

DEMOCRACY AND GOVERNMENT SPENDING : IS THERE A LINK?

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ABSTRACT

Government spending is included in the fiscal policy component, namely the steps taken by the government to control economic development by determining the amount of government income and spending each year. This research aims to assess the influence of Democracy, PAD, Balancing Funds and GRDP on government spending in Indonesia in 2017-2021. The data type used is secondary data from the Central Statistics Agency and the Indonesian Ministry of Finance. The analytical method used in this research is panel data regression analysis with Eviews 12 software. The results of this research find that Democracy has no impact on the allocation of government spending. In contrast, PAD, Balancing Funds and GRDP positively and significantly affect government spending in Indonesia.

Keywords : Government spending; IDI; PAD; Balancing Fund; GRDP

ABSTRACT

Pengeluaran pemerintah termasuk dalam komponen kebijakan fiskal, yaitu langkah yang dilakukan pemerintah untuk mengendalikan pembangunan ekonomi dengan menentukan besarnya pendapatan dan pengeluaran pemerintah setiap tahunnya. Penelitian ini bertujuan untuk mengetahui pengaruh Demokrasi, PAD, Dana Perimbangan dan PDRB terhadap belanja pemerintah di Indonesia tahun 2017-2021. Jenis data yang digunakan adalah data sekunder yang diambil dari Badan Pusat Statistik dan Kementerian Keuangan RI. Metode analisis yang digunakan dalam penelitian ini adalah analisis regresi data panel dengan software Eviews 12. Hasil dari penelitian ini adalah IDI berpengaruh negatif dan tidak signifikan terhadap belanja pemerintah, sedangkan PAD, Dana Perimbangan dan PDRB berpengaruh positif dan signifikan terhadap belanja pemerintah di Indonesia tahun 2017-2021.

Kata Kunci : Belanja Pemerintah; IDI; PAD; Dana Perimbangan; PDRB

INTRODUCTION

Fiscal policy is a form of government power to encourage strong and sustainable economic growth and reduce poverty through government spending and tax instruments. Role Government spending on the economy of a country and region is so important several studies strengthen this argument. (Rambe & Febriani, 2020) found that district/city government spending on the island of Sumatra of 1 percent was able to drive regional economic growth of 0.33 percent. In terms of reducing poverty, increasing the spending activities of 33 provincial governments in Indonesia by 1

percent reduced the poverty rate by 0.08 percent (Florennica & Febriani, 2023). Thus, it cannot be denied that fiscal policy, especially government spending, is an important issue for economics and politics. It is because the scope and composition of government spending are determined annually in official documents, namely the APBN at the national level and the APBD at the regional level and are discussed with the legislative body. The involvement of legislative institutions in determining government spending means that the democratic system plays a role in it.

Government spending in each province in Indonesia varies. Still, there is a tendency to increase spending capacity every year, especially in eastern regions such as North Maluku, West Papua and Papua (Figure 1). The largest amount of government spending is in the Java island region. Apart from the population being concentrated on the island of Java, this is also related to the vote base of political parties. Indonesia, with a democratic political system, has greater government spending compared to autocratic countries. Voters demand increased spending to produce public goods and redistribute income.

The World Democracy Index report from the *Economist Intelligence Unit* (EIU) emphasized that Indonesian Democracy is still classified as "flawed" in 2021, even though it has improved 12 places from the previous year and is ranked 52nd out of 165 countries (monavia, 2022). However, Democracy is still a challenge in Indonesia. The EIU states that countries with imperfect democratic systems usually have free and fair elections and respect basic civil rights. However, these countries' main problems are poor government performance, lack of press freedom, a political culture that tends to avoid criticism, and low political community participation. (Martin, 2003) found that government spending only affects countries with a high level of Democracy, and Democracy has a negative relationship with government spending. Increasing political participation in semi-democratic countries on economic growth can be considered as one form of negative impact of government spending.

The main components measured in Democracy are civil liberties, political rights and democratic institutions (BPS, 2020). According to the *Economist Intelligence Unit* (EIU), the democracy score in Indonesia on a scale (0-10) was 6.48 in 2019. However, due to the Covid-19 pandemic, the score fell to 6.30 in 2020. It shows that progress in Indonesia's Democracy can be influenced by social, economic and political conditions.

However, Indonesia experienced an increase compared to the decline in 2020, namely 6.71 in 2021. Globally, Indonesia is still in the category of *flawed Democracy*.

The results of the 2021 democracy measurement show that eight provinces in the quality category of democratic achievement are "good" with a score of more than 80, namely Aceh, Lampung, DKI Jakarta, Central Java, DI Yogyakarta, East Java, East Kalimantan and North Sulawesi. Meanwhile, 26 other provinces are in the "medium" category with scores between 60 and 80. However, the quality of Indonesian Democracy in 2021 has decreased compared to 2019. This decline in the quality of Democracy has also occurred worldwide in the last 15 years (Maulana, 2022).

The democratic crisis provides a comprehensive picture of the challenges faced by democracies worldwide; democracies have met the most serious situations with fundamental principles at issue (Washington, 2021). Free and fair elections, as well as the rights of minorities, are under threat because this crisis of democratic values can directly impact how the government allocates budget funds, especially in Indonesia. (Maulana, 2022) stated that this decline in the quality of Democracy shows that Indonesian Democracy has changed from an electoral Democracy to a "flawed" Democracy. This decline in the quality of Democracy can harm regional spending by reducing transparency, community participation, regional autonomy and accountability in regional budget management.

Meanwhile, the allocation of government spending is determined by the amount of revenue, such as Regional Original Income (PAD) and balancing funds, as well as the quality of the economy as measured by the level of GRDP. Regional Original Income (PAD) plays an important role in encouraging economic growth at the regional level and has a major influence on provincial government spending. PAD comes from tax revenues and regional levies and results from managing separately owned assets and other legitimate sources of regional income. An area is considered to have PAD capable of supporting development if the percentage of income achieved exceeds 70% of total PAD revenues (Carunia, 2018).

Based on (Kompas.id, 2023), three provinces, or around 8.82 percent of the total 34 provinces in Indonesia, have a ratio of Original Regional Income (PAD) to regional income below 20 percent. These provinces are West Papua (7.47 percent), Papua (13.84 percent), and Aceh (19.23 percent). It indicates that several regions in Indonesia still

have not reached the target ratio of PAD to regional income set by the government. Apart from that, the problem with PAD in several regions in Indonesia is that it experiences limitations in diversifying income sources. A region tends to rely on certain sectors, such as local taxes and levies, without maximizing the potential of other sources of income. Thus, several areas in Indonesia still depend on central government transfer funds or other external sources of income to finance government and development activities.

Balancing funds is a flow of funds provided by the government to regional governments to overcome financial imbalances and equalize fiscal capacity between regions, intending to support regional financial autonomy in carrying out their roles and responsibilities in providing services to the community. The financial balancing mechanism involves the transfer of funds from the central government to the regions, which incentivizes regional governments to support regional spending activities (Ferdiansyah et al., 2018). Balancing funds in the context of government spending is an important element in understanding how public finances operate at the regional level.

The Financial Balance Fund in Indonesia has increased from year to year. In 2017, the amount reached IDR 764.3 trillion and rose to IDR 1,055.6 trillion in 2021, according to data (Kemenkeu, 2021a). It shows the central government's commitment to allocating greater funds to regional governments to support regional development and provide community services. However, with the increase in balancing funds, regions in Indonesia are still dependent on the central government and are not yet under government policy, namely decentralization. Decentralization should allow regions to manage resources and make decisions independently without relying too much on the central government. If regions are still very dependent on balancing funds from the central government, then this shows that the level of decentralization has not been fully achieved.

Gross Regional Domestic Product (GRDP) is the total added value of all economic sectors in a particular region or area. In Indonesia, many regions still tend to depend on certain economic sectors to complete the majority of their regional GDP. Especially in regions with comparative advantages or abundant natural resources, sectors such as agriculture, mining and plantations can often dominate a region's GRDP. Dependence on certain sectors can bring economic risks to the region. If there is a

change in market conditions or other factors that influence the dominant sector, it can significantly impact the health of the regional economy.

Based on data from the Central Statistics Agency (BPS) in 2021, the highest GRDP was recorded on Java Island at IDR 9,814.99 trillion, while the lowest GRDP was in West Papua Province at around IDR 71 trillion. Several regions in Indonesia still have not fully optimized their regional Gross Regional Domestic Product (GRDP), which can affect regional spending. Various factors, including regional economic potential, level of infrastructure development, availability of natural resources, and regional government managerial capabilities, cause it. The relationship between Gross Regional Domestic Product (GRDP) and government spending is significant in understanding the economic dynamics of a region or province. Government spending can potentially influence GRDP because it can stimulate economic activity and contribute to the development process in the area (Arifin, 2009).

From the conditions described previously, by focusing on 34 provinces in Indonesia in the 2017-2021 period, this research aims to investigate the relationship between democracy and government spending and other control variables, namely, Regional Original Income (PAD), balancing funds, and GRDP.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

An agency relationship is an agreement or contract between a principal and an agent. In this relationship, the principal gives the agent the authority to make decisions on the principal's behalf. Agency theory can be applied to public sector organizations. Modern democracies are built on the relationship between principal and agent. The conflict of interest between the agent and the principal causes utility asymmetry. The preparation of the APBD begins with an agreement between the legislature and the executive regarding the general policy of the APBD and the budget ceiling, which will serve as a guideline for preparing the income and expenditure budget. The legislature is the principal, and the local government is the agent (Ivana, 2021).

Political Economy Theory

Political economy is a field that studies how political power helps solve a country's economic problems. (The relationship between economics and politics can be considered explanatory (explaining how the two are related) and normative

(determining how the relationship should be) (Maranda, 2019). Some current approaches to political economy: Market-centered approaches (market-oriented) and country-centered approaches (*state-oriented*) are two approaches to political economy that confront each other theoretically. According to the state-centred approach, the state has a specific goal to improve the welfare and prosperity of the nation. This method contrasts classical liberal political and economic theory and its successor, neoliberal. In this theory, the government's function is only limited to maintaining stability, which allows markets to operate optimally (Maranda, 2019).

Fiscal Policy in Government Expenditures

As (Hutagalung & Siahaan, 2020) explain, government spending is a fiscal policy component. It refers to the steps taken by the government to regulate economic activities by determining the amount of government revenues and expenditures each year, which are reflected in the APBN document at the national level and the APBD at the regional or regional level. This fiscal policy aims to maintain price stability, production levels and employment opportunities and stimulate economic growth.

Fiscal policy Refers to the steps taken by the government in regulating spending, taxation, and using other fiscal instruments to influence economic performance to maximize economic welfare (Nurhalimah, 2017). Fiscal policy is defined as the management of the government budget to influence the economy, including tax policies such as the imposition and collection of taxes, distribution of transfers, purchasing of goods and services by the government, as well as controlling deficits and spending budgets, which covers all levels of government (Nurhalimah, 2017).

Keynesianism theory, developed by economist John Maynard Keynes, highlights the important role of government spending in overcoming macroeconomic problems, especially during economic recession or depression. Keynesianism encourages using fiscal policy, such as reducing taxes or increasing public spending, to increase aggregate demand and improve economic conditions (Investopedia, 2022).

Democracy on Government Expenditures

(Rauta, 2016) states that a democratic state is a state that is run based on the wishes and agreement of the people, or from an organizational structure perspective, it is a state administration that is carried out by the people themselves or with the consent of the people because monitoring is in the hands of the people. Democracy in Indonesia

is closely related to the implementation of elections, which involve all Indonesian people in determining the head of state or regional heads. This is because, in democratic principles, decisions are in the hands of the people.

Research by (Novalia & Deviani, 2023) shows that Democracy positively affects the level of financial transparency in the Jambi regional government of Indonesia. (Balamatsias, 2018) shows that Democracy positively affects government spending. (Wana & Juniartika, 2021) show the results that Democracy has a positive effect on local government performance. (Martin, 2003) states that government spending only affects countries with a high level of Democracy, and Democracy has a negative relationship with government spending.

H1: Democracy has a significant positive effect on government spending in Indonesia.

Original Regional Income (PAD) against Government Expenditures

Original Regional Income (PAD) Refers to the income obtained by a region from sources such as regional taxes, regional levies, separate regional wealth management, and various other legitimate regional revenues. The aim is to provide financial independence to regions in the context of implementing regional autonomy as a manifestation of the principle of decentralization (Handayani, 2017).

Peacock and Wiseman's theory is a theory that explains the relationship between Original Regional Income (PAD) and government spending. This theory is based on the idea that government spending increases significantly in certain situations, such as during a war or economic crisis. Still, when things return to normal, government spending will remain high and will not return to previous levels. It is caused by political and bureaucratic interests in maintaining high expenditure levels.

The study by (Fatimah et al., 2020) shows that PAD results significantly affect regional spending. (Wulansari, 2015) shows that PAD results positively and significantly affect regional spending. (Ferdiansyah et al., 2018) show that PAD results do not significantly affect regional spending in East Kalimantan.

H2: Original Regional Income (PAD) positively and significantly affects government spending in Indonesia.

Balancing Funds for Government Expenditures

Government Regulation Number 55 of 2005 concerning the Balancing Fund explains that the purpose of the Balancing Fund is to regulate the financial balance

between the Central Government and Regional Governments. The Balancing Fund is divided into three main components: the General Allocation Fund, Special Allocation Fund, and Profit Sharing Fund from Natural Resources revenues and taxes. By implementing fiscal decentralization, the central government hopes that regions can be independent in managing their resources so they do not depend only on funds provided by the central government.

Research by (Fatimah et al., 2020) shows that the results of balanced funds influence regional spending. (Ferdiansyah et al., 2018) Show that the results of the balancing fund do not have a significant effect on regional spending. (Rahayu, 2023) shows that the results of balancing funds influence capital expenditure.

H3: Balancing Funds positively and significantly affect government spending in Indonesia.

GRDP is the amount of added value produced by all business units or the total value of goods and services by all regional economic units (Febdianti, 2017). GRDP also functions as a tool that helps various parties understand and manage the economy. Apart from that, this indicator can be used as a representation of the government's success in encouraging economic sectors.

Furthermore, (Nopitasari, 2017) shows that GRDP results do not affect capital expenditure. (Hermawan, 2017) shows that GRDP results significantly positively affect capital expenditure. On the other hand, (Sulistyo, 2016) show the results significantly positively affect regional spending.

H4: Gross Regional Domestic Product (GRDP) positively and significantly affects government spending.

RESEARCH METHODS

Method is a method of work that can be used to obtain something. While the research method can be interpreted as a work procedure in the research process, both in searching for data or disclosing existing phenomena (Zulkarnaen, W., et al., 2020:229).

Types and Methods of Data Collection

This type of research is quantitative research with an explanatory approach. The data source used is secondary. The secondary data used is panel data for 2017-2021 according to provinces in Indonesia, sourced from the Central Statistics Agency to obtain data on Democracy and GRDP for 34 provinces in Indonesia. Directorate

General of Financial Balance (DJPK) Ministry of Finance of the Republic of Indonesia to obtain data on the realization of government expenditure, PAD, and Balancing Fund.

Operational Definition of Variables

Dependent variable

The dependent variable in this research is government spending or regional spending in each province in Indonesia. Regional expenditure is the amount of money spent by regional governments to finance various activities and programs within the scope of administrative areas, such as infrastructure, health, education, security, etc. Regional spending is measured by collecting data on all expenditures made by regional governments in a period of time. It includes expenditures for employee salaries, development projects, social programs, and all other expenditures included in local government budgets. This data can be obtained from the DJPK report of the Indonesian Ministry of Finance in units of thousands.

Independent Variable

a) Democracy

Democracy is a system of government in which power is held by the people or citizens in general; this means that the people have the right to participate in political decision-making, either directly or through representatives they choose. Democracy is measured through the Indonesian Democracy Index (IDI), a measure or assessment that measures the extent to which a country fulfils democratic principles, such as civil liberties, political participation and protection of human rights. The Indonesian Democracy Index can be measured using a specific index developed by related organizations or institutions, such as the *Economist Intelligence Unit* (EIU) or *Freedom House*. IDI data for 2017-2020 uses the old method with three aspects (Civil Liberties Aspect, Political Rights Aspect, and Democratic Institutions Aspect) and in 2021 uses a new method, namely freedom (liberalization), equality (equality), and the capacity of democratic institutions. This data was obtained from the Central Statistics Agency (BPS) in percent units.

b) Regional Original Income (PAD)

PAD is a source of income from original regional revenues, including taxes and levies that the regional government manages. PAD can be measured by calculating total income from certain sources, such as regional taxes, regional levies, separate

regional wealth management, and other legal PADs. This data was obtained from the DJPK Ministry of Finance of the Republic of Indonesia in units of thousands.

c) Balancing Fund

Balancing funds are funds the central government allocates to regional governments to meet regional financial needs that PAD cannot meet. Balancing funds can be measured based on the amount of funds allocated by the central government to each regional government, including types of funds such as General Allocation Funds (DAU), Special Allocation Funds (DAK), and Profit Sharing Funds (DBH). This data was obtained from the DJPK Ministry of Finance of the Republic of Indonesia in units of thousands.

d) Gross Regional Domestic Product (GRDP)

Gross Regional Domestic Product (GRDP) at constant prices is the total value of production of all goods and services in a region or country in a certain period, using constant prices in a specified base year. ADHK GRDP is measured by collecting economic data related to certain regions. Furthermore, the production value of various economic sectors is calculated based on constant prices in the established base year. This data was obtained from the Central Statistics Agency (BPS) in units of thousands.

Analysis Method

This research uses a panel data regression method, namely a combination of data consisting of measurements within a certain period (*time series*) and data collection at a particular point in time from various units or regions (*cross-section*), in line with the methodology presented by (Wicaksana et al., 2018). The research model equation is written as follows:

$$\text{LnGS}_{it} = \alpha + \beta_1 \text{LnDI}_{it} + \beta_2 \text{LnPAD}_{it} + \beta_3 \text{LnDP}_{it} + \beta_4 \text{LnGRDP}_{it} + e_{it}$$

Information

GS	= Government Expenditures
α	= Constant
b(1,2,3,4)	= Regression Coefficient
Ln	= Natural Logarithm
DI	= Indonesian Democracy
PAD	= Regional Original Income
DP	= Balancing Fund
GRDP	= Gross Regional Domestic Product
e	= <i>Error term</i>

i = 34 Provinces in Indonesia
t = Research Time Range

RESEARCH RESULTS AND DISCUSSION

Calculations were made using the panel data regression method to process this data. This step involves econometric and statistical testing that must be done. On the approach *Least Squares (OLS)*, two types of tests must be fulfilled: the multicollinearity test and the heteroscedasticity test. However, in this context, an autocorrelation test is also carried out to determine whether there are confounding errors in a certain period related to errors in the previous period in the regression model. Furthermore, three models can be applied in calculating panel data regression, namely *Common Effect Model (CEM)*, *Fixed Effect Model (FEM)*, dan *Random Effect Model (REM)*. Selection of the best model is very important for analyzing the results of panel data regression. This research also involves additional statistical tests, including coefficient of determination tests, simultaneous significance tests, and partial significance tests. All these steps aim to ensure the validity and correct interpretation of the analysis results.

Classic Assumption Test Results

Based on the (table 1) above, it can be seen that the results of the multicollinearity test show that the Centered Variance Inflation Factor value is below 10, which indicates that multicollinearity does not occur. Furthermore, the results of the heteroscedasticity test obtained a chi-square probability value of 0.4143, which was greater than the significance level of 0.05, indicating no heteroscedasticity in the data. The last test is the autocorrelation test. The results of this test show that the dw stat value is 1.362, indicating that the value is more than one and less than 3, which indicates no autocorrelation. From these three tests, it can be concluded that the classical assumption test has been fulfilled and can proceed to the model selection test.

Model Selection Results

Based on (table 2) the model selection results, the Chow test shows a probability of 0.000, which is smaller than the significance level of 0.05. It indicates that the FEM model is superior to the CEM model. Furthermore, in the Hausman test, a probability of 0.000 was obtained, smaller than the significance level of 0.05, which indicates that the FEM model is superior to REM. Finally, the Lagrange Multiplier test gives a probability

of 0.000, smaller than the significance level of 0.05. This implies that the REM model is superior to the CEM. Considering the results of these three tests, it can be concluded that the FEM model is the best.

Hypothesis Test Results

After testing the assumptions and suitability of the model, results were obtained which showed that the most suitable model was the Fixed Effect Model (FEM). The FEM model describes variations between individuals that can be accommodated through differences in the intercept. The technique applied to estimate the FEM model is using dummy variables. The following are the results of calculations using the FEM model in panel data regression analysis which can be seen in table 3.

The coefficient value that can be seen in the democracy variable is -0.001, indicating that when IDI increases by 1 percent, this can increase government spending by 0.001. The coefficient value that can be seen in the PAD variable is 6.09, indicating that when PAD increases by 1 percent, this can increase government spending by 6.09. The coefficient value that can be seen in the DP variable is 0.105, indicating that when the DP value increases by 1 percent, this can reduce government spending by 0.105. The coefficient value that can be seen in the GRDP variable is 0.57, indicating that when GRDP increases by 1 percent, this can increase government spending by 0.57. The constant value of 11.52 indicates that when the independent variable is equal to zero, the value of government spending is 11.52.

The results of statistical test analysis show that the probability value (f-statistic) is 0.0000, with a p-value of 0.0000, which is smaller than the significance level α (0.05). Therefore, these results indicate that the null hypothesis (H_0) is rejected, and the alternative hypothesis (H_1) is accepted based on a p-value that is smaller than α . From these results, it can be concluded that at a significance level of 5%, the model that has been formed can be considered good.

The ability to explain the coefficient of determination is to show the extent of the contribution of the dependent variable in explaining variations in the dependent variable. The coefficient of determination obtained is 0.989283, which indicates that the model that has been developed can explain 98.92% of the variation in the dependent variable, namely government spending in 34 provinces in Indonesia in the 2017-2021

period. The remaining 1.08% is an explanation that can come from other variables outside the model.

Based on the F-test results, it was found that the F-statistic value was 329.3277, while the F-table value was 2.43. The calculations show that the F-statistic (329.3277) is significantly greater than the F-table (2.43) at the 5% significance level. It indicates that, simultaneously, there is a significant relationship between the independent and dependent variables.

It can be seen that the t-table value is 1.9740. If we compare it with the t-statistic value for the democracy variable, namely -0.7497, then we get the t-statistic (0.7497) > t-table (1.9740). Furthermore, the probability value is (0.4547) > α (0.05) with a negative coefficient, namely -0.0018. These results indicate no significant influence of the democracy variable (DI) on government spending. Besides that, the PAD variable's t-statistic value is 4.9955, greater than the t-table (1.9740). The probability value (0.0000) < α (0.05) with a positive coefficient is 6.09E. This shows that the PAD variable has a significant positive influence on government spending.

Meanwhile, for the DP variable, the t-statistic value is 2.0514, exceeding the t-table (1.9740). The probability value (0.0422) < α (0.05) with a positive coefficient is 0.1056. From these results, it can be concluded that the DP variable significantly influences government spending. Furthermore, the GRDP variable's t-statistic value is 3.7735, which also exceeds the t-table (1.9740). The probability value of GRDP is (0.0002) < α (0.05) with a positive coefficient of 0.5741. This shows that the GRDP variable has a significant positive influence on government spending.

The Effect of Democracy on Government Expenditures

The estimation results show that Democracy has no significant effect on government spending. Democracy is not significant due to several factors, one of which is stable economic priorities and policies. In 2017-2021, Indonesia still had a relatively poor quality of Democracy, but the government has economic priorities and policies that have been well-established and stable. The government allocates funds and resources for specific economic goals, such as economic growth, poverty reduction, or infrastructure investment. This may cause government spending policies to remain focused on specific economic goals regardless of fluctuations in the quality of Democracy. The decline in the quality of Democracy occurs simultaneously with

external factors such as the global economic crisis or changes in world market conditions such as COVID-19. These external factors can limit the scope of political decisions regarding government spending. Bad economic conditions or a crisis can decrease state revenues, such as taxes and other revenues. This may require the government to consider reducing spending to maintain fiscal balance.

Democracy, which does not affect government spending, can be annulled due to the long process of determining the budget so that the relationship is not direct in a short time, especially when compared with fiscal policy. As stated in Keynesian theory, the instrument of economic control through fiscal policy has a more significant influence on government spending than the form of government or political system. Furthermore, (Martin, 2003) stated that Democracy will impact government spending only in countries with a high level of Democracy. In contrast, Indonesia is still classified as a "flawed" democracy, and Democracy has a negative relationship with government spending, increasing political participation in other countries. Semi-democratic countries on economic growth can be considered a form of negative impact of government spending because it can give rise to unstable political conditions and policies, which can affect economic growth. So the first hypothesis, Democracy has a negative effect, is rejected.

The Influence of PAD on Government Expenditures

Partial test results show that Regional Original Income (PAD) positively and significantly influences government spending. This positive influence is caused by increased Original Regional Income (PAD), which means increased financial resources available to local governments. By increasing local financial resources, local governments have a greater capacity to finance programs and projects to improve community welfare. Several regions in Indonesia still depend on transfer funds from the central government or other external sources of income to finance their government activities.

Thus, increasing PAD can strengthen financial independence and provide more space for regions to plan and implement priority policies independently. Also, sufficient PAD allows local governments to improve public services such as education, health, security, and cleanliness, creating a better environment for residents and local businesses. With high PAD, local governments can reduce their dependence on transfer

funds from the central government, providing greater financial autonomy and allowing local governments to take development initiatives on their own. Therefore, it can be concluded that government spending will increase along with the growth of Original Regional Income.

This research aligns with previous research by (Fatimah et al., 2020) which shows that PAD results significantly affect regional spending, meaning that the greater the local original income, the more government spending on regional spending will also increase. On the other hand, if local original income decreases, then government spending on regional spending will also decrease. (Wulansari, 2015) shows that PAD results positively and significantly affect regional spending. An increase in local income influences government spending at the regional level. With increased PAD, the government has more resources to support development and public programs. These findings strengthen the belief that PAD is important in supporting regional fiscal policy and can be considered an important consideration in regional government budget planning. So, the second hypothesis of Regional Original Income (PAD) on government spending is accepted.

The Effect of Balancing Funds on Government Expenditures

The test results show that the Balancing Fund positively and significantly impacts government spending. This positive influence emerged due to an increase in the Balancing Funds received by regional governments, which in turn played a role in increasing the availability of financial resources for regional governments to support the implementation of various government activities and programs at the regional level. The Balancing Fund, which is the main funding source, allows local governments to finance infrastructure projects, optimize public services, and stimulate various local development initiatives. The Balancing Fund also enables the implementation of various economic initiative programs at the local level, supporting economic growth in underdeveloped areas. These efforts can include training programs, small business development, and incentives stimulating investment in certain areas. Carefully managed Balancing Funds create an environment that supports investment at the regional level, generating positive perceptions for businesses and investors who see that regional governments have sufficient financial capacity to support economic growth. Therefore, it can be concluded that the Balancing Fund positively influences government spending.

This research aligns with previous research by (Fatimah et al., 2020), which shows that the results of balanced funds influence regional spending. The significant impact of balancing funds on regional spending shows that the Ogan Ilir Regency is still very dependent on the allocation of balancing funds from the central government to carry out its regional spending. (Rahayu, 2023) shows that the results of balancing funds affect capital expenditure. This study has proven that balancing funds is vital in supporting investment and infrastructure development at the regional level. These results prove that balanced fund allocation policies are key to encouraging economic growth and regional development. So, the third hypothesis that balancing funds has a positive and significant effect is accepted.

The Influence of GRDP on Government Expenditures

Partial test results show that GRDP positively and significantly influences government spending. The positive correlation between a region's GDP level and the availability of economic resources can explain this positive influence. With a high GDP, the potential economic resources available to local governments also increase. It indicates that strong economic growth can significantly contribute to increasing funds that can be used to finance strategic projects, expand public services, and support various development initiatives.

In addition, high GDP has the potential to attract investment from the private sector and encourage local business growth. This investment has the potential to create new jobs, increase productivity, and, ultimately, increase local government tax revenues. With sufficient financial resources, local governments can implement long-term strategic projects such as building key infrastructure, developing industrial areas, or urban revitalization programs. High GDP also allows local governments to reduce their dependence on transfer funds from the central government. It provides greater financial autonomy and allows local governments to take their development initiatives in line with local needs and priorities. Therefore, it can be concluded that high GRDP does have the potential to have a positive and significant impact on government spending, especially in the context of development and community services.

This result aligns with research by (Hermawan, 2017), which shows that GRDP results significantly positively affect capital expenditure. These results show that when a region's GRDP increases, the government tends to increase budget allocations for

investment in infrastructure development and other important projects. These results are an important contribution to understanding the link between regional economic growth and local government expenditure policies. (Sulistyo, 2016) show that GRDP results significantly positively affect regional spending. These results strengthen the evidence that GRDP plays an important role in determining the level of regional government expenditure. And it can show that these policy-related variables can significantly influence regional budget and expenditure policies. Thus, the fourth hypothesis that GRDP positively and significantly affects government spending is accepted.

CONCLUSION

Based on the analysis and discussion above. So, the conclusion obtained is that the test results show that Democracy does not significantly influence government spending. This is due to several factors, including stable economic priorities and policies. Even though the quality of Democracy in Indonesia was still relatively poor during this period, the government still had stable national development priorities. External factors such as the global economic crisis or the COVID-19 pandemic can also limit political decisions regarding government spending. This research also shows that Regional Original Income (PAD) positively and significantly influences government spending. An increase in PAD means increasing the financial resources available to local governments. With sufficient financial resources, local governments can improve the quality of public services and finance strategic projects to improve community welfare.

The analysis results show that the Balancing Fund positively and significantly impacts government spending. Increased Balancing Funds provide local governments with more financial resources to support various government programs and projects at the regional level. Research also shows that Gross Regional Domestic Product (GRDP) positively and significantly influences government spending. High GDP indicates greater availability of economic resources for local governments. This allows local governments to finance strategic projects and expand public services. Therefore, the results of this research provide valuable insight into the factors that influence government spending in Indonesia in the 2017-2021 period.

This research has limitations; the democracy variable only uses the Indonesian Democracy Index. Future researchers can use the Political Participation Index to measure

a country's political participation level. Freedom House index, namely assessing the level of freedom and Democracy in a country by considering aspects such as (political freedom, civil rights, and political groupings), can also use the Index variable Good Governance to evaluate government efficiency and effectiveness, transparency and accountability.

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GAMBAR DAN TABEL

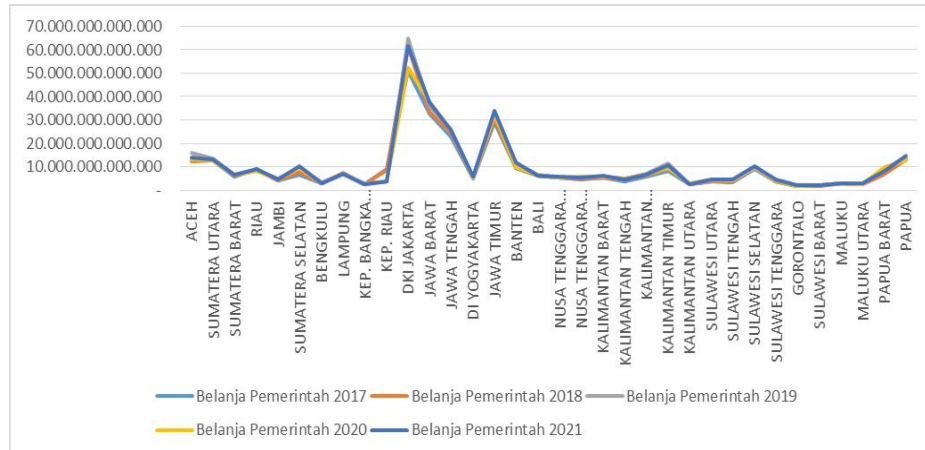


Figure 1. Government Spending
Source: djpk.kemenkeu.go.id (2017-2021)

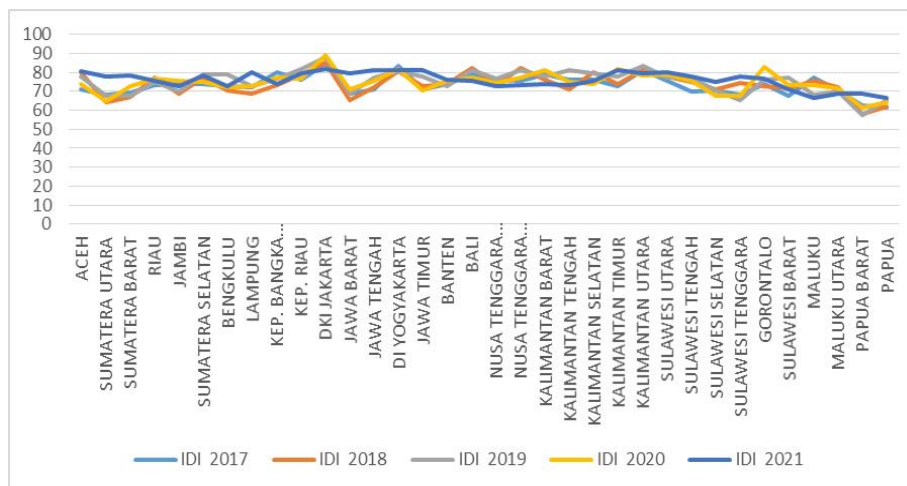
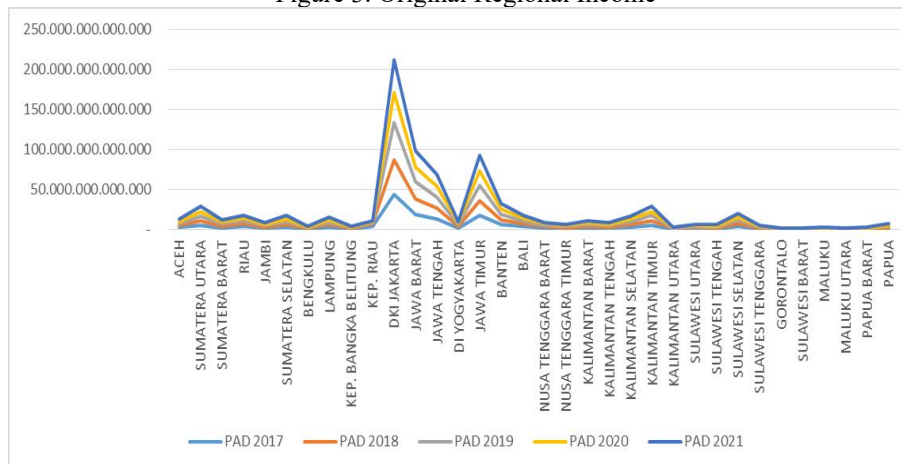


Figure 2. Democracy
Source: bps.go.id (2017-2021)

Figure 3. Original Regional Income



Source: djpk.kemenkeu.go.id (2017-2021)

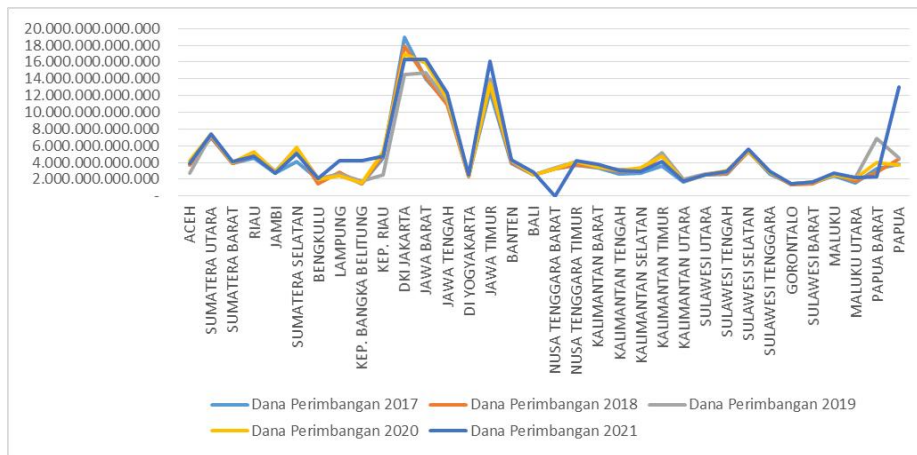


Figure 4. Balancing Fund

Source: djpk.kemenkeu.go.id (2017-2021)

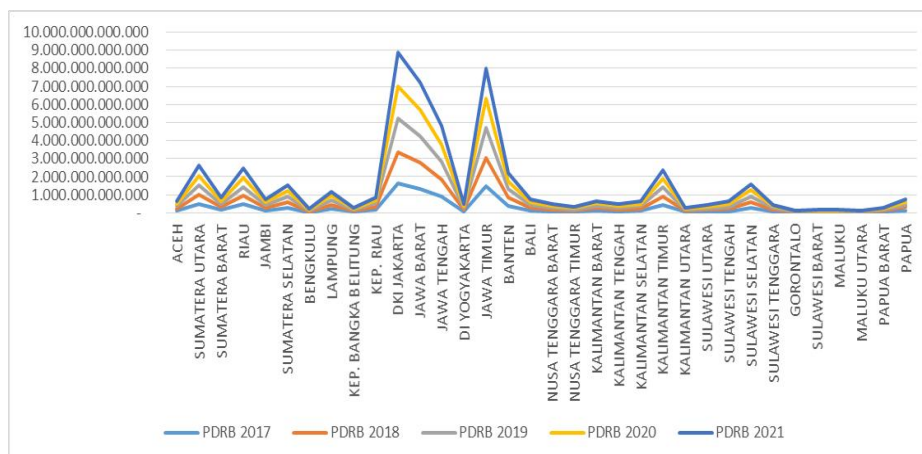


Figure 5. Gross Regional Domestic Product

Source: bps.go.id (2017-2021)

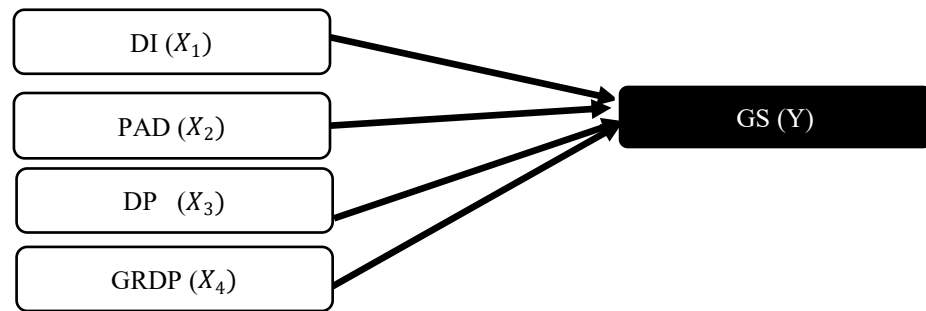


Figure 6. Conceptual framework

Table 1 Classic Assumption Test Results

Classic assumption test	Statistic test	Statistical Value	Significance	Decision
Multicollinearity	Centred VIF	(1,29),(3,11), (6,46), (5,28)	< 10	Multicollinearity does not occur
Heteroscedasticity	Prob. Chi-Square	0,4143	> 0,05	Heteroscedasticity does not occur
Autocorrelation	Durbin-Watson stat	1,3628	$\geq 1 \leq 3$	There is no autocorrelation

Source: Data processed with EViews 12

Table 2 Model Selection Results

Testing	Results	Decision
Uj Uji Chow	P Prob. 0,000 < 0,05	FEM
Hausman test	P Prob. 0,000 < 0,05	FEM
U Uji Lagrange Multiplier	P Prob. 0,000 < 0,05	REM

Source: Data processed with EViews 12

Table 3. Hypothesis Test Results

Dependent variable: ln GS (Government Spending)					
Variable	Descriptions	Coefficient	Std. error	t-stat	Prob.
<i>C</i>	Intercept	1.1529	3.7056	3.111	0.0023
<i>DI</i>	Indonesian Democracy	-0.0018	0.0025	-0.749	0.4547
<i>PAD</i>	Locally-generated revenue	6.09E	1.22E	4.995	0.0000
<i>DP</i>	Balancing Fund	0.1054	0.0514	2.051	0.0422
<i>GRDP</i>		0.5741	0.1521	3.773	0.0002
<i>Obs.</i>	170				
<i>R²</i>	0,686805556				
<i>R² adjusted</i>	0,684722222				
<i>Prob (f-statistic)</i>	0.000				

Source: Data processed with EViews 12