



## Does government expenditure affect economic growth and people's welfare? : Evidance from North Maluku

Prince Charles Heston Runtunuwu<sup>1</sup>, Zulkefly Abdul Karim<sup>2</sup>

<sup>1</sup>Faculty of Economics and Business, Universitas Khairun, Indonesia

<sup>2</sup>Faculty of Economics and Management, Universiti Kebangsaan Malaysia, Malaysia

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### ABSTRACT

The main objective of this research is to test and analyze whether personnel spending, capital spending, goods and services spending, and social assistance spending have an effect on economic growth activities and people's welfare in North Maluku, this is what makes this study important and necessary. Then, also analyze effect of economic growth on welfare. The analysis method using time series data from 2015-2020 and path analysis. The results found local government personnel spending has a significant effect and positively correlated to economic growth of North Maluku. Furthermore, also that government spending has a positive and significant effect on economic growth in North Maluku. The results of the study show that spending on goods and services has a significant effect and is positively correlated to economic growth in North Maluku. The results of this study indicate that social assistance spending has a significant and positive correlation with economic growth in North Maluku. The spending on government employees has an effect on community welfare or the human development index in North Maluku. Furthermore, the results of the study show that government capital spending has no significant effect on the welfare of the people in North Maluku. The results show spending on goods and services has a significant and positive correlation to people's welfare. Then the results of this study indicate that social assistance spending has a significant effect and is positively correlated to the welfare of the people in North Maluku. This means that, if there is an increase in spending on social assistance, it will improve people's living standards.

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#### Corresponding Author:

Prince Charles Heston Runtunuwu,  
Faculty of Economics and Business,  
Khairun University,  
Jl Kampus Selatan No.8 Manado, North Sulawesi, 95115, Indonesia.  
Email: [princecharles@unkhair.ac.id](mailto:princecharles@unkhair.ac.id)

### 1. INTRODUCTION

Economic development is essentially a process of continuous improvement of a society or social system as a whole towards a better life, in which the development process aims to increase the standard of living for people's welfare as well as human dignity which

includes increasing various basic necessities, increasing standards life and the expansion of economic and social choices for the whole society (Todaro & Smith, 2006). This study, basically wants to contribute to Development, namely a process that aims to realize prosperity of society through economic development. Where is the benchmark the success of development can be seen from economic growth, structure economy and the level of inequality between residents, between regions and between sectors. The main goal of economic development efforts besides creating growth which is as high as possible, must also remove or reduce the level poverty, income inequality, and unemployment rates.

Economic development is essentially a process of continuous improvement of a society or social system as a whole towards a better life, in which the development process aims to increase the standard of living for people's welfare as well as human dignity which includes increasing various basic necessities, increasing standards life and the expansion of economic and social choices for the whole community (Mulia, 2022); (Suprpto et al., 2022).

The problem faced by local governments regarding budget allocation is the number of allocations and each program with limited resources. The regional government must be able to allocate the revenue it receives for productive regional spending. The regional government allocates funds in the form of a capital expenditure budget in the APBD to increase fixed assets. This capital expenditure allocation is based on regional needs for facilities and infrastructure, both for the smooth implementation of government tasks and for public facilities. Therefore, in an effort to improve the quality of public services, local governments should change the composition of their spending. So far, regional spending has been used more for routine spending which is relatively less productive (Nisa & Qonita, 2023); (Magdalena, & Suhatman, 2020); (Melayanti & Indraajaya, 2021). Expenditure utilization is better allocated for productive things, for example to carry out development activities, then more government revenue should be for public service programs, this opinion implies the importance of allocating spending for various public interests (Nisa & Qonita, 2023 ); (Ebunoluwa, & Yusuf, 2018).

Agustina et al., (2022) gives the opinion that the effectiveness of government activities in regional economic activities seems to be getting bigger and increasing, along with economic progress from year to year. The size of government activities is one of the indicators, namely the size of regional government consumption spending from the total regional government expenditure. Fiscal policy is intended to influence the course of the economy in order to avoid unwanted conditions such as inflation and other unfavorable economic conditions. In line with the results of research (Mononimbar et al., 2022) which show that between economic growth and government spending there is a one-way causality relationship where economic growth affects government spending in accordance with Wagner's law which states that the development of government spending occurs as the economy increases.

Fiscal decentralization is a regional government policy in providing a positive influence if it is balanced by the fiscal capacity according to the autonomous region. In Law No. 33 of 2004 the sources of revenue that can be used by local governments in fiscal decentralization are Local Own Revenue (PAD), General Allocation Funds (DAU), Special Allocation Funds (DAK), profit sharing funds, regional loans and others. etc., the receipt of regional income is carried out legally. This source of income can be managed by the Regional Government in financing the administration of government under its authority. It is hoped that the regional government can increase the progress of its region through PAD which is a benchmark for the region in carrying out regional autonomy. Mononimbar et al., (2022) says that the effect of the allocation of government spending on economic growth in this case is GRDP and the implications for Regional Original Income. Government spending has a stronger relationship with GRDP or economic growth because development spending is shown to finance the function of an agent of

development and from the results of this expenditure it will produce products that are very necessary to increase the level of progress of the economy (Fan et al., 2020); (Manbait et al., 2022).

Government spending, investment, and level of education have an indirect effect on people's welfare through employment opportunities. Regional governments in development policies are expected to pay attention to the equitable allocation of government spending and investment and improve programs in the education sector in order to produce quality resources to achieve prosperity.

Several studies regarding the effect of regional spending on economic growth and social welfare have had different results, including research (Sutono, 2022) in the study revealed that the absorption of regional government spending has no significant effect on HDI, while the absorption of public expenditure has a significant effect on HDI. Taken together, the absorption of local government spending and the absorption of public spending have a significant effect on the HDI. Different results were obtained in research (Parera, 2022), the results showed that the direct relationship between the direct expenditure variable on economic growth showed a positive but not significant correlation. The direct expenditure variable had a negative and significant effect on poverty, both directly and through the economic growth variable. The results show that the direct spending of the Papua provincial government has an indirect effect on the poverty rate in this area. The direct expenditure variable has a positive effect on improving HDI performance, both directly and through economic growth variables. That is, the correlation between direct spending on regional inequality shows a positive relationship, both directly and through economic growth variables. Indirect spending variables have a negative relationship to economic growth in Papua province. The correlation between indirect spending on poverty levels in Papua province shows negative relationship, both directly and through economic growth. Indirect expenditure variable has a negative correlation with HDI performance, both directly and through economic growth variables. Furthermore, the indirect expenditure variable has a positive correlation with regional inequality in this area, both indirectly either directly or through intervening variables of economic growth.

Research conducted by Deswanto et al., (2017) with the title Effect of regional spending based on economic classification on economic growth and social welfare in the districts/cities of West Kalimantan Province in 2010-2015 with the research results obtained that personnel spending, capital spending, and social assistance spending had a positive and significant effect on economic growth, while grant spending has a negative and significant effect on economic growth and spending on goods and services has a negative but not significant effect on economic growth. Furthermore, capital expenditure and economic growth have a positive and significant effect on people's welfare while goods and services have a negative and significant effect on people's welfare. Grant spending has a negative effect and social assistance spending has a positive but not significant effect on social welfare.

Furthermore, according to Asghar, Hussain, and Rehman (2012), throughout the stipulation of social assistance and infrastructural facilities required to pursue rapid economic growth, public spending might favourably impact economic development and poverty alleviation. In much academic research, education's importance in achieving long-term economic growth has been thoroughly acknowledged. Many countries' development is built on the foundation of education; that is why it is widely considered a long-term human capital investment, leading to long-term growth. Human resources are equipped with the necessary information, skills, and competencies through education, positively contributing to their countries' economic and social progress.

However, it is not in all cases that government spending positively impacts the outcome variables, such as those in West Kalimantan and Papua. This study shows that

several variables such as: personnel expenditures, capital expenditures have a significant and positive relationship with economic growth.

Based on the description of the background that has been put forward, the problem in this research is whether personnel spending, capital spending, goods and services spending, and social assistance spending affect economic growth and people's welfare in North Maluku Province. Then does economic growth affect the welfare of the people in North Maluku Province.

## 2. RESEARCH METHOD

The location of this research is in North Maluku Province with the data used in the analysis including quantitative data, with secondary data sources which include data on: (a) Economic growth, (b) Public welfare, (c) Personnel expenditures, (d) Capital expenditures, (e) Goods and services expenditures and (f) Local government social assistance expenditures

Secondary data sources are related agencies, including Bappeda, BPKAD North Maluku Province, or the Central Bureau of Statistics (BPS), as well as reports related to this research.

series data from 2015-2020 and uses path analysis . Path analysis is used to explain patterns of relationships between variables and intervening variables with the aim of knowing the direct and indirect effects of a set of independent (exogenous) variables on the dependent (endogenous) variable (Riduwan and Sunarto; 2015) in (Yuliani, 2019) . With the following equation:

$$Y_1 = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon_1 \quad (1)$$

$$Y_2 = \beta_0 + \beta_4 X_1 + \beta_5 X_2 + \beta_6 X_3 + \beta_7 X_4 + \beta_8 Y_1 + \varepsilon_2 \quad (2)$$

Note:  $X_1$  = Personnel Expenditures  
 $X_2$  = Capital Expenditures  
 $X_3$  = Goods and services Expenditures  
 $X_4$  = Local government social assistance expenditures  
 $Y_1$  = Economic Growth  
 $Y_2$  = Public welfare  
 $\beta_1, \beta_8$  = Regression coefficient of independent variable ( $X_i$ )  
 $\beta_0$  = Intercept / Constant  
 $\varepsilon_1$  = Error from the first equation  
 $\varepsilon_2$  = Error from the second equation

## 3. RESULTS AND DISCUSSIONS

### 3.1 The Influence of Government Personnel Spending on Economic Growth in North Maluku

Based on the results of this study, it shows that regional government personnel spending has a significant effect and is positively correlated to the economic growth of North Maluku Province. This means that, if there is an increase in spending on government personnel, it will encourage an increase in the regional economy. Theoretically, there is a relationship between personnel spending and economic growth. The increase in personnel spending, especially in salaries and benefits, for example, has had an impact on public consumption. Meanwhile, consumption is one component that forms the total value of goods and services produced in an economy. The increase in economic growth in a region cannot be separated from the support of public consumption spending. This finding is in line with the results of research (Deswanto et al., 2017)

which also found that personnel spending had a positive and significant effect on economic growth.

### 3.2 The Effect of Government Capital Expenditures on Economic Growth in North Maluku

Based on the results of the research, it shows that government spending has a positive and significant effect on economic growth in North Maluku Province. This means that, if there is an increase in government capital spending, it will be able to increase economic growth in North Maluku Province. This is in line with the theory which explains that government spending which is government investment is the key word determining the rate of economic growth, because in addition to encouraging a significant increase in output, it will also automatically increase input demand, which in turn will increase employment opportunities and people's welfare as a consequences of increasing income received by the community (Todaro & Smith, 2006); (Shaoan & Rui, 2019) ; (Gaffar, 2023). Research Nasiru (2012), by analyzing the relationship between government spending and economic growth in Nigeria (1961-2010) with the ECM and Granger Causality approaches, the results show that capital expenditure causes economic growth. The implication of this finding is that any reduction in capital expenditure will have a negative impact on economic growth in Nigeria. Similarly, Okoro (2013), using time series data for 32 years (1980-2011), investigates the impact of government spending on economic growth in Nigeria. With the application of the Granger Causality test, Johansen Co-integration Test and Error Correction Model, the results show that there is a long-term relationship between government spending and economic growth in Nigeria (Nasiru, 2012).

### 3.3 The Influence of Government Expenditure on Goods and Services on Economic Growth in North Maluku

Based on the results of the study, it shows that spending on goods and services has a significant effect and is positively correlated to economic growth in North Maluku Province. This means that, increasing spending on goods and services will be able to boost economic growth. This indicates that spending on goods and services in each government agency has a sizeable impact on the regional economy. Expenditure on goods and services in the direct expenditure group is used to finance the operational implementation of programs and activities. These programs and activities are expected to drive the acceleration of the economy in the region. (Badrudin, 2012) states that spending on government goods and services will generate demand for goods and services which will be responded by producers to produce goods and services according to consumer needs which will result in economic growth in the area. The results of the study (Hutabarat, 2013) , prove that spending on goods and services has a positive and significant effect on the economic growth of districts/cities in North Sumatera.

### 3.4 The Influence of Social Assistance Spending on Economic Growth in North Maluku

Spending on social assistance aims to provide social protection, in this case for countries and regions, the aim is to increase the purchasing power of low-income people while at the same time encouraging public consumption. If people's purchasing power and consumption are high, state and regional income will increase, this income will be used to finance economic activities that will provide benefits in reducing poverty.

Based on the results of this study indicate that spending on social assistance has a significant effect and is positively correlated to economic growth in North Maluku Province. This means that, if there is an increase in spending on social assistance, it will increase the economic growth of North Maluku Province. This indicates that spending on social assistance to the public in the form of goods or cash will automatically have an

impact on regional economic activities so that it has a correlation with regional economic growth.

### 3.5 The Influence of Personnel Spending on Community Welfare in North Maluku

Currently, the structure of the APBD and the allocation of APBD spending in various regions are considered to be ineffective. This is shown, among other things, by the increasing allocation of personnel expenditures, on the other hand the portion of capital expenditures for regional development has declined. The increase in the portion of personnel spending in the APBD is closely related to the addition and appointment of new regional Civil Servants every year, which in many cases are not in accordance with their competence and needs (Deswanto et al., 2017) . According to (Sasana, 2012) conceptually indirect spending does not or does not touch the needs of the general public in running their business. However, with the allocation of the use of indirect spending such as spending on personnel that is done properly, it will support the performance of each work unit in public services, better public services will create a good and conducive investment climate so as to increase economic activity. Then in the end will improve the welfare of society.

Based on the results of this study, it shows that spending on government employees has an effect on people's welfare or the human development index (IPM) in North Maluku Province. This means that, if there is an increase in spending on government employees, it will boost purchasing power or consumption thereby increasing the demand for goods and services in both the education and health sectors thereby encouraging an increase in the human development index (IPM). In line with this, research conducted by (Deswanto et al., 2017) concluded that personnel spending has a positive effect on people's welfare as measured by HDI numbers. Based on these theoretical and empirical studies, the authors suspect that the greater the expenditure on personnel at district/city governments in North Maluku Province, the greater the welfare of the people in that area.

### 3.6 The Influence of Capital Expenditures on People's Welfare in North Maluku

The level of community welfare that can be measured through the Human Development Index (IPM) can be defined as a combined index which includes three basic needs that must be met in human development efforts, namely health indicators (seen from the index of life expectancy), education indicators (can be seen from average school population and literacy rate), economic indicators (can be seen from real spending per capita). These three indicators are considered very basic in terms of the physical and non-physical quality of the population. Physical quality is reflected in life expectancy, while non-physical quality is reflected in the average length of schooling and literacy rates, and takes into account economic capacity, namely real per capita spending. Besides being influenced by other factors such as the availability of employment opportunities, which in turn is determined by many factors, especially economic growth, infrastructure and government policies (Todaro & Smith, 2006) .

Based on the results of the study, it shows that government capital expenditure has no significant effect on the welfare of the people in North Maluku Province. This means that, increased spending on goods and services by local governments has not been able to improve people's welfare. This is because spending on goods and services is still prioritized on the provision of facilities to improve public services, so that it does not have a direct impact on people's economic activities. This is in line with research conducted (Sumiyati, 2011) in West Java Province concerning the Effect of Capital Expenditure on Increasing the Human Development Index which states that capital expenditure has a positive and insignificant effect on increasing the Human Development Index. Furthermore, the test results (Deswanto et al., 2017) show that capital expenditures and goods and services expenditures have an effect on HDI in a positive and significant

direction. Previous studies reflect that it can be said that the APBD expenditure structure has not been properly allocated in an effort to improve human quality development.

### 3.7 The Influence of Government Expenditure on Goods and Services on People's Welfare in North Maluku

According to (Badrudin, 2012) , spending on goods and services in the direct expenditure group is used to finance the operational implementation of programs and activities. These programs and activities are expected to support the government's efforts to improve the welfare of the people in its territory. Government spending on goods and services will generate demand for goods and services which will be responded by producers to produce goods and services as needed. This will result in economic growth and an increase in people's income, which in turn will affect welfare.

Based on the results of the study, it shows that spending on goods and services has a significant and positive correlation with the welfare of society. This means that, the greater spending on goods and services will be able to encourage people's welfare. Increased spending on goods and services in the education and health service scheme will encourage an increase in the human development index (IPM) of North Maluku Province. This is in line with research (Marifah, 2010) and (Suryati, 2015) which concluded that spending on goods and services has a positive effect on people's welfare. Based on these theoretical and empirical studies, the authors suspect that the greater the spending on goods and services by district/city governments in West Kalimantan Province, the greater the welfare of the people in that area. Furthermore, the test results (Zebua & Adib, 2014) show that Capital Expenditures and Goods and Services Expenditures have an effect on HDI in a positive and significant direction. Previous studies reflect that it can be said that the APBD expenditure structure has not been properly allocated in an effort to improve human quality development.

### 3.8 The Influence of Social Assistance Spending on Community Welfare in North Maluku

According to (Badrudin, 2012) , social assistance (bansos) in the indirect expenditure group is used to budget for the provision of assistance in the form of money and or goods to the community which aims to improve people's welfare. In the Regulation of the Minister of Finance Number 81/PMK.05/2012 concerning Social Assistance Expenditure at Ministries/Institutions, social assistance is expenditure in the form of transfers of money, goods or services provided by the central/regional government to the community in order to protect the community from possible social risks. improve economic capacity, and social welfare. The social risks referred to here are incidents or incidents that can give rise to the potential for social vulnerability to be borne by individuals, families, groups or communities as a result of social crises, economic crises, political crises, natural phenomena and natural disasters which, if not those who are given social assistance will get worse and unable to live in reasonable conditions.

Based on the results of this study indicate that spending on social assistance has a significant effect and is positively correlated to the welfare of the people in North Maluku Province. This means that, if there is an increase in spending on social assistance, it will improve people's living standards. This is in accordance with the laws and regulations which stipulate that Social Assistance Expenditures are expenditures used to budget for the provision of assistance in the form of money and/or goods to the community which aims to improve people's welfare. Social Assistance Expenditure in research (Deswanto et al., 2017) is a type of spending that increases drastically ahead of regional head elections. Giving it directly to the community creates a high risk of misusing the provision of social assistance so that it is not effective in achieving the goal of spending on social assistance itself, namely increasing people's welfare.

### 3.9 The effect of economic growth on people's welfare in North Maluku

According to (Runtunuwu ( 2021), an important indicator for knowing economic conditions in a certain period is using Gross Regional Domestic Product (GDP) data at current market prices or constant market. According to ( Todaro & Smith, 2006) , economic growth is an increase in output per capita in the long term , which emphasizes three aspects: process, output per capita, and the long term. Economic growth is a process, not just a portrait of the economy. Regional development and sectoral development must be aligned so that sectoral development in the regions runs according to regional potential and priorities.

At present, the issue of achieving human development has become the concern of government administrators in realizing people's welfare. There are various measures of human development, but not all of them are used as a standard measure of comparison of regions or countries. Therefore, the United Nations (UN) has set a standard measure of human development, namely the Human Development Index (IPM), which consists of four indicators: life expectancy, literacy rate, average years of schooling, and purchasing power. The life expectancy indicator represents the dimensions of longevity and healthy living. In addition, the literacy rate and the average length of schooling reflect the knowledge output dimension while purchasing power indicators measure the dimensions of a decent life (Runtunuwu, 2021) .

Based on the results of the study, it shows that economic growth has a significant and positive correlation with the welfare of the people in North Maluku Province. This means that, if there is an increase in economic growth, it will improve people's living standards. This is in accordance with research conducted by (Arka & Yasa, 2015) that economic growth has a positive effect on the welfare of district/city communities in the Province of Bali.

## 4. CONCLUSION

The personnel expenditures, capital expenditures, goods and services expenditures and local government social assistance expenditures have a significant and positive correlation with economic growth in North Maluku Province. This means that local government spending is able to have an impact on economic growth in North Maluku Province. regional spending has a very good impact on the welfare of the people of North Maluku. This can be seen from the findings showing that personnel spending, capital spending, goods and services spending and local government social assistance spending have an effect on people's welfare or the human development index in North Maluku Province. Economic growth has a significant and positive correlation with the welfare of the people in North Maluku Province. This means that, if there is an increase in economic growth, it will improve people's living standards. Provide a statement that what is expected, as stated in the "Introduction" chapter can ultimately result in "Results and Discussion" chapter, so there is compatibility. Moreover, it can also be added the prospect of the development of research results and application prospects of further studies into the next (based on result and discussion).

Therefore, as recommendations, the government has to make a supreme effort in allocating the money right on target to increase the effectiveness of government expenditure. Also, the local government of North Maluku needs to maximise its income sources in the future, because it positively impacts North Maluku.

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