

The Role of Public Expenditures on Community Welfare

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Abstract

This study aims to determine whether public expenditures in meeting basic human needs affect community welfare. This study uses data on realizing the spending on education, health, and social protection as a proxy for public expenditures and the human development index for community welfare. This study indicates that education and health expenditures have a significant positive effect, while social protection expenditures have a significant negative effect. This study confirms disclosures in the Audit Report of the Audit Board of the Republic of Indonesia. The disclosures in Provincial Government Financial Statements in Indonesia state that the regional government prioritized meeting basic needs, education, health, and social on mandatory spending to improve the quality of community life. This research implies that social protection expenditure is not optimal for developing human capabilities.

Keywords: Education Expenditure, Health Expenditure, Social Protection Expenditure, Human Capability, Community Welfare

Peran Pengeluaran Publik terhadap Kesejahteraan Masyarakat

Abstrak

Penelitian ini bertujuan untuk menguji apakah pengeluaran publik dalam memenuhi kebutuhan pokok manusia berpengaruh terhadap kesejahteraan masyarakat. Penelitian ini menggunakan data realisasi belanja pendidikan, kesehatan, dan perlindungan sosial sebagai proksi pengeluaran publik serta indeks pembangunan manusia sebagai proksi kesejahteraan masyarakat. Temuan penelitian ini menunjukkan bahwa belanja pendidikan dan kesehatan berpengaruh positif signifikan, sedangkan belanja perlindungan sosial berpengaruh negatif signifikan. Penelitian ini mengkonfirmasi pengungkapan yang terdapat dalam Laporan Hasil Pemeriksaan Badan Pemeriksa Keuangan Republik Indonesia. Pengungkapan dalam Laporan Keuangan Pemerintah Daerah di Indonesia menyatakan bahwa pemerintah daerah memprioritaskan pemenuhan kebutuhan dasar, pendidikan, kesehatan, dan sosial yang merupakan belanja penyelenggaraan urusan wajib sebagai wujud peningkatan kualitas kehidupan masyarakat. Implikasi penelitian ini mengargumentasikan bahwa belum optimalnya pengeluaran perlindungan sosial dalam mengembangkan kapabilitas manusia.

Kata kunci: Belanja Pendidikan, Belanja Kesehatan, Belanja Perlindungan Sosial, Kapabilitas Manusia, Kesejahteraan Masyarakat

History: Received: 22 January 2022 Revised: 8 August 2022 Accepted: 9 April 2024

Citation (APA 6th): Dosinta, N. F., Djafar, F., & Yantiana, N. (2024). The role of public expenditures on community welfare. *Jurnal *Economia**, 20 (2), 260-272. <https://doi.org/10.21831/economia.v20i1.47545>

INTRODUCTION

Community welfare is one form of achieving the success of a country's development. Humans are the main factor and development target of a nation, so human development is an indicator that reflects the welfare of a country (UNDP, 1990). The human development approach focuses on humans as agents of development (Fukuda-Parr, 2003) since the

welfare of a country is largely determined by its human resources (Sušnik & Zaag, 2017). Human development emphasizes improving the quality of life and community freedom (Sen, 1999), as reflected in the Human Development Index (HDI) (Sen, 1985). The HDI measures three main dimensions of human development, which are considered capable of reflecting the population's three fundamental capacities : knowledge and skills, health, longevity, as well as access to the resources needed to achieve a decent standard of living (Todaro & Smith, 2015), enhancing the population's essential capability in Indonesia to achieve public welfare to reduce poverty. For the first time in its history, Indonesia has managed to bring the poverty rate down to single digits, going from 10.96 percent in 2014 to 9.66 percent in 2018 (Kementerian Keuangan RI, 2018; Kementerian Sekretariat Negara RI, 2019).

In the era of regional autonomy, the welfare of the people of a region is influenced, among other things, by local government spending. The allocation of government spending in the education, health, and social protection sectors is one of the efforts to improve the quality of human resources (BPS-Statistics Indonesia, 2021c). Table 1 shows spending in percentage terms on essential services; education, health, and social protection of total government spending and HDI. Based on the data sourced from Statistics Indonesia (*Badan Pusat Statistik/BPS*), which provides national and international statistical data to produce statistics to describe the actual situation in Indonesia, there is no mention of data on the percentage of education and health spending in 2014. In terms of education, the rate of total government spending is in the 20% interval in 2015-2018, but the results of Uluwiyah, (2018) research show that spending on education issued by the government in 2014-2017 has not had a visible impact on human resource improvement programs. Education is a necessary condition to improve human capabilities. In terms of health, the research results by Sajiah & Saputra, (2019) show that most provinces in Indonesia were inefficient in spending the health budget in 2016. The percentage of health spending ranges from 3.8%-5% in 2015-2018. Furthermore, there is an inconsistency in the percentage of social protection spending programs in the gap of 13.5%-24% in 2014-2018.

Table 1. *Expenditures on Basic Services and Human Development Index*

Year	Expenditures on basic services (education, health, and social protection) as a percentage of total government spending (percent)			HDI
	Education	Health	Social Protection	
2014	-	-	24	68,90
2015	20	3,8	13,7	69,55
2016	20	5	13,6	70,18
2017	20	5	13,5	70,81
2018	20	5	15,6	71,39

Source: (BPS-Statistics Indonesia, 2021b, 2021c)

Government expenditures meet basic human needs, education, health, and social protection for the community welfare. HDI as a proxy for community welfare has an impact on disclosure in Provincial Government Financial Statements. Arifin, (2018) research results show that HDI is related to the level of disclosure within the financial statements of

Indonesian provincial governments. This study expands the discussion with disclosures from the Audit Board of the Republic of Indonesia's Report on Provincial Government Financial Statements in Indonesia. The majority of the preceding research was not supported by evidence in the provincial government financial statements in Indonesia; It has also avoided implementing public expenditure and human capability theories. The existing research focuses on public expenditures and the HDI; however, it did not use the data from the Audit Report of the Audit Board of the Republic of Indonesia, such as (Haile & Niño-Zarazúa, 2017; Luthfia & Siregar, 2016; Mongan, 2019). Previous studies conducted in Indonesia showed that education expenditure (Luthfia & Siregar, 2016) and health expenditure (Mongan, 2019) positively affect community welfare. (Haile & Niño-Zarazúa, 2017) results show that spending on education, health, and social protection affects developing countries' community welfare. However, Aryawati & Sudana, (2018) research results in regencies/cities throughout the province of West Nusa Tenggara show that regional expenditure has a detrimental impact on community welfare. It is essential to investigate further disclosures, especially regarding education, health, and social protection.

Although it has received extensive attention from researchers and academics regarding public expenditures on community welfare, it is relatively limited to using the Audit Report of the Audit Board of the Republic of Indonesia. The research conducted by Arifin, (2018) only investigated the HDI but did not focus on public expenditures regarding the fulfillment of basic human needs. Unfortunately, only Arifin, (2018) research was found regarding the investigation of the human development index with disclosures in notes to Provincial Government Financial Statements and using the agency theory approach. Other essential topics that are rarely investigated are public expenditures regarding the fulfillment of basic human needs by confirming disclosures in the notes on Provincial Government Financial Statements using the public expenditure approach and human capability theories. Human development aims to improve a person's or community member's ability to attain desired outcomes. The choice of freedom in individuals and communities in to achieve their goals can be supported by public expenditures, especially in providing fundamental human needs.

The primary purpose of this study is to empirically test whether public expenditures in meeting basic human needs affect community welfare using the Audit Board of the Republic of Indonesia's Report. With a qualitative approach, the next objective is to investigate the disclosures in the Audit Board of the Republic of Indonesia's Report regarding the realization of spending on education, health, and social protection. The results of this study contribute to the public expenditures literature and alternatives in making a policy decision. Besides providing new empirical evidence, this research could contribute to closing the gap between the results of previous studies and providing a different perspective on public expenditure and human capability theories. Therefore, this study is essential because it contributes to the development of science from the theory of public expenditure and human capability to explain community welfare comprehensively.

Because public expenditures are associated with economic and social policies, their allocation complements one another. Public expenditures for humans are complementary

because public expenditures are a means for recruiting employees, purchasing materials, and also a tool for implementing economic and social policies (Colm, 1936). Public expenditures aim as an effort to increase human capabilities. Well-being freedom is the freedom to achieve something to gain prosperity by using the capabilities of a person or society (Sen, 1992).

In the evaluation, the standard of living requires an understanding of human capabilities in maximizing the functions possessed by each individual or society. Life is a collection of functions that include being and doing; a person's welfare condition is directly related to their capability to achieve their life goals (Sen, 1992). Capabilities are a combination of human functions that can help someone achieve something valuable and can be very helpful in understanding freedom and human rights opportunities (Sen, 2005). Welfare includes increased ability and equitable fulfillment of better education, health, social protection, increased standard of living, income level, better education, increased attention to culture and human values, as well as being able to expand the availability of social choices and the economies of scale (Todaro & Smith, 2015). Equitable fulfillment of basic needs aims at public policy. Appropriate spending allocation from a public policy aimed to increase human capabilities to realize community welfare.

According to BPS-Statistics Indonesia, (2021c), public policies related to expenditure distribution to meet basic needs, including social protection, health care, and education. Public expenditure on education is fundamental in improving human capabilities because education increases human capabilities, including technology. Someone's education increases productivity, and community creativity, and encourages entrepreneurship and technological progress (Arham & Dai, 2019) to realize community welfare. Human capital is a productive investment in people, including knowledge, skills, abilities, and ideas (Todaro & Smith, 2015). Education expenditure is essential because it supports the development and realizes sustainable development. This statement is in line with the results of research by (Luthfia & Siregar, 2016), (Desrindra, Murialti, & Anriva, 2016), and (Mongan, 2019), which show that public expenditure on education has a positive effect on community welfare. Then, the first hypothesis is as follows; education expenditure has a positive effect on community welfare.

Health is the core of well-being, and education is essential to achieve a worthwhile life (Atmanti, 2017). Education and health are the basis for shaping human capabilities as the core and meaning of development (Todaro & Smith, 2015). Government investment in the health sector could be in the form of budget allocations to finance the procurement and maintenance of physical and non-physical facilities in the health sector. Public infrastructure and facilities have been constructed by the government to facilitate easy access to health care services. The basic demand for easy access to health services could be met to realize community welfare. The result of the research shows that public expenditure on health has a positive effect on community welfare (Bhakti et al., 2014; Razmi et al., 2012; Wardhana et al., 2021). Then the second hypothesis is as follows; health expenditure has a positive effect on community welfare.

Education, health, and social protection as policy benefits might have a significant impact on a country's social and economic development (Lucas, 1988). Social policy decisions and government policy priorities were captured by a level approach through the volume and composition of government social spending (Haile & Niño-Zarazúa, 2017). Public expenditure on the social protection sector as a variable that affects HDI has been emphasized to detection when economic shocks occur, such as rising prices of goods and fuel (Mailassa'adah et al., 2019). This statement is consistent with the results of research by (Haile & Niño-Zarazúa, 2017) and (Mailassa'adah et al., 2019), which show that public expenditure on social protection has a positive effect on community welfare. Then the third hypothesis is as follows; social protection expenditure has a positive effect on community welfare.

METHOD

This study involves the use of panel data on education expenditure, health expenditure, social protection expenditure, and HDI in 34 Indonesian provinces from 2014 to 2018. The data in this study include; education, health, and social protection expenditures sourced from the Audit Report of the Audit Board of the Republic of Indonesia (*Badan Pemeriksa Keuangan Republik Indonesia/BPK RI*) on Provincial Government Financial Statements; HDI data sourced from sourced from the BPS-Statistics Indonesia, (2021b) website.

Indonesia's HDI was obtained from the BPS-Statistics Indonesia, (2021b) presented in percent. Education, health, and social protection expenditures are public expenditures for essential services. The data for the three expenditures are presented in billions of rupiah, then in the form of an equation semi-logarithmic (log). The panel data regression model in this study uses the dependent variable HDI, while the independent variables consist of spending on education (EDC), health (HTH), and social protection (SCP). This study uses multiple linear regression with the following research model:

$$HDI_{i,t} = \alpha_0 + \beta_1 \log EDC_{i,t} + \beta_2 \log HTH_{i,t} + \beta_3 \log SCP_{i,t} + e_{i,t}$$

Information:

HDI	= Human Development Index
α_0	= Constanta
$\beta_1, \beta_2, \beta_3$	= Regression Coefficient
EDC	= Education Expenditure
HTH	= Health Expenditure
SCP	= Social Protection Expenditure
$e_{i,t}$	= Error term

This research employed a qualitative approach to investigate the disclosures in the Audit Report of the Audit Board of the Republic of Indonesia on Provincial Government Financial Statements regarding the realization of spending on education, health, and social protection. This study uses a qualitative approach because specific research problems need to be identified in-depth and require a more detailed understanding of the problem (Creswell, 2018). This study investigates the problem simultaneously to reach an agreement

on the answer to the problem, as is done in research (Dosinta, Djafar, & Yantiana 2021; Dosinta & Astarani, 2021), known as investigator triangulation efforts (Smith, 2015).

FINDING AND DISCUSSION

The Random Effect Model is the best model for this study after analyzing through EViews that show the Chow and Hausman tests. The panel data regression of Generalized Least Square obtained after going through the Chow-test <0.05 is 0.0000, and the Hausman-test with a probability value of >0.05 is 0.2734. The test hypothesis compares the significance level of the t-test results with the significance value used to perform the partial test. Table 2 summarizes the effects of the test of multiple linear regression. The Adjusted R Square coefficient of 0.4749 shows a 47.49% contribution in predicting community welfare, explained by education and health expenditure variables.

Table 2. *Multiple Regression Results*

Variable	Prediction	Coefficient	Significance
EDC	+	4,009	0,0000*
HTH	+	1,316	0,0001*
SCP	+	-0,859	0,0000*
Constant		12,1782	
Rsquared		0,4825	
Adjusted Rsquared		0,4749	
F-statistic		51,9533	
Prob(F-statistic)		0,0000	
Note: *statistical significance at the 5% level			

Based on the multiple linear regression test results, the independent variable of the allocation of education expenditure to community welfare has a significant positive level of less than 5%. The results of this study support the hypothesis that the allocation of spending on the education function has a positive effect on community welfare. The results of this study are in line with research conducted by (Desrindra, Murialti, & Anriva, 2016; Nasution et al., 2021; Patel & Annapoorna, 2019; Rizal et al., 2021), who found that education spending has a positive effect on community welfare. The results of this study do not support (Bhakti, Istiqomah, & Suprpto, 2014) research, which found that education spending did not affect community welfare. According to the Kementerian Pendidikan dan Kebudayaan, (2018), the number of children dropping out of school at the primary education level has decreased from 60,066 in 2015/2016 to 32,127 in 2017/2018. Then, based on BPS-Statistics Indonesia, (2021a) the Expected Years of Schooling (*Harapan Lama Sekolah/HLS*) increased from 12.39 years (2014) to 12.85 years (2017). The decrease in the number of students dropping out of school and the growth in the number of years of schooling indicate a greater capacity for human development and societal welfare.

The government realizes public expenditures through various policies emphasizing human development. The local government realizes public expenditures are a social and economic policy implementation (Colm, 1936). The quality of human resources is being improved by the implementation of social and economic policies that place a strong

emphasis on human development. Human development emphasizes increasing human capabilities and freedom (Sen, 1985).

The findings of this study contribute to public expenditure and human capability theories regarding expenditures in the education sector. This study indicates that the realization of government spending in the education sector has played a role in optimizing human abilities to realize community welfare. Education contributes to the development of human capabilities in order to maximize the functions inherent in each individual or society, including technology. Government spending policies in allocating the education function play a role in optimizing human capabilities because of the importance of having information system capabilities in the technological era (Nugroho, 2015; Nugroho, Jusoh, & Salleh, 2020; Yudhiyati, Putritama, & Rahmawati, 2021). With education, individuals or communities can develop information system capabilities.

Based on the multiple linear regression test results, the independent variable of health expenditure allocation to community welfare has a significant positive level of less than 5%. The results of this study support the hypothesis that the allocation of the expenditure on health functions has a positive effect on community welfare. The results of this study are in line with research conducted by (Ruzima & Veerachamy, 2021; Salman & Rasyidin, 2019; Sari, 2018) who found that health expenditure has a positive effect on community welfare. The results of this study contradict the research conducted by (Luthfia & Siregar, 2016), which found that health expenditure has a significant negative effect on community welfare.

The findings of this study contribute to public expenditure and human capability theories regarding health expenditures. This study indicates that the realization of spending government in the health sector that allocated plays a role in optimizing human capabilities to realize community welfare. Someone's health supports developing human capabilities to maximize the functions contained in each individual or society. Government spending policies in allocating health functions contribute to the optimization of human capabilities to realize community welfare. Healthcare and Social Security Agency (*BPJS Kesehatan/Badan Penyelenggara Jaminan Sosial Kesehatan*) is one of the results of significant reforms regarding health since 2014 (Suryanto & Boyle, 2017). Healthcare and Social Security Agency could support individuals or communities in maintaining health so that human capabilities are more optimized; and they should maintain service quality and ensure that health services can operate better (Erniaty & Harun, 2020).

Based on the multiple linear regression test results, the independent variable of the allocation of social protection expenditure to community welfare has a significant negative level of less than 5%. The results of this study do not support the hypothesis that the allocation of spending on the social protection function has a positive effect on community welfare. The results of this study do not support the research conducted by (Haile & Niño-Zarazúa, 2017) and (Mailassa'adah, Pujiharjo, & Burhan, 2019) which found that social protection expenditure had a positive effect on community welfare.

This study discovered that while the realization of expenditure for designated social protection contributes to community welfare, it is not optimal for developing human capabilities. The community must be involved in regional development planning, and local

governments are required to deliver high-quality public services to the community (Purbadharmaja et al., 2019), including spending on social protection. The increasing quality of human resources owned by local governments will further increase regional economic achievements (Suprayitno, Nurseto, & Supriyanto, 2017) and optimally develop human capabilities.

The Indonesian government should create quality education and health services maximized to maintain the community welfare has been achieved (Djafar, 2019) and social security that emphasizes developing human capabilities. This study confirmed disclosures in the Audit Report of the Audit Board of the Republic of Indonesia. The revelations in the Provincial Government Financial Statements in Indonesia state that the regional government prioritized meeting basic needs, education, health, and social on mandatory spending to improve the quality of community life. Then, the disclosed Allocation of Expenditures under the mandate of Article 12 of Law Number 23 of 2014 focuses on essential services; first, education; second, health. Third, public works and spatial planning. Fourth, public housing and residential areas. Five, peace, public order, community protection, and six, social. According to the report, spending on social services is ranked sixth, behind only health and education.

Policies suitable for improving the quality of human capital must be an essential part of a country's development strategy, including the state of Brunei Darussalam using HDI as a policy strategy for improving human quality (Michael, 2018). HDI is one indicator in measuring the welfare of a country (Akbar & Djazuli, 2015; Feriyanto, 2016; Mangkunegara, 2015); in 2014, Indonesia had an HDI Medium (Çaglayan-akay & Van, 2017). HDI is an instrument for allocating development budgets in fields related to public facilities such as education, health, and the economy; human development is a priority in development planning (Anggraeni & Kiswanto, 2018). The increase in HDI increased government revenues and prompted the government to increase government spending, which could boost the economy and increase HDI to affect each other simultaneously (Sulistiyowati et al., 2017).

HDI is one of the macroeconomic indicators in preparing the Regional Revenue and Expenditure Budget. This study confirms that the Provincial Government Financial Statements disclosed that HDI is one of the macroeconomic indicators in preparing the Regional Expenditure Budget. The disclosure of the Provincial Government Financial Statements stated that HDI is a barometer of an indication of improving community welfare. Regional Expenditure Budget will have a fundamental role in improving the quality of public services; it should be a significant component in increasing public access to economic resources that are beneficial for the community's welfare (Sarkoro & Zulfikar, 2016). The regional governments have not translated the decentralization of government to improve community welfare (Setiawan & Hakim, 2013).

CONCLUSION

This study concludes that education and health expenditures positively affect community welfare. Based on the conclusion of this study, it shows that a greater amount of education

expenditure and health expenditure can optimize human capabilities to realize community welfare. This research implies that social protection expenditure is not optimal for developing human capabilities. This study contributes to human capability and public expenditure theories in explaining public expenditures in meeting basic human needs that affect community welfare.

The Adjusted R Square coefficient of 0.4749 shows a 47.49% contribution in predicting community welfare, explained by education expenditure and health expenditure variables. The contribution of 47.49% of the education and health variables in predicting community welfare provides a space for using other variables in the following study. The subsequent studies can expand the use of other variables, such as economic growth. In addition, future studies can use other perspectives, such as institutional theory.

Our findings might assist governments in better optimizing public expenditures. First, education spending emphasizes increasing human capabilities, especially technology. Second, maintaining health spending to support optimal capability development has been going well. Third, social protection spending is more focused on improving human capabilities. Regional governments in Indonesia could have plans to develop human capabilities whereas developing human capabilities might increase regional economic achievements and realize community welfare.

ACKNOWLEDGEMENT

The authors were grateful to the Audit Board of the Republic of Indonesia and BPS-Statistics Indonesia for the research data, followed by to the Editorial and Reviewer Team of Jurnal Economia, who have suggested improvements to the initial manuscript, and AMBadeges for proofreading the paper.

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