Influence of capital expenditure and income original region to the income per capita in Indonesia

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Abstract. This study aims to determine the Capital Expenditure and Income Original Region is considered to have a significantly positive effect on the increase in income per capita in the Government of North Sumatera Province and West Java Province. The method of research in this thesis is by using a causal research design, with a sample of 25 districts/cities in North Sumatera Province and West Java Province. This study was conducted for the period 2012-2015. The type of data used is secondary data. The method of analysis used in this research is SEM method using software AMOS. The result of this hypothesis shows that simultaneously both independent variables significantly influence to increase of income per capita.

Keywords: capital expenditure, income original region, income per capita and Bayes parameter estimation method

1. Introduction
An increase in capital expenditure is expected to provide an opportunity. To increase economic growth to be greater. In addition, with the spread of capital expenditures that are not centered on the island of Java, is expected to provide equitable development in Indonesia. Thus, the increase and spread of capital expenditure allocations, not only can improve development equity but also improve Gini Ratio. The paradox between high economic growth with per capita and inter-regional income inequality becomes the biggest problem of the national economy in the next 5 years. Gini ratios that reflect per capita inequality gap increase from year to year. Similarly, the Williamson index that reflects regional inequality remains high. The leap in economic structure is a major cause of unfortunately, jumping from the primary to the tertiary sectors [16]. The Indonesian economy has never entered the industrial phase and for the past 29 years has been in the preindustrial phase with high disparities. Inequality also occurs because the allocation of central government capital expenditure is too focused on Java, where approximately 80% of APBN capital expenditure allocation is allocated in Java and Sumatra, while the rest for eastern Indonesia. Whereas during this time, government spending acts as prime mover of national economy. This condition is exacerbated by the expenditure of local governments allocated more for personnel expenditures, including unproductive service trips. Many regions have less than 10% of their capital expenditure spending. Based on the spatial disequilibrium approach, central government transfers in the form of DAK and DAU flow back to economic centers in Java. This, coupled with the emergence of the brain drain migration phenomenon caused by the sluggish development of industri outside Java. This phenomenon is
characterized by the shift of skilled labor from outside Java to Java. Though they are educated using taxpayer funds outside Java. Not only that, the central government has so far embraced the wrong doctrine in infrastructure development, namely infrastructure follow people. This doctrine should shift to people follow infrastructure. The government is expected to build infrastructure outside Java which will be followed by industry shifts. Meanwhile, the allocation of national banking credit driven by state-owned banks is also highly concentrated in Java, Bali and Sumatra. Of the approximately Rp. 3,516 trillion of national banking credit per July 2014, approximately 85% equivalent to 3,005 trillion is channeled in Java, Bali and Sumatra while the remaining 15% or around Rp. 511 trillion to KTI. Based on the above trends, there is no other choice in overcoming the problem of growth inequality in addition to focus on the acceleration of industrialization, especially labor-intensive industries outside Java. The goal is to reduce the inequality of national output distribution which currently is 82.67% in Java, Bali and Sumatra, while the remaining 17.36% in KTI is actually rich in natural resources (SDA). The paradox of high economic growth is greater than 8.0% in some areas outside Java followed by high gini ratio due to the economic structure that is too dependent on the agricultural sector and trade in non-processing commodities. Farmer exchange rates that reflect the comparison between income and purchases are very low. Areas such as East Kalimantan, South Kalimantan, Papua and West Papua depend heavily on the capital-intensive mining sector with limited labor demand. The demand for labor is inconsistent with the availability of local workers whose majority of education is only junior secondary school. In addition, the source of financing of industrial development outside Java is also very minimal which can only be solved by changing the funding base from APBN based to bank based. This can be done by changing the business doctrine of state-owned banks from bank follow business to business follow bank. However, the above reform package will not work without the availability of integrated infrastructure outside Java. Including balancing the development of industrial parks between Java and outside Java to 60% in Java-Sumatra and 40% in Eastern Indonesia from 71 industrial estates in Java and Sumatra and three in Sulawesi and Kalimantan. This can be observed in the national economic growth rate of about 5.5% in the last 10 years followed by a gini ratio which increased to 0.329 in 2002 to 0.413 in 2013. Meanwhile, the Williamson index which shows the regional inequality is also high, that is 0.486 In 2005 and 0.420 in 2011, where the gini ratio and the Williamson index close to one mean very lame [12]. This condition has been warned by two economists, Kuznets (1955) and Williamson (1965) that the state at preindustrial stage experienced high per capita income growth followed by wider inequality. Trends like the above will stop when the country enters the industrial phase [12]. High economic growth along with imbalances in preindustrial countries such as Indonesia can only be overcome by accelerating the process of structural transformation into a manufacturing-based economy. Not only that, the structural transformation will bring Indonesia immediately out of the middle income trap with per capita income rising to US $ 7,250 per year by 2019 and greater by US $ 12,250 by 2030 [12]. To realize an increasing economic development Evenly, the main issue faced is not merely the quality of expenditure absorption country. Equity of economic development also relates to the size of the budget Allocated for physical development. What it means is a big budget absorption however Only dominated for subsidized and employee spending. The most important is how Enlarge the portion of productive capital spending that will have a direct impact on economy. And of course the portion of capital expenditures that productive give effect Equitable for economic growth [16].

To overcome the problem of fiscal imbalances and the existence of substantial regional funding needs, the government provides the balancing fund and one of the components of this fund that gives the largest contribution is the General Allocation Fund. This shows the high dependence of local governments on the funding supply from the central government. Nevertheless, in the long run, this kind of dependence must become smaller. Various investments made by local governments are expected to provide positive results as reflected [19].
This indicator simultaneously indicates whether the economic growth that occurs can improve welfare in line with the increasing rate of population growth. Variable Population in North Sumatera shows the number of population in a region in North Sumatra. From the sample obtained it is known that in general the average number of population in 2005-2012 was 475,995 people, with the highest population in Medan city as many as 2,121,053 people and the lowest amount of 34,542 people in Pakpak Bharat Regency. Standard deviation deviation from the average of 475,995 inhabitants. Local Original Revenue which is regional income derived from Regional Tax, Regional Retribution, Other legitimate regional wealth and other regional income. Data shown that the average PAD of Rp.46.9 Billion with the highest value Rp.1.42 Trillion and the lowest Rp.156 Million Rupiah. Income per Capita is the result of Total PDRB divided by population. The average per capita income earned is Rp.12,875,833 per year. The highest per capita income is Rp.49,886,522 per year and the lowest is Rp.3,142,591 per year.

2. Methods
The data used in this research is secondary data of time series on the reports of budget realization in the districts/cities of North Sumatra province and West Java Province which obtained from the Central Statistics Agency (BPS) for fiscal year 2012-2015. Data analysis techniques in this study using Structural Equation Model Analysis (SEM). SEM allows able to answer the research that is regressive and dimensional and also be used simultaneously to measure the effect or the degree of relationship among the factors where its dimensions have been identified [1], [3], [4] & [6]. The hypotheses were tested using Structural Equation Modeling with AMOS software. The equation is formed as follows:

\[ Y = \alpha + b_1X_1 + b_2X_2 + e \]  

Where:
- \( Y \): Income per Capita
- \( X_1 \): Capital Expenditure
- \( X_2 \): Income Original Region
- \( b_1, b_2 \): Regression coefficient
- \( \alpha \): Constant
- \( e \): Error
3. Result and Discussion

3.1. Result

3.1.1. Measurement Model. The measurement model links between latent variables with manifest variables as follows:

![Figure 1. Full Model.]

3.1.2. Evaluation of Regression Weight for Causality Test. The processing of data with analysis structural equation model using the AMOS tool obtained the results of the analysis on the relationship between variables as listed in the following table:

|                | Estimate | S.E.  | C.R.  | P    | Label |
|----------------|----------|-------|-------|------|-------|
| IPC_Y <- CE_X1 | 0.000    | 0.000 | 7.195 | ***  | par_1 |
| IPC_Y <- PAD_X2| 30,937   | 2,502 | 12,367| ***  | par_2 |

Sources: Data process (2017).

An evaluation of regression weight for causality is using the value of CR. The test results show that all the regression coefficients are significantly different from zero [19] & [20]. therefore the null hypothesis that the regression weight is equal to zero is rejected, and accept the alternative hypothesis that each indicator has a causal relationship which means that the model can be accepted.

- Capital Expenditure (X₁) significantly affects to the income per capita (Y) with the value of the critical ratio is 7.195;
- Income Original Region (X₂) insignificantly influences to the income per capita (Y) with the value of the critical ratio is 12.367.

The strength of the dimensions that make up the latent factors can be tested using the Critical Ratio of the regression weight generated by the model [2] & [5].
3.2. Discussion
The rate of economic growth has become one of the important goals of local government and central government. Efforts to increase local revenue will not have an impact if not accompanied by an increase in regional economic growth. Economic growth is often measured by using gross domestic growth, but this indicator is considered not always appropriate because it does not reflect the true meaning of growth. Another indicator of per capita income can be used to measure economic growth. The traditional theory of public finance is a major role in fiscal decentralization. The four basic elements of regional governments using regional income sources. First, regional government provides better public services; second, regional government provides public service delivery in accordance with the needs of the community; third, regional government uses the budget to provide an efficient service delivery; and fourth, decentralization can encourage innovation to public policy [7] & [8]. The fiscal decentralization is the transfer of power from central government to regional governments which have special functions, administrative authority and fiscal income [11]. This indicator is more comprehensive in measuring economic growth because it emphasizes on the ability of countries/regions to increase the GDP to exceed the population growth rate [9]. Local government management in Indonesia is entering a new era in line with the enactment of fiscal decentralization. The related policies contained in [14] on Fiscal Balance between Central and Regional Governments was effective in January 2001 (this Act was amended in its development by the issuance of [13] and [14]. The enactment of this law provides an opportunity for the region to explore local potential and improve its financial performance in order to realize regional self-reliance.

Capital expenditures are allocated to generate local government fixed assets in accordance with the needs of local governments and/or communities in the regions concerned [10]. In the perspective of participative budgeting, community involvement is expected to provide important inputs in selecting fixed assets to be obtained from the implementation of the capital expenditure budget. Provision of public facilities in accordance with public needs is the main purpose of capital expenditure [17].

4. Conclusions
Based on the data analysis the following conclusions can be drawn from this research:

- Capital Expenditure significantly affects to the income per capita in the Government of North Sumatera Province and West Java Province.
- Income Original Region significantly affect to the income per capita in the Government of North Sumatera Province and West Java Province.

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