

# The Influence Of Regional Expenditures, Investment, Unemployment And Poverty Levels On Economic Growth In Regencies/Cities Of North Sumatra Province

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## Abstract

*The purpose of this study is to: 1) Analyze the effect of regional spending on economic growth in the Regency/City of North Sumatra Province whether it has a significant positive effect partially. 2) Analyzing the effect of investment on the economic growth of the Regency/City of North Sumatra Province whether it has a significant positive effect partially. And 3) Analyzing the effect of unemployment on the economic growth of the Regency/City of North Sumatra Province whether it has a significant negative effect partially. The method used is the panel data regression method. The results in this study are that Regional Expenditures have a positive and significant effect on the economic growth of districts/cities of North Sumatra Province; Investment has a positive and insignificant effect on the economic growth of districts/cities of North Sumatra Province; Unemployment and poverty rates have a negative and insignificant effect on the economic growth of districts/cities of North Sumatra Province; and Regional spending, investment, unemployment and poverty levels simultaneously have a significant effect on the economic growth of districts/cities of North Sumatra Province.*

**Keywords:** Regional spending, investment, unemployment, poverty rate, economic growth

## I. INTRODUCTION

High economic growth and its continuous process are the main conditions for the continuity of regional economic development, because the population has increased and this means that economic needs will also increase. The economic growth achieved by the Regency/City of North Sumatra Province in 2020 has decreased and some have shown negative growth such as Mandailing Natal Regency, Central Tapanuli Regency, Toba Regency, Dairi Regency, Karo Regency, Deli Serdang Regency, Langkat Regency, Humbang Hasundutan Regency, Pakpak Bharat Regency, Samosir Regency, Serdang Bedagai Regency, Batubara Regency, Sibolga City, Tanjungbalai City, Pematang Siantar City, Tebing Tinggi City, Medan City, Binjai City and Padangsidempuan City [5]. The financing for district/city development in North Sumatra Province comes from the Regional Revenue and Expenditure Budget (APBD), which is an important variable reflecting the ability of the region to develop. The sources of this APBD funding include Regional Original Income (PAD), Balancing Funds and other legitimate Regional Revenues. The Medan City APBD is used to finance development through regional expenditures [5]. The regencies/municipalities that always experience an increase in regional spending are Gunung Sitoli Regency/City, Padang Sidempuan, West Nias Regency, North Nias, South Labuhanbatu, Humbang Hasundutan, Samosir, North Padang Lawas, Batu Bara, South Nias, Deli Serdang, Dairi, Simalungun, Labuhan Batu, Toba Samosir, Central Tapanuli, South Tapanuli, and Mandailing Natal. Regencies/cities that have fluctuating regional budgets from 2018-2020 are Binjai, Pematang Siantar, Tanjung Balai, Sibolga, Medan, Labuhan Batu Utara, Padang Lawas, Serdang Bedagai, Pakpak Bharat, Langkat, Karo, Asahan, and Nias. Regional spending from 2018 to 2019 has decreased, as well as in 2020 [4].

Overall nominal regional spending from 2018 to 2020 continued to increase, in 2019 regional spending increased along with increasing economic growth, but in 2020 when regional spending increased, economic growth declined to a negative value. North Sumatra Province is one of the provinces that has a lot of resources, both natural resources and human resources. This has become one of the attractions for investors to invest in various fields, especially the economic sector. The development of investment in North Sumatra Province can be seen from 2018 to 2020, there was an increase in realized projects from 356 projects in 2018 to 1,243 projects in 2019, in 2020 project realization increased by 2,977 projects to 4,220 project realizations. When viewed according to the investment value, the investment position in North

Sumatra Province from 2018 to 2020 fluctuated. The realized value of investment in North Sumatra Province in 2018 was Rp. 8,371,820,300,000,-. In 2019, the investment value increased by Rp11,377,174,600,000, accompanied by an increase in the number of project realizations. Investment realization in 2020 decreased by Rp. 1,559,466,500,000,- when project realization increased [3]. The problem of unemployment is indeed very complex to discuss and is an important issue, because it can be linked to several indicators. Economic indicators that affect the unemployment rate include the country's economic growth, inflation rate, poverty, and prevailing wages. In 2018 to 2019 there was a decrease in the number of unemployed and the number of people in the poor category when there was economic growth of 5.22 percent. If we look again in 2020, there will be a decline in economic growth of -1.07 percent along with an increase in the number of unemployed as many as 125,367 people and an increase in the number of poor people as much as 1,260 people. The decrease in the number of workers, which is marked by an increase in the number of unemployed and the number of poor people, has an impact on a decline in.

## II. RESEARCH METHOD

This research according to the type of data and analysis can be grouped into quantitative data. Analysis of research data was carried out with the help of the Eviews data processing program [10]. The research population in this study were all regencies/cities in North Sumatra Province, amounting to 33 regencies/cities. The research hypotheses were tested using panel data regression method. Panel data which is a combination of time series and cross section data makes the panel data regression method unable to be studied with one general model, there are three panel data research models, namely Fixed Effect Model, Random Effect Model, and Common Effect Model. The selection of the analytical model must go through several tests. The following tests were carried out: Chow test, Hausman test, and Langrangge multiplier test [11].

## III. RESEARCH RESULTS

### **The Effect of Regional Expenditures on Economic Growth in Districts/Cities of North Sumatra Province**

The regional expenditure variable has a positive and significant effect on the economic growth of the district/city of North Sumatra Province. The new economic growth theory says that capital accumulation is the main source of economic growth. Keynes in his theory says that government spending will have an impact on the domestic economy, as well as if the government increases its spending on project procurement, this will positively affect a country's economy [2]. To optimize and manage Regional Expenditures which have an impact on economic growth and subsequently have an impact on suppressing the unemployment rate and reducing poverty, it is necessary to manage budget allocations as one of the revenue management strategies. This budget allocation strategy can encourage and accelerate economic growth as well as a tool to reduce regional disparities/inequalities.

### **The Effect of Investment on Economic Growth of Districts/Cities of North Sumatra Province**

The investment variable has a positive and insignificant effect on the economic growth of districts/cities in North Sumatra Province. The importance of investment in efforts to increase production output which will ultimately lead to increased economic growth. The use of investment can be allocated for the purchase of machinery and production equipment, the purchase of buildings to be occupied or leased, as well as the use of investment to provide raw materials or semi-finished goods to be reprocessed into finished goods [6] [8]. The use of investment funds must be carefully planned so that there is no misplacement of investment funds. It is also intended to make optimal use of investment. The magnitude of the role of investment in the economy has also been explained by several theories of economic growth such as Harrod-Domar, Solow, Rostow (by investing in public goods by the government).

### **Pengaruh Pengangguran terhadap Pertumbuhan Ekonomi Kabupaten/Kota Provinsi Sumatera Utara**

The unemployment variable has a negative and insignificant effect on the economic growth of the districts/cities of North Sumatra Province. One of the reasons why unemployment always appears is that

there are still many job seekers. Job search is a person's process of matching workers with jobs that match their talents and skills. However, if all workers and jobs are no different, then it is possible for workers that they are suitable for any job, but in reality, each person's talents and abilities are different [7]. Unemployment is a workforce that is actively looking for work but has not yet found one. The number and rate of unemployment will have an impact on the economic growth of a region in a certain period. The number of unemployed shows the number of unemployed people and the unemployment rate which shows the percentage of unemployment will show how many people are unemployed or do not have permanent jobs. The thing that is very concerned about unemployment is not the number of unemployment figures themselves but how big the percentage of unemployment is from the total workforce. A high unemployment rate will negatively affect economic growth because economic growth will decline along with high unemployment in a region. This is because unemployment will directly impact the less prosperous society in line with the poverty level (reduced community income).

#### **The Influence of Poverty Level on Economic Growth in Regency/City of North Sumatra Province**

The poverty rate variable has a negative and insignificant effect on economic growth. The poverty rate is basically the inability of the population to meet a certain standard of living. The measure of poverty that is widely used in developing countries is absolute poverty which compares household income or expenditure with the poverty line. The line is based on the minimum expenditure or income to obtain: (i) the amount of food to meet certain caloric needs; and (ii) minimum non-food expenses for a decent living [1]. From the economic aspect, poverty is the gap between weak purchasing power (positive) and the desire to fulfill basic needs (normative). From the political aspect, poverty is related to the low level of community independence. social aspect, from the aspect of poverty indicates a low potential for community development [9].

#### **IV. CONCLUSION**

Regional Expenditures have a positive and significant impact on the economic growth of districts/cities of North Sumatra Province; Investment has a positive and insignificant effect on the economic growth of districts/cities of North Sumatra Province; Unemployment and poverty rates have a negative and insignificant effect on the economic growth of districts/cities of North Sumatra Province; and Regional spending, investment, unemployment and poverty levels simultaneously have a significant effect on the economic growth of districts/cities of North Sumatra Province.

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