem that remains a major challenge in Indonesia, despite annual increases in government spending. This study aims to analyze the impact of government spending on poverty levels in Indonesia during the period 1993–2023. Using a quantitative approach, this study examines the causal relationship between total government spending and poverty levels. Time series data were obtained from the World Bank and analyzed using simple linear regression, and tested through classical assumption tests such as normality, multicollinearity, heteroscedasticity, and autocorrelation. The results of the study indicate that government spending has a negative and significant effect on poverty levels, with a regression coefficient of -16.57 and a significance value of 0.000. This means that a one-unit increase in government spending can reduce poverty by 16.57 units. This finding supports Keynesian theory, which emphasizes the importance of active government intervention in addressing economic imbalances. However, the effectiveness of government spending also depends heavily on institutional quality and targeted budget allocation.

INTRODUCTION

Poverty is one of the growing issues being discussed in various developed and developing countries (Akhtar, Liu, and Ali 2017). Poverty is a global issue that has different impacts on individuals across continents, regions, and countries (Anjande et al. 2022). (Babatunde, 2014) simply states that poverty exists in all countries and regions, although the severity varies between countries and locations. Poverty is an important issue caused by various political, social, cultural, and economic conditions and relationships. Therefore, initiatives and programs aimed at reducing poverty need to be implemented gradually and consistently using integrated strategies. All stakeholders, including companies, members of the Regional Representative Council, regional leaders, and other members of the community, must participate (Barus et al. 2024).

The large number of groups responding seriously to poverty is another indicator of the increasing complexity of this issue. One important aspect of global development has been identified as poverty reduction (García, Pabsdorf, and Alvarez 2019). In determining poverty, this financial component is very important (Rineliana 2024). Economic criteria are typically used to define poverty, determining who is poor based on their monthly per capita income being below the predetermined poverty threshold (Putri, Shafiai, and Ismail 2024). Health, education, and living standards three selected characteristics that have the greatest impact on poverty in every country (García et al. 2019). One of these is the United Nations (UN), which has enabled all countries worldwide to achieve the Millennium Development Goals (MDGs), with the elimination of poverty being one of the MDG objectives (Budi, 1*, and Adzim 2017). The Sustainable Development Goals (SDGs) and the Millennium Development Goals (MDGs) both prioritize poverty, which remains a global issue. Complex socioeconomic problems

underlying poverty in Indonesia (Sugiharti et al. 2022). An important resource for the development of a nation is its human resources. In order to live a decent life, people or groups living in poverty must be helped to improve their circumstances so that they can have a dignified life (D'Attoma and Matteucci 2024).



Source : World Development Indicators, 2023

Figure 1.

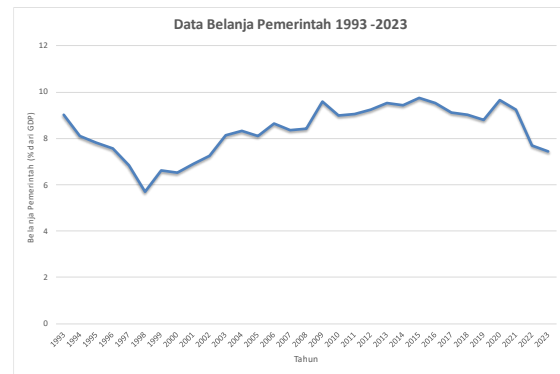
Poverty of Indonesia from 1993 – 2023

From 1993 to 2023, the graph of the ratio of poor people in Indonesia shows a significant downward trend. The impact of the Asian economic crisis caused poverty rates to rise sharply in 1998 and 1999, although they began to decline progressively after 2000. From 2010 to 2023, this decline has become more stable, indicating an improvement in economic conditions and the success of government initiatives to reduce poverty. Overall, this graph shows that despite significant obstacles during the crisis, Indonesia's efforts to reduce poverty have made progress.

However, according to (Mahembe and Odhiambo 2019) in the journal (Ravallion, 2015, p. 1971), it has long been understood that poverty is caused by the "immoral behavior" of the poor, such as having large families, being lazy, or making poor financial decisions, such as drinking too much alcohol. Low human resource quality is one of the factors that contributes to high poverty rates. During periods of high unemployment, it is often recommended to increase government

spending overall in order to boost consumption. However, according to the same macroeconomic paradigm, the long-term development trajectory of the economy does not depend on the amount of government spending, but rather on resources, technology, and the elements mentioned earlier (James L. Butkiewicz and Yanikkaya 2011).

Developing and developing countries want to provide a higher standard of living for their citizens, so governments create development plans to fully support this goal. One such instrument is the national budget. A budget is essentially a planning document that outlines the policies that the government will adopt over the next one to five years, although it is usually only for one year. Above all, the budget includes projections of anticipated state revenue and expenditure for the budget period (Yahaya 2019). The term “government expenditure” describes expenditure related to government initiatives. Government spending can be a sign of its dedication to improving the welfare of its citizens (Ramadhani and Ridwan 2024). Government spending is often considered a key indicator for promoting and sustaining economic growth (Nur et al. 2024). This is reinforced by (Ahuja and Pandit 2020), who states that maintaining and achieving high economic growth requires increased government spending. This is because it can drive development and stabilize the economy. Government spending has a significant impact on economic activity and policy objectives in Indonesia. Using various tax and expenditure measures, fiscal policy is a government strategy intended to control or stabilize the economy (Onifade et al. 2020). The total amount of money spent by the government on the economy each year can be divided into two categories: capital expenditure or development and routine expenditure (Kojo et al. 2018).



Source : World Development Indicators, 2023

Figure 2.
General Government of Indonesia from 1993-2023

From 1993 to 2023, this graph shows the trend in government spending as a percentage of GDP (Gross Domestic Product). From more than 9% in 1993 to a low point of around 6% in the late 1990s, there was a marked decline at the beginning of the decade. Following that, government spending continued to rise, peaking at over 10% in early 2010. However, there has been a fairly sharp decline since around 2018, particularly after 2020, dropping to below 8% in 2023. This pattern reflects the dynamics of fiscal policy, which can be influenced by internal and international economic events, such as economic recovery and crises.

Since the time of Adam Smith, there has been a discussion about the role and purpose of government spending in economic growth and other areas (PRASETYO 2020). Unlike the Keynesian school of thought, the classical school opposes excessive government spending because it believes that the private sector is more efficient than the government in conducting economic operations (Udoka and Anyingang 2015). However, government spending can increase aggregate demand, which in turn drives economic development and job creation, according to the Keynesian perspective (Mehmood and Sadiq 2010). In addition, the market will react by changing the supply function. By producing more commodities or services, the supply function can be changed. On the other hand, the idea of Endogenous economic

growth is a relatively modern theory of economic growth (Sasongko and Wibowo 2022). Government spending is crucial for driving economic expansion, improving welfare, and reducing poverty (Sahroni Nurkodri, Tan, and Achmad 2024), especially when used for initiatives that benefit the poor, such as agriculture, health, and education (Agbeni et al. 2025). However, globalization and demographic trends may be the main causes of the increasing push for more government spending. It is not a good idea to reduce public spending given the ever-increasing needs. However, public resources can become strained due to greater spending (Yun, 2020). However, there is no convincing evidence that government spending significantly reduces poverty in developing countries, although government spending does have an impact on income poverty.

According to (Cesarina Maulid, Rangga Bawono, and Aryo Sudibyo 2021) in the journal (Sujianto & Azmi, 2020), through budgetary interventions in fiscal policy and government spending, the government can control a country's economy. To optimize the benefits of economic expansion, public welfare, and poverty reduction, the government must focus on effective spending plans. The government can improve living conditions and promote sustainable growth by distributing resources wisely (Sahroni, Achmad 2024). However, not all forms of government spending impact poverty and economic inequality. Certain forms of government spending can impact poverty and economic inequality, while others do not (Papyrakis, Syed Mansoob Murshed, 2019). Assessing Increases in Government Expenditure The assessment of nominal government expenditure or revenue is based on the idea that the government functions as a direct economic agent (Lindauer and Velenchik 1992).

Although the government spends a lot of money in various areas to improve the welfare of the people, poverty is still one of the biggest problems in Indonesia. As a

developing country, Indonesia must ensure that government spending is carried out fairly, especially in terms of reducing poverty and inequality. This raises questions about how effective government spending is in reducing poverty. The need to assess how government spending affects poverty, given increasing budget constraints and suboptimal results, makes this research very important. Another urgency arises from the fact that, despite annual increases in government spending, poverty is decreasing slowly and unevenly across regions, making this research particularly important. The novelty of this study lies in its use of data from the period 1993-2023 and its application of linear regression, classical assumption tests, cointegration tests, and an emphasis on the impact of central government spending on poverty alleviation. Most previous studies have only looked at specific areas of government spending (such as health or education), without analyzing the overall impact of spending on poverty in Indonesia over a long period of time (1993-20203). Currently, there are very few studies in Indonesia that focus on long-term macro analysis using national time series data, especially in terms of testing the direct causal relationship between poverty and overall government spending.

LITERATURE REVIEW

Keynesian Economic Theory

Keynesian theory is one of the macroeconomic theories developed by John Maynard Keynes. This theory states that the government has an important role in promoting economic growth through active intervention, particularly in the form of government spending. Keynes argued that in situations of economic imbalance, such as unemployment and poverty, government spending can be used as a tool to increase aggregate demand, create jobs, and encourage private sector investment (Soelistyo 2022). Keynesian economic theory, developed by John Maynard Keynes, emphasizes the importance of government intervention in

addressing economic imbalances, such as unemployment and poverty, through increased aggregate demand. Thus, Keynesian theory explains that government spending is not only a driver of the economy but also a tool for achieving social welfare, especially in societies facing challenges of poverty and low human resource quality (Eko Prasetyo, 2022). In their research (Indah et al. 2023), the authors state that according to Keynesian theory, fiscal policy can be used to stimulate the economy and overcome economic crises by increasing government spending, lowering taxes, or both. These measures have a multiplier effect by increasing demand for household consumption products.

Fiscal Redistribution Theory

The redistributive function of fiscal policy aims to reduce poverty and inequality (Wiśniewska-Kuźma, 2019). The political and economic aspects and/or integration of a country are traditionally separated by its public finance system, often known as the fiscal system (Šimović and Hr 2007). In situations where poverty is high, the government needs to intervene through larger budget allocations for social protection programs, subsidies, and basic infrastructure development so that welfare can be evenly distributed and development can be more inclusive (Sarjito, 2024). The Fiscal Redistribution Theory is based on the view that government spending should serve to reduce social and economic inequality. The government, as a fiscal actor, is tasked with redistributing income through social spending such as subsidies, direct cash assistance, and basic infrastructure development.

Theory of Poverty

Poverty, according to Adam Smith, the father of modern economics, is the inability to purchase the necessities of life for oneself and one's community. He believed that in order to understand poverty, it is necessary to be aware of basic needs and

social expectations. Smith explains that to be considered non-poor, a person must have the necessities of life and things that are considered important by society to uphold a respectable position, even for people with small incomes. This combines relative social norms with absolute basic needs (Davis and Sanchez-Martinez 2014). Economic backwardness, lack of human resource development, dysfunctional capitalism and markets, social and political power, individual behavior and choices, welfare dependency, and the poverty trap are all identified by Blank (2010) and Jung and Smith (2007) as contributing factors to the economics of poverty theory (Addae-Korankye 2019). However, (Bradshaw 2006) identified five theories of poverty after studying the literature on this issue. These ideas include: Poverty based on individual deprivation, poverty caused by cultural belief systems that promote poor subcultures, poverty caused by discrimination or distortion in the political, social, and economic spheres, poverty caused by geographical inequality, and poverty caused by cyclical and cumulative dependency.

Endogenous Growth Theory

The endogenous growth theory emphasizes that economic growth is not solely determined by external factors such as the availability of natural resources or the level of public savings. Instead, this stress theory assesses the importance of internal (endogenous) factors that can be directly influenced by government policies and interventions.

Within this framework, the public sector plays a key role in creating an ecosystem that supports accelerated economic growth. Not only as a facilitator, the government can also be the main driving force. Through various means, from investments in education and infrastructure to support for research and development, the public sector can create a strong foundation for sustainable long-term

growth. This theory was developed by two renowned economists, Paul Romer and Robert Lucas, in the late 1980s (Rijal, Ahmad, 2023).

Human Capital Theory

Schultz (1961) was the first to use the term "human capital" in contemporary economic literature. He categorized human capital expenditure as investment rather than consumption (Fleischhauer 2007). When the gap between economic growth rates in some industrialized and developing countries widened significantly in the mid-20th century, human capital theory began to take shape (Khaykin, Lapinskas, and Kochergina 2020). Human resources are defined as the talents and capacities of people who can provide services through education, while capital is defined as material resources of production. Since economic activity has a significant impact on education, this concept is very important (Assia et al. 2018). One important resource that requires investment is human capital. Human capital theory attempts to provide an economic explanation for this. This theory highlights the importance of investing in human capital to increase productivity and capacity (Wuttaphan 2017). Humans and technology are two elements that complement each other, according to Gary Becker's human capital theory. Investing in education will produce the necessary skills. Technological progress is then driven by these skills. Due to this development, there is a greater need for trained workers, which increases income for individuals who invest in education (MATAACHE 2023). This is relevant to this paper because government spending on education is relevant to poverty alleviation. It can be said that developed countries are developed because of education and health, therefore government spending must play an important role in this regard.

Previous research

Since this study cites several previous studies, some of the previous research is

needed to support this research. Although the topics discussed in this study are somewhat similar to previous studies, there are still several differences, such as location, object, source, and so on. This study can be linked to previous research conducted by (Yusri, 2022) "Does Government Expenditure Affect Poverty, Health, and Education? Evidence from Aceh, Indonesia" with the results of this journal finding that SAF plays an important role in reducing poverty rates, improving access to safe sanitation, and increasing the pure participation ratio in high school. However, there is no significant relationship between SAF allocation and access to clean water. This outcome variable shows both positive and negative signs; therefore, no conclusion can be drawn. Other studies reveal that government spending on education is in line with the goal of creating a strong education system and infrastructure. Government spending on housing and public facilities has no effect on the HDI value, so investment in housing and public facilities must be made more effective. Government spending on social protection functions has a positive and significant impact on the HDI, indicating the effectiveness of spending in improving the standard of living of the Indonesian people, according to a journal researched by Ambrosius (Oki, 2023) entitled "IMPACT OF GOVERNMENT EXPENDITURE ON HUMAN DEVELOPMENT INDEX IN INDONESIA BY FUNCTIONS". Meanwhile, "IMPACT OF GOVERNMENT AND HOUSEHOLD EXPENDITURE ON HUMAN DEVELOPMENT INDEX" studied by (Sulistiyowati, Sinaga, and Novindra 2017) revealed that the results of policy simulations concluded that a combination of policies to increase government spending on education and infrastructure produced better performance in increasing per capita income, disposable income, and HDI compared to a combination of policies to increase government spending on education and infrastructure in both urban and rural areas. Districts, but cities were more severely affected than districts.

(Burhan, 2019) The results of this study show a positive and significant impact on all sectors, especially government spending on education, which was the most influential sector in his study entitled "THE EFFECT OF GOVERNMENT SPENDING ON EDUCATION, HEALTH AND SOCIAL PROTECTION SECTORS TOWARDS THE HUMAN DEVELOPMENT INDEX IN CENTRAL KALIMANTAN". The results of research by Ahmad and Bhatti (2024) show that in promoting growth and reducing poverty, it is not just a question of how large the government budget is, but how and where the funds are allocated that is far more important. Their research, entitled "public spending composition and its implications for economic growth and poverty reduction in pakistan: a dynamic time series analysis". his research, entitled "uma análise do efeito dos gastos dos governos sobre a pobreza no brasil - 1987 a 2009". The study (Hiromoto, 2013) shows that government spending in Brazil has a real impact on poverty reduction, but the effect depends on the type of spending and the initial conditions of the region. With a 20-year analysis and a 2SLS approach to avoid bias, it was found that not all spending has the same impact. In fact, the ideology of the ruling political party also influences the direction of budget policy. In essence, public spending can effectively reduce poverty, provided it is done carefully and contextually. (Osundina K et al. 2014) The results of this study found that government spending on infrastructure does have an impact on poverty reduction in Nigeria, but not all types of spending have the same impact. Spending on buildings and construction proved to be most effective, while spending on transportation had a negative impact. Spending on education and health showed some effect, but not always significant, according to the study entitled "disaggregated government spending on infrastructure and poverty reduction in nigeria". The results of research by Click or tap here to enter text. show that in Sub-

Saharan Africa, government spending and foreign direct investment have proven effective in reducing poverty. Conversely, an increase in the money supply correlates with a rise in poverty levels. This means that fiscal policy plays a greater role than monetary policy in this regard. The main focus should be on increasing productive government spending and creating a business-friendly climate to attract foreign investment, according to the study entitled "government spending and money supply roles in alleviating poverty in africa". Another study highlights the results of research (Chukwudi Emmanuel Edeh, Maryrose Chinwe Ezaegu, and Nicholas Attamah 2023) showing that government social spending, both capital and recurrent, plays an important role in reducing poverty in Nigeria. There is strong evidence of a long-term relationship, and the direction of causality indicates that increased social spending does indeed drive poverty reduction, not the other way around. However, this positive impact will only be felt if the funds are managed properly, according to the study entitled "government social spending and poverty reduction in nigeria". (Komarudin and Oak, 2020) The results of this study confirm that public health spending is indeed effective in reducing poverty levels in developing countries, especially when supported by good governance. Interestingly, even in countries with poor governance, increased health spending can still have a significant impact, according to the study entitled "public health spending, governance quality and poverty alleviation". (Sitinjak, 2022) The results of this study found that government spending in North Sumatra Province during 2010–2021 had a significant impact on poverty levels and that the direction of the impact was negative, meaning that government spending succeeded in reducing poverty. Although the problem of poverty has not been completely resolved, these results show that appropriate budget allocation could be one of the keys to improving the welfare of the community. The study,

entitled "THE EFFECT OF GOVERNMENT EXPENDITURE ON THE LEVEL OF POVERTY IN THE PEOPLE'S REPUBLIC OF NORTH SUMATRA PROVINCE IN 2010-2021". (Adegboyo , 2020) The results of this study show that the type of government spending greatly determines its impact on poverty in Nigeria. Recurrent spending on economic, social, and transfer services has been proven to help reduce poverty. On the other hand, spending on administration and capital transfers have worsened conditions. Poverty alleviation efforts will be more effective if the government prioritizes subsidies and direct social assistance, while cutting bureaucratic costs that burden the budget, according to his research entitled "does government spending reduce poverty in nigeria? evidence from autoregressive distributed lag specification".

METHODOLOGY

The research method used is a quantitative approach with OLS analysis. In quantitative research, items are measured and questions such as "how long," "how much," and "how far" are asked (Ghanad 2023). This study uses time series data from 1993 to 2022, with primary data obtained from the World Bank for Poverty Data and Total Government Expenditure. This study also uses other sources such as journals and other literature to supplement information related to the research. The analysis was conducted on the obtained data using Multiple Linear Regression analysis to determine the simultaneous and partial effects of independent variables on dependent variables, Classical Assumption Tests including normality, multicollinearity, heteroscedasticity, and autocorrelation tests to ensure the validity of the regression model, and Hypothesis Testing such as F-test and T-test. By applying classical assumption tests, this study ensures that the regression model used is valid and reliable in drawing conclusions. In below The model of the multiple linear regression equation used in this study is presented.

$$Poverty_t = \alpha + Gov\ Exp_t + \epsilon_t$$

Explanation:

Poverty_t = Poverty
a = Intercept (constant)
β1 = Regression coefficient of government spending
Gov Expt = Government spending at time t (independent variable)

RESULT AND DISCUSSION

Results

1. NORMALITY TEST

Table 1.

Shapiro Wilk W Test for Normal Data

Variable	Obs	W	V	z	Prob>z
shopping	31	0.93616	2,079	1,517	0.06465
Poverty	31	0.94561	1.185	1.185	0.11805

Source : *Stata 16 Processing Results*

The Shapiro-Wilk test results show that poverty data (p = 0.11805) and expenditure data (p = 0.06465) have probability values greater than 0.05. Thus, both variables can be considered normally distributed.

2. MULTICOLLINEARITY TEST

Table 2. Multicollinearity

Variable	VIF	1/VIF
Shopping	1.00	1,000,000
Mean VIF	1.00	

Source : *Stata 16 Processing Results*

The results of the multicollinearity test using the Variance Inflation Factor (VIF) show that the expenditure variable has a VIF value of 1.00. This value is well below the threshold of 10, indicating that there are no signs of multicollinearity in the regression model used. Thus, the regression model is free from problems of correlation between independent variables.

3. HETEROSCEDASTICITY TEST

Table 3. Heteroscedasticity Test

chi (1)	2.93
Prob >	0.0868
Chi 2	

Source : *Stata 16 Processing Results*

The Breusch-Pagan/Cook-Weisberg test results show that the probability value (p-value) is 0.0868, which is greater than the significance level of 0.05. Therefore, it can be concluded that there are no symptoms of heteroscedasticity in the regression model used, so the model meets the assumption of homoscedasticity.

4. AUTOCORRELATION TEST

Table 4. Autocorrelation Test

Durbin-Watson	1.10027
d- statistic(2, 31)	

Source: *Stata 16 Processing Results*

The Durbin-Watson test results show a statistical value of 1.10027, which is close to 2. This indicates that there is no autocorrelation in the regression model residuals, so the assumption of residual independence is fulfilled.

5. STATIONARITY TEST (UNIT ROOT TEST)

Table 5. ADF Test Results for Poverty

Variables	ADF	1% Critical Value	5% Critical Value	10% Critical Value	p- value for Z(t)
Poverty	-9.571	-3,730	-2.992	-2.626	0.0000

Source: *Stata 16 Processing Results*

Stationarity testing was conducted using the Augmented Dickey-Fuller (ADF) test to determine whether the variables had unit roots or not. The test results are presented in the following table:

The results of the Augmented Dickey-Fuller (ADF) test on the poverty variable after one differencing showed a Z(t) statistical value of -9.571, which is smaller than the critical value at a significance level of 1% (-3.730). The p-value of 0.0000 is also much smaller than 0.05. This, the null hypothesis is rejected, which means that the poverty variable is stationary after differencing.

Table 6. ADF Test Results for Shopping Variables

Variables	ADF Statistic	1% Critical Value	5% Critical Value	10% Critical Value	p- value for Z(t)
Shopping	-3.625	-3,730	-2.992	-2.626	0.0053

Source: *Stata 16 Processing Results*

The results of the Augmented Dickey-Fuller (ADF) test on the expenditure variable after one differencing showed a Z(t) statistical value of -3.625, which is smaller than the critical value at a significance level of 5% (-2.992) and 10% (-2.626). The p-value of 0.0053 is smaller than 0.05. Therefore, the null hypothesis is rejected, indicating that the expenditure variable is stationary after differencing.

6. COINTEGRATION TEST

Table 7. Results of the Unit Root Test Using Dickey-Fuller

	Z(t)	1%	5%	10%	p-value
Dickey-Fuller	-5,537	-3,716	-2,986	-2,624	-0.0000

Source: *Stata 16 Processing Results*

Based on the Dickey-Fuller test, it can be concluded that the analyzed series is stationary. This is evident from the test statistical value (Z(t)) of -5.537, which is more negative than the critical values at the 1% significance level (-3.716), 5% significance level (-2.986), and 10% significance level (-2.624). In addition, the estimated p-value is also less than 0.05 (p-value = 0.0000), so the null hypothesis (H0) stating that there is a unit root can be

rejected. With the rejection of the null hypothesis, it can be concluded that the data used does not contain a unit root and meets the stationarity requirement. Data stationarity is an important requirement for conducting further time-series analysis, ensuring that the results obtained are more reliable and meet the assumptions underlying the modeling.

7. SIMPLE LINEAR REGRESSION TEST

Table 5. Simple Linear Regression

Number of obs	=	31
F (1, 29)	=	6.46
Prob > F	=	0.0166
R - squared	=	0.1823
Adj R - squared	=	0.1541
ROOT MSE	=	21.953

y	Coefficient	Std. err.	t	P > t
Poverty	-9.468406	3.723931	-254	0.017
_cosn	111.8703	31.292	3.58	0.001

Source: *Stata 16 Processing Results*

Based on results regression, there is a negative and significant influence of spending on poverty ($p = 0.017$). This looks from coefficient regression which has a value of -9.47, which means that for every one unit increase in spending, the poverty rate will decrease by an average of 9.47 units (*ceteris paribus*).

In addition, the F test also provides support that the regression model formed is feasible and significant (F-count = 6.46; $p = 0.0166$), so that can it is concluded that the spending variable does have a significant influence on poverty.

Meanwhile, the R-squared value of 0.18 (18.23%) shows that the model formed is able to explain 18.23% of the variation in poverty. With say other, there is factor other in outside spending that also influences poverty.

RESULT

Based on the regression results, there is a negative and significant effect of spending on poverty ($p = 0.017$). This can be seen from the regression coefficient of -9.47, which means that for every one unit increase in spending, the poverty rate will decrease by an average of 9.47 units (*ceteris paribus*). In addition, the F-test also

supports that the regression model formed is valid and significant (F-count = 6.46; $p = 0.0166$), so it can be concluded that the expenditure variable does have a significant effect on poverty. Meanwhile, the R-squared value of 0.18 (18.23%) indicates that the model formed is able to explain 18.23% of the variation in poverty. In other words, there are other factors beyond spending that also influence poverty.

Discussions

The Relationship Between Government Spending and Poverty

Based on the results of the data processing above, with a simple linear regression analysis, this study found that government spending has a negative and significant effect on poverty levels in Indonesia, with a regression coefficient of -16.57 and a significance level of 0.000. This means that an increase in government spending can generally reduce poverty rates. This implies that for every 1-unit increase in government spending, poverty rates will decrease by 16.57 units. This means that the higher government spending is, the lower the poverty rate will be.

This finding is in line with Keynesian views, which believe that government spending can be an important trigger for economic turnover. When the government spends money, especially on productive sectors, demand for goods and services increases. This encourages businesses to increase production, which of course requires more labor. This is where jobs are created, and the community begins to feel the benefits through additional income. Increased income means higher purchasing power, and the economic cycle continues to turn. Indirectly, this process can help reduce poverty rates, especially if the spending is targeted effectively and not merely a formality in the budget. (Mehmood & Sadiq, 2010).

The results of this analysis are consistent with various international studies showing that government spending has great potential to reduce poverty, depending on the sector to which

it is allocated. For example, a study by Jalles d'Orey of 19 studies included in our review certainly found a negative and statistically significant relationship between government spending and poverty, and the average relationship across 169 estimates found that government spending can reduce poverty, but the effect is highly dependent on the country context and the type of spending undertaken. In many cases, spending on health, education, and infrastructure has been proven to be most effective in reducing poverty (Anderson et al. 2018).

A study conducted in Chile highlights that government fiscal spending has not been fully effective in addressing economic inequality evenly. Increased fiscal spending tends to have a greater impact on high-income households, while the poorest households do not receive commensurate benefits. This situation has caused the income gap between the lower and middle classes to widen, ultimately exacerbating poverty (Garrido and Morales 2023). Therefore, this study recommends that fiscal policy focus on sectors that directly affect the poor, particularly through fairer and more inclusive mechanisms for distributing labor income.

Fiscal policy plays a very important role, especially in developing countries. Unfortunately, ineffective governance hinders the optimal use of the budget. In this case, government spending performance is greatly influenced by institutional quality and budget management. Countries with good fiscal management and strong institutions are generally more successful in reducing poverty levels through targeted government spending (James L Butkiewicz and Yanikkaya 2011). Therefore, it is not only the amount of spending that is important, but also how it is allocated and implemented.

CONCLUSION

This study attempts to answer a big question that still haunts this country: does government spending really have an impact on poverty reduction? By examining

data from 1993 to 2023 and using a simple linear regression method, the results clearly show that government spending does have a real and significant effect on reducing poverty levels in Indonesia. The numbers are also quite striking: every one-unit increase in government spending can reduce poverty rates. And this is not just a coincidence. It shows that this relationship is not just theoretical but also statistically valid.

This finding is in line with the Keynesian view that has long emphasized the importance of the state's role in driving the economy, especially when the community is in difficulty. When the government pours funds into important sectors such as education, health, and infrastructure, it is not just a matter of building buildings or purchasing equipment, but also a matter of creating hope: opening up job opportunities, increasing purchasing power, and giving the community the opportunity to live more decently.

The effectiveness of government spending depends heavily on how the budget is managed. If the budget is large in terms of numbers but weak in terms of oversight and implementation, the results could be negligible, or even add to the problem. This is where the importance of institutional quality and transparent, accountable budget management that favors those most in need comes into play. Therefore, it is not just about how much money is spent, but also where and for whom the money is directed. Ultimately, the success of poverty alleviation is not just about reducing numbers in statistics, but about bringing about real change in the daily lives of communities. One policy conclusion that may be drawn is the need to improve the efficiency of public budget allocation, especially in key areas such as basic infrastructure, health services, and education, which directly affects the welfare of the poor. The government must ensure that funds are targeted appropriately and that there is no leakage, in addition to increasing spending. To ensure that spending programs truly impact the lowest strata of society, fiscal and institutional governance must be strengthened. To ensure that poverty alleviation is not only temporary but also

capable of bringing about sustainable social change, the central and regional governments must also combine budgetary policies with community-based social programs.

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