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Analysis of the Effect of Capital Expenditure, Regional Investment, Labor Absorption, and Economic Growth on Poverty

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Abstract: The reduction in poverty and the high gap between the target and the actual poverty percentage are followed by an increase in capital expenditure, a drastic increase in regional investment in 2022 will not reduce poverty drastically, labor absorption will increase drastically by 3.1%, and economic growth is ranked 3rd. throughout the island of Java. So this research aims to determine the influence of Capital Expenditures, Regional Investment, Labor Absorption, and Economic Growth on Poverty in Central Java Province in 2017-2022. The samples used in this research were 35 regencies/cities in the province of Central Java in the period 2017 to 2022. Data analysis used in this research was multiple linear regression using the T-Test, F Test, and Coefficient of Determination (R²) . The research results show that capital expenditure has a significant positive effect on poverty, regional investment has an insignificant negative effect on poverty, labor absorption has an insignificant negative effect on poverty, and economic growth has a significant negative effect on poverty.

Keywords: poverty, capital expenditure, regional investment, labor absorption, economic growth



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INTRODUCTION

Poverty is a major problem of economic development and is a focus that needs to be addressed in every country, especially Indonesia. According to (Todaro and Smith, 2006), development is an effort to achieve a sustainable level of per capita income. There is a goal in the economic development of a country, namely achieving high economic growth. With increasingly high economic growth, it will be able to improve the welfare of the community so that it can reduce poverty. In addition, it is explained that poverty is a condition in which the population experiences malnutrition, serious health problems, low levels of education, lives in an uncondusive environment, and has minimal income. Poverty is a vicious circle problem that never ends because it has factors that are interrelated with each other. According to (Munir, 2002) Countries that are often considered less developed are usually characterized by low per capita income, rapid population growth, the majority of jobs are in the agricultural sector, and are trapped in a poverty trap. The following is the percentage of poor people throughout Java Island in 2017-2022, a comparison of targets and realizations in the RPJMD, and the average percentage of poverty in Central Java Province:

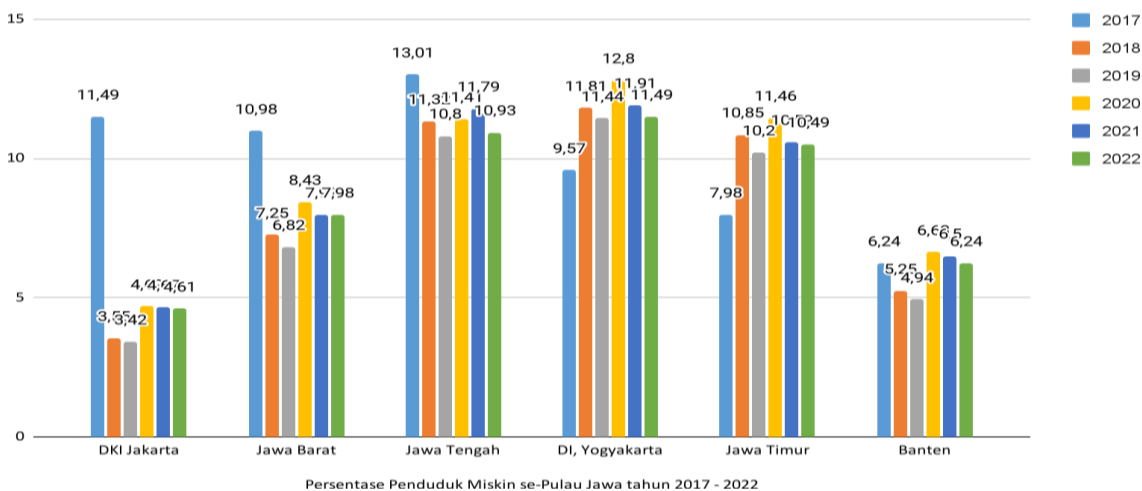


Figure 1. Percentage of Poor Population in Provinces throughout Java Island 2017-2022
Source: Central Statistics Agency, 2023 (processed)

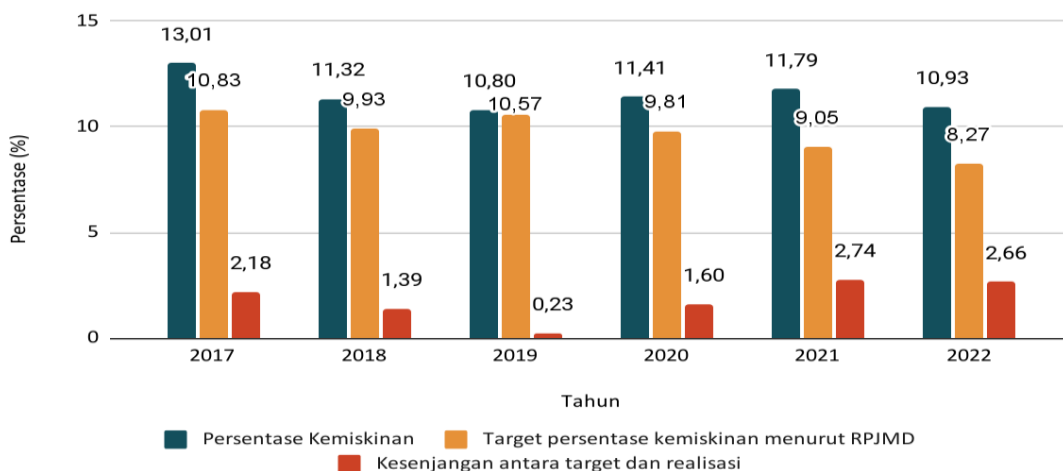


Figure 2. Percentage of Target, Realization, and Poverty Gap (RPJMD)
Source: BAPPEDA Central Java Province, 2023 (processed)

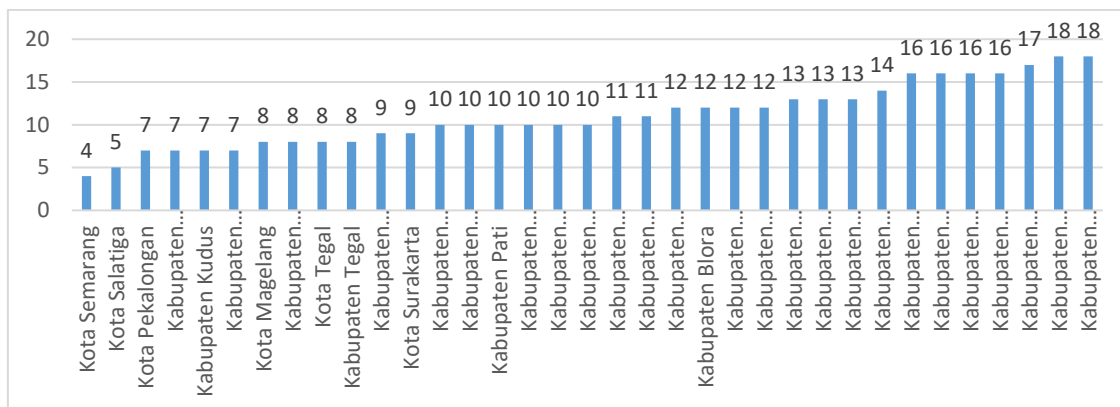


Figure 3. Average Percentage of Poverty in Districts/Cities in Central Java Province

Source: Central Statistics Agency, 2024 (processed)

The government can break this cycle of poverty through various means, including the role in spending, investment to invest capital, limitations in labor absorption, and economic growth of a region. If the community has received the fulfillment of its needs, then public services will become more efficient, which in turn will increase the welfare of the community, so that poverty can be overcome. In addition, according to Klien Aaron and Hadjimichael (2001) in(Aqidah and Aisyah, 2022)Revealing that investment will trigger economic growth, thereby reducing poverty levels. Investment also has the potential to contribute to improving the quality of economic growth and efforts to overcome poverty. Furthermore, the relationship between labor absorption and poverty levels can be explained that when available employment opportunities are limited, it will cause an increase in unemployment. High unemployment rates will make it difficult for unemployed people to earn enough income to meet their living needs. Therefore, the number of people living in poverty can increase(Todaro and Smith, 2006). The following is a graph of capital expenditure in Central Java province in 2017-2022:

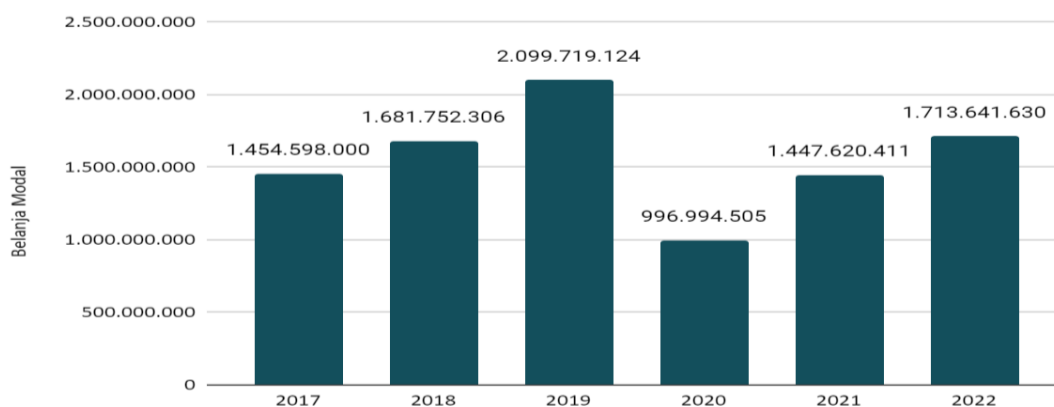


Figure 4. Capital Expenditure of Central Java Province 2017-2022

Source: Central Java Statistics Agency, 2024 (processed)

The following is the development of Investment consisting of Foreign Investment and Domestic Investment in Central Java Province in 2017-2022:

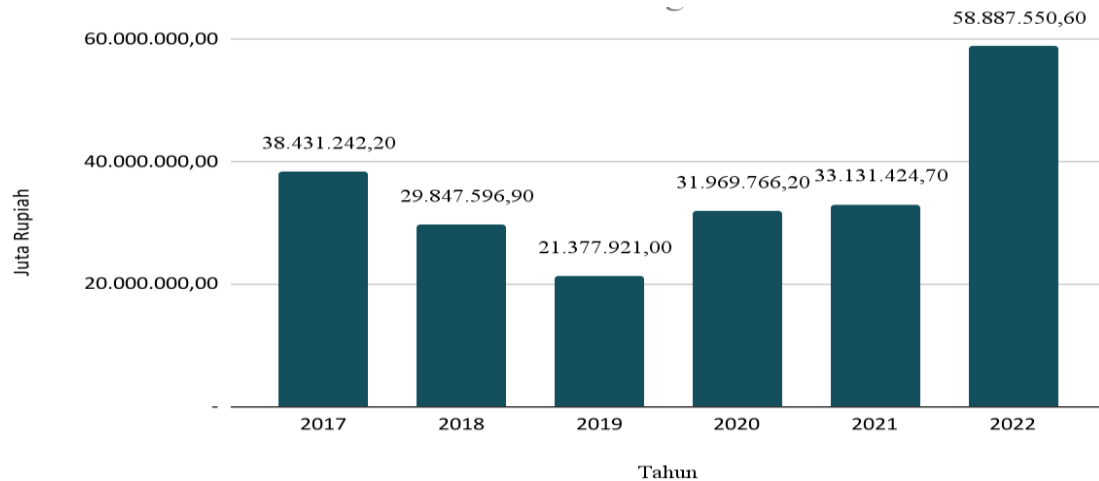


Figure 5. Investment in Central Java Province 2017-2022

Source: Central Java Statistics Agency, 2024 (processed)

The following is the growth in workforce absorption in Central Java Province in 2017-2022:

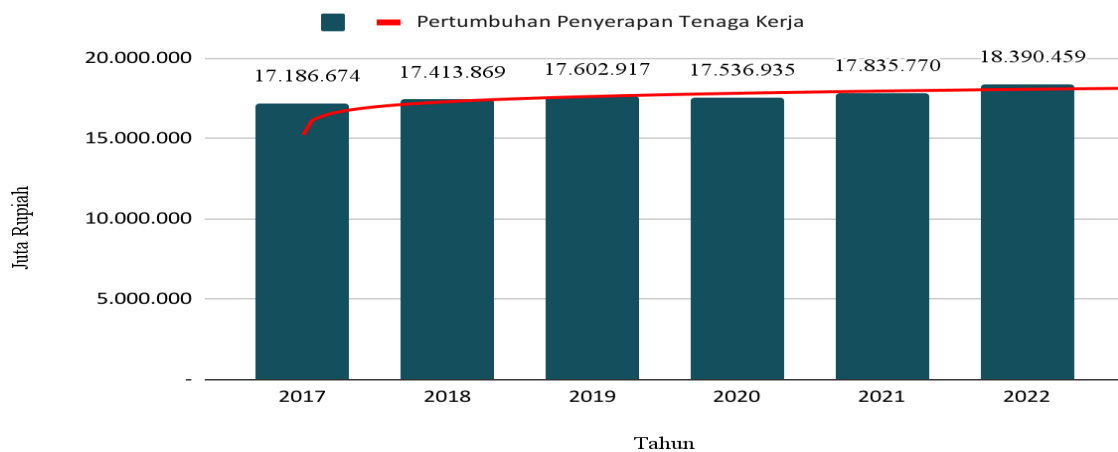


Figure 6. Absorption of Labor in Central Java Province 2017 - 2022

Source: Central Java Statistics Agency, 2024 (Processed)

The following is data on economic growth in Central Java Province for 2017-2022:

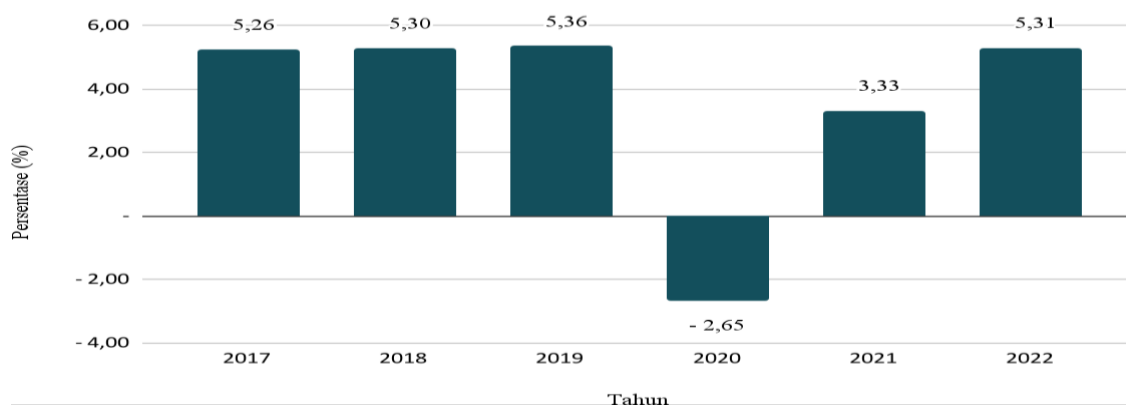


Figure 7. Economic Growth of Central Java Province 2017 – 2022

Source: Central Java Statistics Agency, 2024 (Processed)

According to the theory explained by (Todaro & Smith, 2006) which is quoted from (Fitri and Aimon, 2019), it is explained that in order to add or replace capital goods that have experienced depreciation or damage, every economy basically needs to set aside or save part of its income. New investment is needed which is a net addition to reserves or capital stock to encourage economic growth. This understanding shows that savings alone will not be enough to encourage economic growth and poverty alleviation, so investment is needed which also plays a role in increasing capital. In (Law of the Republic of Indonesia No. 25 of 2007, no date) Regarding Investment, it is stated that Investment includes all actions involving investment, whether from domestic investors or foreign investors, to conduct business activities in the territory of the Republic of Indonesia. The relationship between labor absorption and poverty levels can be explained that when available employment opportunities are limited, it will cause an increase in the unemployment rate. The high unemployment rate will make it difficult for unemployed people to earn enough income to meet their living needs. Therefore, the number of people living in poverty can increase (Todaro and Smith, 2006).

This research is based on the differences in several previous research results. Among them are research from (Aqidah and Aisyah, 2022) and (Yustitia, Thoriq and Ardiansyah, 2022), capital expenditure, regional investment, and labor absorption have a negative and significant effect on poverty, while economic growth has a positive and insignificant effect on poverty. Meanwhile, in the study (Demak, Masinambow and Londa, 2020), (Suharlina, 2020), (Pasaribu, Batubara and Rahmani, 2022), and (Alisha and Yulhendri, 2021) states that capital expenditure, regional investment, and labor absorption have a negative and significant effect on poverty, while economic growth has a negative and significant effect on poverty.

Based on the background above, it can be seen that the number of poor people in Central Java is ranked 3rd in Indonesia, the percentage of poor people in Central Java is ranked 2nd in Java, and the high gap between the RPJMD target and the realization of the poverty percentage. In addition, there is an increase in capital expenditure followed by an increase in poverty, a drastic increase in regional investment in 2022 does not drastically reduce poverty, labor absorption increases drastically in 2022 by 3.1%, and economic growth is ranked 3rd in Java. Therefore, researchers are interested in conducting research with the title: Analysis of the Effect of Capital Expenditure, Regional Investment, Labor Absorption, and Economic Growth on Poverty in Central Java Province in 2017-2022, which aims to determine the effect of Capital Expenditure, Regional Investment, Labor Absorption, and Economic Growth on Poverty in Central Java. It is hoped that the results of the study can be used by the government as an effort to reduce poverty.

LITERATURE REVIEW

Poverty

According to Nurkse (1953) in (Kuncoro, 1997), poverty can be explained through the concept of the Vicious Circle of Poverty. In the Vicious Circle of Poverty theory entitled "Problems of Capital Formation in Underdeveloped Countries", low productivity has an impact on low income. Furthermore, low income results in minimal savings. Then, the minimal savings rate has an impact on low investment. Because investment is a very important component in capital, low investment results in a lack of capital which in turn has an impact on backwardness and causes poverty.

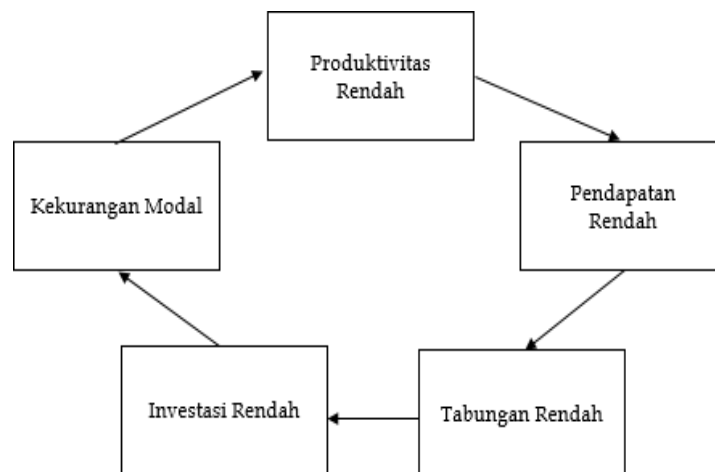


Figure 8. Ragnar Nurkse's Vicious Circle Theory
 Source: Kuncoro, 1997 (Processed)

In his theory, Ragnar Nurkse states that poverty is not only caused by the absence of past development, but also by obstacles to future development. In this context, Nurkse conveys the idea that "A country is poor because it is poor." According to Nurkse, the core of the vicious circle of poverty is the circumstances that create obstacles to achieving higher levels of development.

In addition, Amartya Sen in his 1981 book entitled *Poverty and Famines: An Essay on Entitlement and Deprivation*. In his book, Sen argues that poverty occurs because of hunger, which is not only caused by a lack of food, but also because there is economic inequality. According to Sen, poverty can be overcome if the basic rights of the poor have been fulfilled. An example of the basic rights of the poor that are fulfilled is by having equal education, opening up many job opportunities so that people can get their rights fulfilled, and expanding access to support the fulfillment of human life. (Syawaluddin, no date).

Capital Expenditure

According to (Law Number 45 of 2007', no date) Capital expenditure is spending carried out by the central government to build capital, which includes land, buildings, buildings, equipment, and networks. This is reinforced by the theory of government expenditure by Rostow and Musgrave. The theory of Rostow and Musgrave is one of the macroeconomic frameworks developed by Rostow and Musgrave (Nadra, 2022). This theory explains three stages of economic development in a country: the early stage, the middle stage, and the advanced stage, each of which is associated with the role of government spending. In the early stage, the proportion of government spending to national income is quite large. This is due to the government's need to invest in infrastructure and basic services such as health, education, and transportation. In the second stage, namely the intermediate stage of economic development, private investment begins to grow rapidly, so the government still needs to invest to accelerate economic growth. In the advanced stage of economic development, according to Rostow, the government's focus shifts from providing infrastructure to spending on social programs such as old age security, pension funds, education, and other social activities. Therefore, the government must spend to provide infrastructure such as transportation and so on.

Regional Investment

Regional investment is the purchase of commodities intended for future use, including investment, or what is usually called investment. (N. Gregory Mankiw, 2018). Investment or capital investment is divided into two types, namely foreign investment and domestic investment. In (Law of the Republic of Indonesia No. 25 of 2007, no date) Foreign investment is an activity of investing

capital to conduct business in the territory of the Republic of Indonesia by foreign investors, either using foreign capital entirely or in collaboration with domestic investors. While domestic investment is an activity of investing capital for domestic investors to conduct business in the territory of the Unitary State of the Republic of Indonesia using domestic capital.

Regional investment is supported by the BigPush Theory. The theory was first put forward by Paul Narczyk Rosenstein-Rodan in (Rosenstein-Rodan, 1943) with his article entitled "Problems of Industrialization of Eastern and South-Eastern Europe". The Big Push model emerged as a response to massive investment efforts aimed at accelerating the industrialization of countries in Eastern and Southeastern Europe. In developing countries, the Big Push theory is used to overcome poverty through large investment patterns in the industrial sector. Over time, this theory was further developed by Ragnar Nurkse, who argued that development should cover all sectors evenly and in balance. This concept is known as "balanced strategy development," which refers to simultaneous and diverse investments used to simultaneously and complementary drive aggregate demand. The Big Push theory or "big push" is closely related to the role of capital and infrastructure.

Labor Absorption

According to (Kuncoro, 1997), labor absorption is the number of jobs that have been filled, reflected in the number of people who are actively working. The working population is spread across various economic sectors according to the existing labor demand, therefore labor absorption is often referred to as labor demand. This labor absorption can be interpreted as a demand for human resources.

According to neoclassical economics, it is said that labor supply will increase if there is an increase in the wage rate. Conversely, labor demand will decrease if there is an increase in the wage rate.

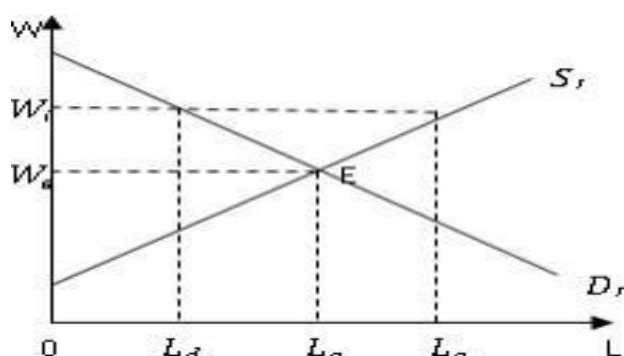


Figure 9. Labor Supply and Demand Curves

Source: Kuncoro, 1997

It can be seen in Figure 2.2 that it can be explained that assuming all parties know complete information about the labor market, then the neoclassical theory assumes that the amount of labor demand is the same as the supply at the equilibrium point (E). At the equilibrium point there is no unemployment. In reality, the equilibrium point is never reached. (Chusna, 2013).

Economic growth

Economic growth has a significant impact on various levels of society, both small and large. Changes in the level of economic growth can affect the welfare of society. Therefore, the government is expected to play an active role in creating economic growth that provides welfare for the entire community. One theory that discusses economic growth with poverty is the trickle-down effect theory. The trickle-down effect theory is one of the quite important theoretical topics in economic development, especially in countries that are experiencing development (Laksani, 2010) in (Sukarnoto, 2020). This concept was first proposed by Albert Otto Hirschman in 1954.

The trickle-down effect theory explains that progress achieved by certain groups of people will automatically trickle down to lower levels of society, creating job opportunities and various economic potentials that will ultimately result in an even distribution of economic growth. The trickle-down effect theory is an indirect approach strategy in economic development that aims to improve welfare by utilizing economic growth. This approach is called indirect because the process of equalizing welfare is carried out through increasing economic growth in the main sector, and the results of this economic growth will then be distributed to other sectors. Through this distribution process, it is hoped that it can bring improvements in community welfare.

Research Framework

To see more clearly how the research flow works, you can see the following research framework:

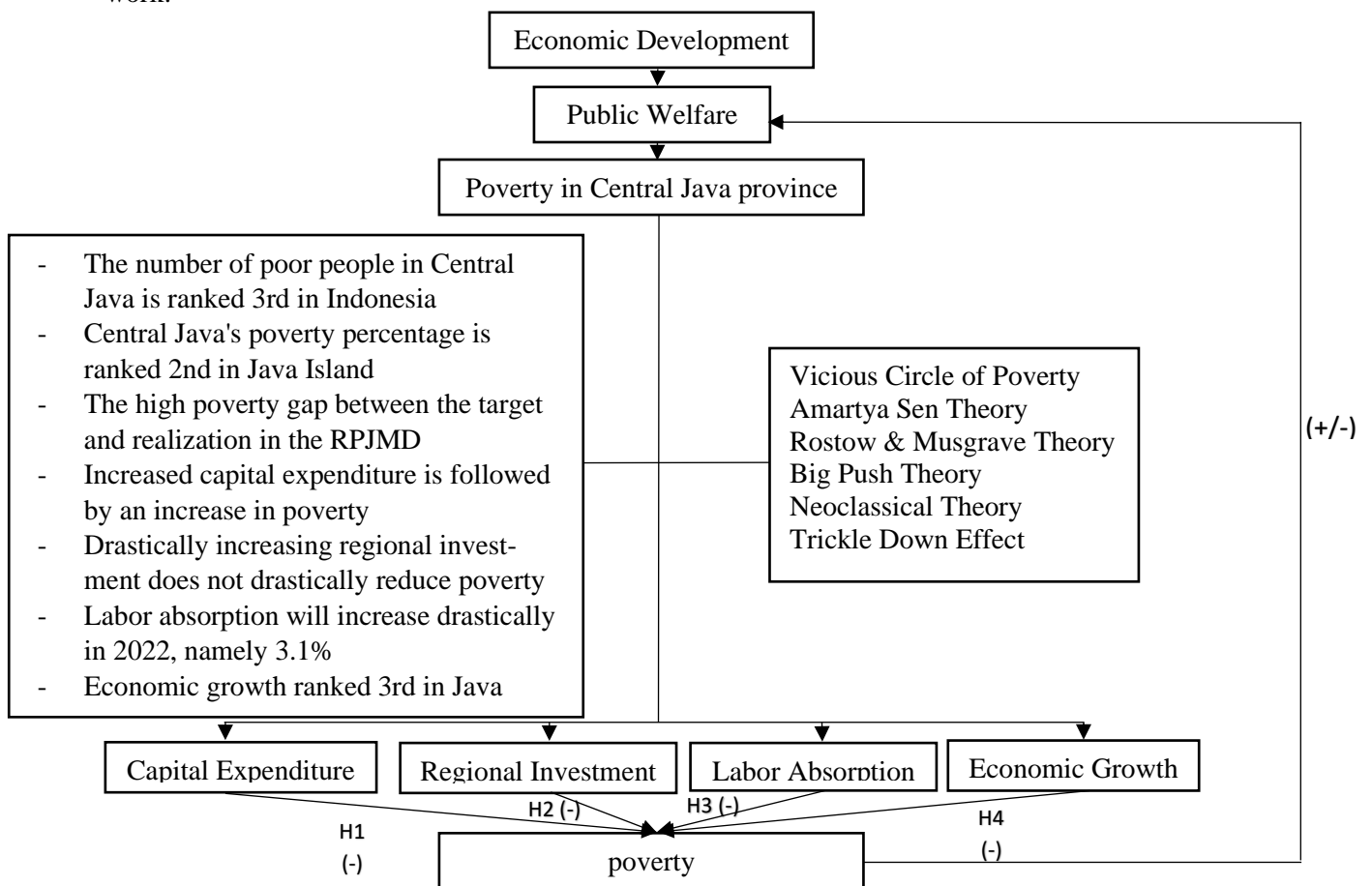


Figure 10. Research Framework

Source: Author, 2023

Hypothesis Development

Increased capital spending will reduce poverty, this is in accordance with research.(Safitri and Saleh, 2020). The results of the study indicate that the capital expenditure variable has a negative and significant effect on the poverty rate, this is because capital expenditure in South Kalimantan has increased due to infrastructure development projects every year. Therefore, the hypothesis for the capital expenditure variable is:

H1: Capital Expenditure is suspected of having a negative and significant impact on Poverty

Indirect investment can reduce poverty, this is stated in research.(Aqidah and Aisyah, 2022). The results of the study indicate that investment has a negative and significant effect on

poverty. High investment will correlate with new aspects of use so that it can add new jobs, reduce unemployment, and reduce poverty. Therefore, the hypothesis for the investment variable is:

H2: Regional investment is suspected of having a negative and significant influence on poverty

Next, in(Yustitia, Thoriq and Ardiansyah, 2022)researching the Absorption of Labor which has an influence on the Poverty Level in Purwakarta Regency for the period 2011-2020. The results of the study show that the absorption of labor has a significant negative effect on poverty. So, with the large number of workers absorbed, it will reduce and suppress the poverty rate in Purwakarta Regency. Therefore, the hypothesis for the investment variable is:

H3: Labor absorption is thought to have a negative and significant influence on poverty.

Based on research(Alisha and Yulhendri, 2021)which examines the Influence of Economic Growth on Poverty has shown that economic growth has a negative and significant effect on poverty. This can explain that increasing economic growth that is carried out evenly can reduce poverty levels. Therefore, the hypothesis for the economic growth variable is:

H4: Economic growth is thought to have a negative and significant influence on poverty.

METHOD

This study uses a quantitative approach to measure how Capital Expenditure, Regional Investment, Labor Absorption, and Economic Growth affect Poverty. According to(Sugiyono, 2013)Quantitative method is a method for measuring based on the philosophy of positivism which has a background for researching a population or sample that has been determined, then collecting data using research instruments, quantitative/statistical data analysis so that it has the aim of testing the hypothesis that has been set before conducting the test.

RESULTS AND DISCUSSION

Panel Data Regression Model Selection

Chow Test

The Chow test is used to determine the right choice between the Fixed Effect Model and the Common Effect Model in estimating panel data. The following are the test results from the chow test

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	6.407772	4	0.1707

Figure 11. Chow Test

Source: EViews 10, 2024 (Processed)

From the results of the Chow test above, it can be seen that the probability value is $0.0000 < 0.05$ (α), then H_0 is rejected and the model selected for hypothesis testing is the Fixed Effect Model.

Hausman test

The Hausman test is used to determine the right choice between the Fixed Effect Model and the Random Effect Model in estimating panel data. The following are the test results from the Hausman test:

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	6.407772	4	0.1707

Figure 12. Hausman test

Source: EViews 10, 2024 (Processed)

From the results of the Hausman test above, it can be seen that the probability value is $0.1707 > 0.05 (\alpha)$, then H_0 is accepted and the model selected for hypothesis testing is the Random Effect Model.

Lagrange Multiplier Test

The Lagrange Multiplier test is used to determine the right choice between the Common Effect Model and the Random Effect Model in estimating panel data. The following are the test results from the Lagrange Multiplier test:

Lagrange multiplier (LM) test for panel data

Date: 03/08/24 Time: 04:03

Sample: 2017 2022

Total panel observations: 210

Probability in ()

Null (no rand. effect) Alternative	Cross-section One-sided	Period One-sided	Both
Breusch-Pagan	394.0467 (0.0000)	2.006285 (0.1566)	396.0530 (0.0000)
Honda	19.85061 (0.0000)	1.416434 (0.0783)	15.03807 (0.0000)
King-Wu	19.85061 (0.0000)	1.416434 (0.0783)	8.430182 (0.0000)
GHM	-- --	-- --	396.0530 (0.0000)

Figure 13. Lagrange Multiplier Test

Source: EViews 10, 2024 (Processed)

From the results of the Lagrange multiplier test above, it can be seen that the probability value is $0.000 < 0.05 (\alpha)$, then H_0 is rejected and the model selected for hypothesis testing is the Random Effect Model.

Classical Assumption Test Results

Multicollinearity Test

Multicollinearity test is one of the classical assumption tests that functions to measure the relationship between independent variables in a regression model. If the correlation coefficient result is less than 0.80, there is no indication of multicollinearity, and vice versa. The results of the multicollinearity test in this analysis are as follows:

	BM	INV	PTK	PE
BM	1.000000	0.070011	0.328293	-0.042286
INV	0.070011	1.000000	0.098904	0.024521
PTK	0.328293	0.098904	1.000000	-0.005588
PE	-0.042286	0.024521	-0.005588	1.000000

Figure 14. Multicollinearity Test

Source: EViews 10, 2024 (Processed)

Based on the table above, it can be seen that the correlation value of each variable, namely capital expenditure, regional investment, labor absorption, and economic growth is below 0.80. So it can be concluded that the data is free from multicollinearity tests.

Heteroscedasticity Test

The heteroscedasticity test is a test that aims to see whether or not there are similarities between the residual data between each other. Data can be said to be infected with heteroscedasticity if there is excessive variation in the residuals in the data. The following are the results of the heteroscedasticity test:

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.664622	0.069830	9.517651	0.0000
BM	0.032450	0.020660	1.570686	0.1178
INV	-0.035275	0.019709	-1.789759	0.0750
PTK	-0.039232	0.039466	-0.994077	0.3214
PE	-0.064668	0.064496	-1.002666	0.3172

Figure 15. Heteroscedasticity Test

Source: EViews 10, 2024 (Processed)

Data is infected with heteroscedasticity if it has a probability < 0.05. In Figure 4.4 all variables > 0.05. Therefore, there is no symptom of heteroscedasticity

Statistical Test

This study uses panel data regression analysis using the Random Effect Model (FEM) method with the help of Eviews 10 software in data processing. The following is the panel data regression equation model:

$$K = 0.0189823838023 + 0.0601625468014*BM - 0.010717118961*INV - 0.00885603610798*PTK - 0.597011716317*PE + e$$

T-test

The t-test is one of the tests used to determine the influence of independent variables individually on dependent variables. The following are the results of the t-test:

Figure 4.6. T-test

Source: EViews 10, 2024 (Processed)

The partial influence of independent variables on dependent variables is as follows:

Dependent Variable: K
 Method: Panel EGLS (Cross-section random effects)
 Date: 03/08/24 Time: 04:12
 Sample: 2017 2022
 Periods included: 6
 Cross-sections included: 35
 Total panel (balanced) observations: 210
 Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.018982	0.128230	0.148034	0.8825
BM	0.060163	0.022980	2.617992	0.0095
INV	-0.010717	0.021675	-0.494452	0.6215
PTK	-0.008856	0.047864	-0.185025	0.8534
PE	-0.597012	0.100881	-5.918005	0.0000

Figure 16. T-test

Source: EViews 10, 2024 (Processed)

The partial influence of independent variables on dependent variables is as follows:

- a. The results of the t-test on the Capital Expenditure (BM) variable obtained a calculated t value of $2.617992 > t$ table, which is 1.973771337 and a sig. value of $0.0095 < 0.05$, so H_a is accepted and H_0 is rejected, meaning that the Capital Expenditure variable has an effect on Poverty in Central Java Province.
- b. The results of the t-test on the Investment variable (I) obtained a calculated t value of $-0.494452 < t$ table, namely 1.973771337 and a sig. value of $0.6215 > 0.05$, so H_a is rejected and H_0 is accepted, meaning that the Investment variable has no effect on Poverty in Central Java Province.
- c. The results of the t-test on the Labor Absorption (PTK) variable obtained a calculated t value of $-0.185025 < t$ table, which is 1.973771337 and a sig. value of $0.8534 > 0.05$, so H_a is rejected and H_0 is accepted, meaning that the Labor Absorption variable has no effect on Poverty in Central Java Province.
- d. The results of the t-test on the Economic Growth (PE) variable obtained a calculated t value of $-5.918005 < t$ table, which is 1.973771337 and a sig. value of $0.0000 < 0.05$, so H_a is accepted and H_0 is rejected, meaning that the Economic Growth variable has a significant negative effect on Poverty in Central Java Province.

F Test

The F test is a test conducted to determine the influence of independent variables simultaneously influencing the dependent variable. The following are the results of the F test:

F-statistic	10.04652
Prob(F-statistic)	0.000000

Figure 17. F test

Source: EViews 10, 2024 (Processed)

The calculated F value of $10.04652 > F$ table which is 2.424815262 and the sig. value is $0.000000 < 0.05$, then H_0 is rejected and H_a is accepted, meaning that the variables Capital Expenditure, Investment, Labor Absorption, and Economic Growth have an effect on Poverty in Central Java Province.

Coefficient of Determination Test (R²)

The coefficient of determination is a test conducted to see how much the independent variable influences the dependent variable. The following are the results of the calculation of the coefficient of determination test (R²):

R-squared	0.163900
Adjusted R-squared	0.147586

Figure 18. Test of Determination Coefficient (R²)

Source: EViews 10, 2024 (Processed)

The adjusted R Square value is 0.147586 or 14.7586%. The coefficient of determination value shows that the independent variables consisting of Capital Expenditure, Investment, Labor Absorption, and Economic Growth are able to explain the dependent variable, namely Poverty in Central Java Province by 14.7586%, while the rest is explained by other variables not included in this research model.

Discussion

The Impact of Capital Expenditure on Poverty

Based on the research results, the coefficient value of capital expenditure is 0.0601625468014 with a probability value of 0.0095. This means that capital expenditure has a positive and significant effect on poverty in Central Java Province. These results also show that every 1% increase in capital expenditure will increase poverty (positive sign) by 0.0601625468014 percent. Therefore, in this study H1 is rejected.

This result does not agree with the theory put forward by Rostow and Musgrave regarding the theory of government spending, which states that increasing government spending in this case capital spending can indirectly reduce poverty, because capital spending will be used to finance all types of government spending for capital formation. It is expected that assets originating from capital spending can contribute to increasing productivity and reducing poverty. An example of capital formation financed by capital spending is infrastructure needs. The availability of adequate infrastructure will have a positive impact because it will make it easier for people to carry out economic activities and reduce poverty.

One of the highest capital expenditure allocations in Central Java Province in 2022 is for equipment and machinery amounting to IDR 1,406,070,432. Capital expenditure for equipment and machinery is an expenditure from the capital expenditure sector used for the replacement, procurement, or increase in machine capacity and inventory that provides benefits within 12 months or 1 year until the equipment or machinery reaches a ready-to-use condition. Thus, increased capital expenditure will still increase poverty in the same year because the effect of the increase in capital expenditure is not felt in the same year. One of the areas in Central Java Province that has the largest capital expenditure allocation is Cilacap Regency, which is IDR 570,986,438,236.00. This is because there is an oil refinery with a production capacity of up to 400,000 barrels per day.

The results of the analysis carried out are in line with the findings of (Sirait, 2023) which found that capital expenditure has a negative and insignificant effect on poverty. Contrary to research from (Aqidah and Aisyah, 2022), capital expenditure has a negative and significant effect on poverty. In this case, it means that capital expenditure cannot reduce the poverty rate.

The Impact of Regional Investment on Poverty

Based on the research results, a probability value of 0.6215 was obtained. This means that regional investment has no significant effect on poverty in Central Java Province. Therefore, in this study H2 is rejected.

This result is in line with the Big Push Theory proposed by Rosenstein-Rodan, which states that a strong overall push from investment is needed to maintain the economic equilibrium point.

Increasing investment in Central Java cannot spur poverty reduction, because the largest investment in Central Java Province is in labor-intensive industries. The large number of workers absorbed by labor-intensive industries is supported by the Regional Minimum Wage (UMR) of Central Java Province which is relatively low. Therefore, investment in labor-intensive industries in Central Java Province cannot strongly drive the economy and therefore cannot reduce poverty. The following is a table of the lowest UMR of the 3 Provinces in Indonesia:

Table 1. UMR in the 3 Lowest Provinces in Indonesia

Year	1	2	3
2017	Yogyakarta	Central Java	East Java
	Rp. 1,337,645	Rp. 1,367,000	Rp. 1,388,000
2018	Yogyakarta	Central Java	East Java
	Rp. 1,454,154	Rp. 1,486,065	Rp. 1,508,894
2019	Yogyakarta	Central Java	East Java
	Rp. 1,570,922	Rp. 1,605,396	Rp. 1,630,059
2020	Yogyakarta	Central Java	East Java
	Rp. 1,704,607	Rp. 1,742,015	Rp. 1,768,775
2021	Yogyakarta	Central Java	Banten
	Rp. 1,770,000	Rp. 1,800,000	Rp. 1,810,000
2022	Central Java	Yogyakarta	West Java
	Rp. 1,810,000	Rp. 1,840,000	Rp. 1,840,000

Source: Central Statistics Agency, 2024 (Processed)

The Regional Minimum Wage (UMR) of Central Java Province was ranked second lowest in Indonesia in 2017-2021 after DI Yogyakarta. Furthermore, the UMR in Central Java Province was ranked first lowest in 2022. Therefore, the largest investment in Central Java Province cannot reduce poverty because the Regional Minimum Wage (UMR) of Central Java Province is relatively low.

The results of the analysis carried out are in line with the findings of (Djohan & Junaidi, 2021), Investment has a negative and insignificant effect on poverty in Bontang City. Contrary to research (Safitri and Saleh, 2020) Investment from Foreign Investment (PMA) has a significant negative effect on the poverty rate in South Kalimantan and investment from Domestic Investment (PMDN) has a negative insignificant effect on the poverty rate in South Kalimantan. In this case, it means that regional investment cannot reduce the poverty rate.

The Impact of Labor Absorption on Poverty

Based on the research results, a probability value of 0.8534 was obtained. This means that labor absorption has no significant effect on poverty in Central Java Province. Therefore, in this study H3 is rejected. This result does not agree with the neo-classical theory that every increase in labor absorption will reduce the wage rate and indirectly poverty will be resolved.

One of the problems of labor absorption is that the workforce absorbed in Central Java Province does not come from the poor. This can indicate that the increasing number of workers absorbed will continue to spur poverty because the workforce absorbed is not from the poor population. The main asset of the poor population group is the workforce which is generally unskilled. The job market absorbs many workers with low education for the agricultural sector with low incomes compared to workers in the industrial sector (BAPPENAS. PPN, 2018). This is what causes the large number of workers absorbed not to significantly reduce poverty in Central Java.

The results of the analysis carried out are in line with the findings of (Nurlayli and Jumarni, 2022) that the workforce has a positive and insignificant influence on the poverty rate in Bone Regency, South Sumatra Province. Contrary to research (Yustitia, Thoriq and Ardiansyah, 2022),

labor absorption has a significant negative effect on poverty in Purwakarta Regency. In this case, it means that labor absorption cannot reduce the poverty rate.

The Impact of Economic Growth on Poverty

Based on the research results, the economic growth coefficient value was obtained at -0.597011716317 with a probability value of 0.0389 . This means that economic growth has a negative and significant effect on poverty in Central Java Province. These results also show that every 1% increase in economic growth will reduce poverty (negatively marked) by -0.597011716317 percent. Therefore, in this study H4 is accepted. Significant results are a reflection of the successful application of the trickle down effect theory in several Central Java Provinces which state that economic growth achieved by certain community groups will automatically seep into lower levels of society, creating job opportunities and various economic potentials that will ultimately result in an even distribution of economic growth and reduce poverty.

GRDP in Central Java Province has experienced a positive trend in the past two years. Based on the Central Java Statistics Agency, the manufacturing industry sector takes the highest portion, namely 33.96%. The manufacturing industry is an economic activity carried out to change unfinished goods into semi-finished or finished goods. Manufacturing companies absorb at least 20 workers, in other words, the manufacturing industry is a labor-intensive activity that requires a lot of workers. There are 4,226 manufacturing companies/businesses in Central Java Province in 2022. The high role of the manufacturing industry shows that the largest contributor to economic growth in Central Java Province can reduce poverty by absorbing a lot of workers and producing an even distribution of economic growth.

The results of the analysis carried out are in line with the findings of (Alisha and Yulhendri, 2021) shows that economic growth has a negative and significant effect on poverty in the Regency/City of West Sumatra. Contrary to research (Pangiuk, 2018) that economic growth has a negative and insignificant influence on poverty in Jambi Province. In this case, it means that economic growth can reduce poverty levels.

CONCLUSION AND SUGGESTIONS

Conclusion

This study was conducted to examine the influence of capital expenditure variables, regional investment, labor absorption, and economic growth on poverty in Central Java Province in 2017-2022. Based on the results of the data analysis that has been carried out, the following conclusions can be drawn:

1. Capital expenditure in Central Java Province is quite high but cannot be felt in the same year, because the highest capital expenditure in Central Java Province is allocated to capital expenditure on equipment and machinery. Capital expenditure can only be felt in terms of its impact on poverty when equipment and machinery reach a ready-to-use condition.
2. Regional investment cannot significantly spur poverty reduction because the largest investment in Central Java Province is found in labor-intensive industries which are closely related to the Regional Minimum Wage (UMR). The Regional Minimum Wage (UMR) in Central Java Province is relatively low compared to all provinces in Indonesia. Therefore, investment in Central Java Province cannot spur poverty reduction.
3. Labor absorption cannot affect poverty rates because the majority of the population absorbed are poor people who have unskilled labor. This causes the increasing absorption of labor in Central Java Province to not reduce poverty.
4. The increasing economic growth is followed by a decrease in poverty in Central Java Province in 2017-2022. The highest GRDP sector is in the manufacturing industry which is a labor-intensive industry. The high manufacturing industry in Central Java Province will increase labor absorption and reduce unemployment. This shows that economic growth is able to overcome poverty.

Based on these results, the implication of this study is that increasing capital expenditure will not reduce poverty if its allocation is not right. The same is true for regional investment and labor absorption which have their own characteristics. In addition, economic growth with the trickle-down theory will reduce poverty.

Suggestion

Based on the conclusions in this study, the suggestions that researchers can provide include:

1. In spending the capital expenditure budget, the Central Java Provincial Government is expected to pay attention to the allocation of capital expenditure that is suitable for reducing the poor population.
2. It is hoped that the Central Java Provincial Government can improve the investment climate to make it more conducive, one of which is by increasing wages so that Central Java Province can be competitive with other provinces in Indonesia.
3. The Central Java Provincial Government can provide training to the entire workforce, especially the poor, so that the people of Central Java Province will be skilled enough to work with high wages.
4. Economic growth has been able to reduce poverty with the largest sector that can distribute income evenly, then districts and cities in Central Java Province need to increase economic growth in other sectors to continue to increase economic growth.

LIMITATIONS

The limitations of this study lie in the variables used, the limited research time, namely 2017-2022, the analysis method that does not use a lag approach so that it cannot see the impact of variables in the previous year, and as much as 85% is still influenced by other variables outside the research model so that further research is needed on the factors that will reduce poverty.

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