THE EFFECT OF INVESTMENT ON INDONESIA'S ECONOMIC GROWTH WITH GOVERNMENT EXPENDITURES AS A MODERATING VARIABLE

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Abstract

This research is quantitative research with an explanatory approach which uses a number of previous studies such as the five mentioned above as references for finding new variations in the research being carried out. The data used in this research is secondary data that researchers obtained from the annual reports of the Central Statistics Agency from 2004 to 20024 for 20 years. The researchers analyzed these data using the Samrt PLS 4.0 analysis tool with several stages, namely validity testing, reliability testing, and path coefficients which determine whether the hypotheses used in this research can be accepted or not. The result in this article show that the investment variable can have a positive relationship and a significant influence on economic growth because the P-Values have a positive value and are below the 0.05 significance level, namely 0.013.. This means that the more stable, large and well-utilized Indonesia is, the better the economic growth will be. In contrast to the research results above, in the second row of the third table the flow coefficients in this research show different results if the Government Expenditure variable does not have a positive and significant influence on Economic Growth because the P-Values are not below the 0.05 significance level. This means that the greater the Government Expenditure, it does not affect Economic Growth at all because there are still many other factors and variables that need to be considered, such as Good Corporate Governance variables, Education variables, HDI, and so on which make sense in influencing Economic Growth. Based on the explanation above, it can be concluded that the first hypothesis in this research can be accepted and the second hypothesis in this research cannot be accepted.

Keywords: *Investment, Economic Growth, Government Expenditures*

1. INTRODUCTION

Investment or often called capital investment is the purchase of capital goods and equipment in production to increase the power of a business entity in the production of goods and services needed in a country's economy (Nawangsari 2019). There are three types of investment short term, medium term and long term. Investment according to (Li and Liang 2010)is defined as purchasing goods by individuals or companies in order to increase their capital reserves. Investment is one component of Gross Regional Domestic Product (GRDP). Investment has two functions, namely the function of non-residential investment and residential investment, which includes the function of income and interest rates (Nugraha and Tjahjawati 2018). Additional income can encourage larger investment amounts. This is because a higher interest rate will reduce interest in investment (Purwanto, Yandri, and Yoga 2022).

Harrod-Domar in his theory states that capital formation is necessary to grow a country's economy. This additional capital is considered as expenditure which can later improve a country's economy in producing goods and can also increase demand in society. This is what underlies the investment needed by a country in the economy which is called the "engine of growth". Harrod-Domar in (Felisya and Arifin 2022) also explains that investment has a double influence on the economy in the long term. Investment has an influence on the development of a country's national production and on aggregate demand. Investment is also used as a basis for implementing economic development to increase the utilization of labor in production.

Classical growth theorists assume that capital accumulation is a mandatory condition for a country's economic development. This is because economic development is expected to increase a country's national income (Dewi et al. 2022). In other words, with capital investment it can increase national income. Some economists also believe that investment is an important factor in the growth and economic development of a country. In Indonesia itself, investment began to enter in 1952 during the era of the first Ali Sastroamdjojo Cabinet. Furthermore, in 1958 Law No. 78 of 1958 concerning Foreign Investment was issued (Indonesia 1958). Currently, investment in Indonesia has a dual role in efforts to encourage economic growth, namely creating job opportunities and equitable economic development. This is based on Indonesia's investment map which can make Indonesia a developed country. The Indonesian government realizes how important it is to prioritize improving infrastructure so that the investment and business climate in Indonesia becomes more attractive to investors (Hidayat 2011).

The government issued Government Regulation Number 24 of 2019 concerning Providing Incentives and Facilitation of Investment in the regions. It is hoped that this Government Regulation will be a breakthrough in increasing economic growth by increasing investment and also ease of doing business. Therefore, Indonesia is one of the promising countries for investment or foreign investment. The Indonesian government has also determined priority sectors for investment, including infrastructure, agriculture, tourism, industry, maritime and industrial areas, and the digital economy (Suparmoko 2020).

There are several things that can be influenced by investment, among which the closest is economic growth. According to economists in (Jamil, 2020) investment is the main variable in economic growth. Economic growth is a development in economic activities that causes an increase in goods and services produced by society and also an increase in society's prosperity (Novriansyah 2018). Economic growth is a process in which there is an increase in the national income sector which is characterized by an increase in the per capita income of society (Nugroho 2016). According to (Lusiarista 20222), economic growth can be said to have increased if the Gross Domestic Regional Product (GRDP) also increases every year.

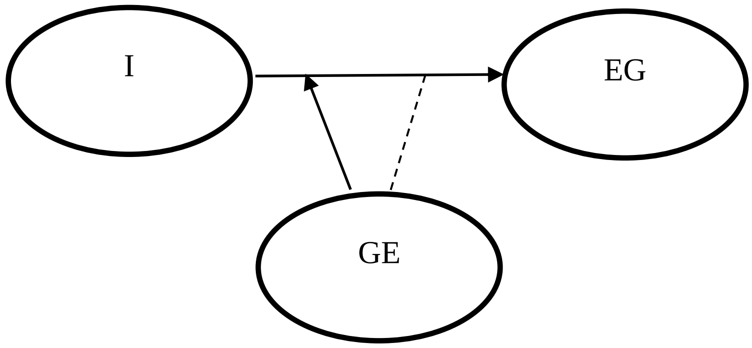
Economic growth measures the increase or decrease in a country's economy in a period. Economic growth describes an economy that has progressed and achieved a better level of social welfare. On the other hand, economic growth describes the economic problems being experienced by a country or region. According to the basic theory of economic growth, namely Neo Classical from Solow-Swan (1956) in (Lusiarista 2022) the government has no role in economic growth, whether taxes or spending. Economic growth itself can only be influenced by the stock of capital, technology and labor which has an exogenous nature. Endogenous growth theory explains that investment is in the form of physical capital and human capital. These two capitals have an important role in determining long-term economic growth.

Modern growth theory explains economic growth with the characteristics of this theory which believes that the government has an important capacity in the economy, especially in overcoming free market failures. One of the figures in modern growth theory is Harrod-Domar (Saripudin, Nadya, and Iqbal 2021)who stated that investment expenditure not only influences aggregate demand (AD) but also influences aggregate supply (AS) by using the influence of investment on production capacity.

A number of studies (Halim 2015); (Ainul Mardhiah 2022); (Lutfi Amelina Dewi 2022); (Ghufran Riziqurrahman 2016) & (Rafiq 2016) show a positive relationship and a significant influence on economic growth. Different from the five studies above, this study adds the Government Expenditure variable as a moderating variable.

2. RESEARCH METHODS

Figure 1
Model



Noted:
I: Investment
EG: Economic Growth
GE: Goverment Expenditure

Based on the explanation above, it can be concluded that this research aims to analyze the effect of investment on economic growth. Different from a number of previous studies, namely research (Halim 2015); (Ainul Mardhiah 2022); (Lutfi Amelina Dewi 2022); (Ghufran Riziqurrahman 2016) & (Rafiq 2016), this research adds the Government Expenditure variable as a moderating variable. This research is quantitative research with an explanatory approach which uses a number of previous studies such as the five mentioned above as references for finding new variations in the research being carried out (Sugiyono 2019). The data used in this research is secondary data that researchers obtained from the annual reports of the Central Statistics Agency from 2004 to 20024 for 20 years (Jonathan Sarwono 2016). The researchers analyzed these data using the Samrt PLS 4.0 analysis tool with several stages, namely validity testing, reliability testing, and path coefficients which determine whether the hypotheses used in this research can be accepted or not (Manzilati 2017). Based on this, the following are the results of the hypothesis in this research (Abdurahman 2016).

Hypothesis:
H1: The Influence of Investment on Economic Growth
H2: Goverment Expenditure Can Moderates The Influence of S The Influence of Investment on Economic Growth

3. RESULT AND DISCUSSION

Validity Test

In line with what the researcher explained in the research methodology section, there are several stages, namely the validity test stage, the reliability test stage, and the path coefficient stage. In accordance with the sequence of stages mentioned, the first stage that must be passed is the validity test stage. The validity test stage aims to ensure that the data obtained by researchers relating to Investment, Economic Growth and Government Expenditures is valid. The following are the results of the validity test in this research (Ghozali 2016):

Table 1
Validity Test

Variable	Loading Factor	Noted
Investment	0.859	Valid
Economic Growth	0.882	Valid
Goverment Expenditure	0.899	Valid

Validty Test > 0.70

Reliability Test

Dalam urutan yang disebutkan dari penelitian ini, tahapan uji reliabilitas merupakan The second stage can be carried out after the validity test. In contrast to the validity stage which ensures whether the data used in this research is valid or not, namely data regarding Investment, Economic Growth and Government Expenditure is valid or not, the reliability test stage aims to ensure that the Investment, Economic Growth and Government Expenditure variables are reliable or not by knowing the VALUE. Composite Reliability and Cronbach's Alpha. The following are the results of the reliability test in this research (Sarstedt et al. 2014)

Table 2
Reliability Test

Variable	Composite Reliability	Cronbach Alfa	Noted
Investment	0.882	0.841	Reliable
Economic Growth	0.945	0.905	Reliable
Goverment Expenditure	0.996	0.955	Reliable

Reliailitiy Test > 0.70

Path Coefisien

In accordance with the sequence mentioned above, if the researcher has completed the path efficiency stage, the aim is to ascertain whether each hypothesis in this research can be accepted or not, the hypothesis in the research is whether the Investment variable can have a positive relationship and a significant influence on the Economic Growth variable. and whether the Government Expenditure variable can moderate the influence of the Investment variable on Economic Growth. The following are the results of the path coefficient in this research (Hair 2010):

Table 3
Path Coefisien

	Variable	P-Values	Noted
Direct Influence	I-> EG	0.013	Accepted
Indirect Influence	GE* I-> EG	0.142	Accepted

Significant Level < 0.05

The results from the third table of the path coefficients for the first line of the second fund have proven the hypothesis used in this research, namely that the investment variable can have a positive relationship and a significant influence on economic growth because the P-Values have a positive value and are below the 0.05 significance level, namely 0.013. These results are in line with research (Halim 2015); (Ainul Mardhiah 2022); (Lutfi Amelina Dewi 2022); (Ghufran Riziqurrahman 2016) & (Rafiq 2016) show similar results. This means that the more stable, large and well-utilized Indonesia is, the better the economic growth will be. In contrast to the research results above, in the second row of the third table the flow coefficients in this research show different results if the Government Expenditure variable does not have a positive and significant influence on Economic Growth because the P-Values are not below the 0.05 significance level. This means that the greater the Government Expenditure, it does not affect Economic Growth at all because there are still many other factors and variables that need to be considered, such as Good Corporate Governance variables, Education variables, HDI, and so on which make sense in influencing Economic Growth. Based on the explanation above, it can be concluded that the first hypothesis in this research can be accepted and the second hypothesis in this research cannot be accepted.

4. CONCLUSION

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