

Determinants of Government Spending and Investment on District/City Economic Growth in Jambi Province

Fitri Amalia^{1*}, Erni Achmad², Chandra Mustafa³

^{1,2,3}Faculty of Business & Economics, Universitas Jambi, Indonesia.

36657 Indonesia

Corresponding author: famalia1720@gmail.com

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ABSTRACT

This research is titled "Determinants of Government Spending and Investment on the Economic Growth of Districts and Municipalities in Jambi Province." The study aims to determine and analyze the Determinants of Employee Expenditure, Capital Expenditure, Goods and Services Expenditure, PMDN, and PMA on District/city economic growth in Jambi Province in 2017-2022. The analysis method uses quantitative descriptive analysis with secondary data, the analysis tool uses panel data regression using cross-section data, namely the research objects of 11 districts and cities in the province, and time series data, namely 2017-2022 with a total number of observations of 66 objects, then using tests related to panel data regression, namely the selection of chow test models, Hausman tests, and Lagrange multiplier tests, and using statistical F and T hypothesis tests and coefficients of determination. The results from the fixed-effects panel data regression indicated that capital expenditure, employee expenditure, and expenditure on goods and services had a significant effect on the economic growth of regencies and cities in Jambi Province. In contrast, foreign and domestic investment did not have a significant effect on the economic growth of Regencies and cities in Jambi Province.

Keywords: *Capital Expenditure, Employee Expenditure, Goods and Services Expenditure, Foreign Investment, Domestic Investment and Economic Growth*

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1. INTRODUCTION

The region's progress or development can be measured by its economic growth. Economic growth is closely related to the increase in economic activity of the community in line with the increase in the production of goods and services. In local governments, the economic growth indicator used is the increase in Gross Regional Product (GDP). If GDP increases, it shows that the region is experiencing positive economic growth. GRDP refers to the gross added value of goods and services produced through economic activities over a given period (Pangiuk, 2017). Economic growth is also the primary benchmark and remains the government's primary concern when analyzing the implementation of national development (Kusumawati & Wiksuana, 2018). The measurement of economic growth involves three significant factors: *capital accumulation*, *population growth*, and *technological advances* (Todaro in Rofii & Ardyan, 2017). Achievements in a country's development are often reflected in these parameters (Dewi, 2015).

Economic growth plays a central role in development implementation because of the close relationship between economic growth and economic progress (Dinarjito & Dharmazi, 2020). An increase in a country's production and national income indicates ongoing economic growth. Achievements in the economic development of a region are the main measure to assess the level of economic development in Indonesia. According to Winarto et al. (2022), regional economic development is encouraged to achieve community welfare by creating jobs and strengthening economic sectors that can be managed by both local governments and the private sector. Evaluation of the economic welfare of a region can be done by analyzing regional GDP, which reflects regional economic development from the aspects of growth and decline (Sicily & Harsono, 2021). According to Todaro (2006), although economic progress is an important indicator, it is not the only benchmark for a region's development success. Conversely, sustainable economic growth in the long run can positively impact the implementation of economic development, as explained by Nirmala et al. (2022). For this reason, efforts to encourage economic growth are among the approaches that can be used to achieve regional development. Economic growth in districts/cities in Jambi Province varies from one region to another.

The direction of economic growth that has declined more shows that regional economic conditions are not yet conducive, so more government intervention is needed to remain under control and later still realize welfare for the community. In governance, local governments prepare budgets that will then be used as guidelines in carrying out various activities, but in reality, there are challenges faced by local governments in the context of public sector organizations related to budget allocation. Budget allocation refers to the distribution of funds for various programs. With limited resources, local governments must be able to allocate the revenue they receive productively for regional interests. Regional expenditure is a projection of estimated costs that must be distributed fairly and equitably so that they can be enjoyed by all levels of society without discrimination, especially in the provision of public services (Halim, 2007). In the context of the regional economy, the Regional Budget (APBD) prepared by the regional government plays a strategic role. APBD consists of three main components, namely revenue, expenditure, and financing. Local governments must prepare budgets using a systematic, careful approach to optimize the regional budget's contribution to local economic growth. An effective APBD can serve as an instrument to encourage economic growth and improve the welfare of people in a region. Therefore, proper budget planning and management are important steps in achieving the goal of inclusive regional economic development. Local government expenditure is measured from the total routine expenditure and development expenditure allocated in the regional budget. The greater the productive local government expenditure, the greater the economic level of a region (Wibisono, 2012). Government expenditures consist of expenditures and financing. This expenditure is used to finance government activities in running the government as a form of decentralization obligation. These expenditures may increase along with the increase in economic activity of a region, but the increase in expenditure does not necessarily have a positive impact on economic activity.

In regional economic analysis, capital expenditures by local governments are of particular significance. The primary

purpose of capital expenditure is to finance expenditure on factors of production, including infrastructure, facilities, and other productive assets. In theory, the right allocation of funds for capital expenditure must be able to encourage growth and expansion of economic activity in a region. This is because capital expenditure can stimulate increases in production capacity and operational efficiency, which in turn will increase economic output and regional revenues. Thus, strategic and targeted capital expenditure should be able to make a significant contribution to the increase in the regional economy. Employee expenditure refers to all expenses incurred by the state to pay salaries, provide benefits, or provide facilities to employees and state officials. This expenditure includes the provision of rewards for work already done, except for tasks related to investment or capital formation. Although income continues to increase every year, employee expenditure has increased significantly, without a comparable increase in capital expenditure (Sugiyanta, 2016). In macroeconomic theory, one of Keynes's proposals is that consumption is the dominant component of total expenditure in an economy (Keynes, 1936). In this context, employee spending, which is essentially government spending on employee salaries and benefits, can serve as one of the sources of income for a large portion of the area's population.

With this increase in income, household consumption is expected to increase. According to the Absolute Income Hypothesis proposed by Keynes, individual consumption is determined by their current income. Therefore, as income from employee spending increases, consumption in the community is expected to rise. This increase in consumption, in turn, can stimulate regional economic growth. This is because consumption is one of the four main components of Gross Domestic Product (GDP) – the others being investment, government spending, and net exports. An increase in any of these components will increase GDP, which is an indicator of the economic performance of a country or region (Samuelson & Nordhaus, 2001). Goods and Services Expenditure, as one of the important components in the budget, plays an essential role in the operations and functionality of ministries, institutions, and regional apparatus. This is a type of shopping intended for procuring goods or services, where the process starts with identifying needs and selecting providers to deliver the work results. In the context of regional economic growth, efficiency, and effectiveness in managing Goods and Services Expenditure can have a significant impact. Appropriate investments in goods and services can facilitate economic activity by building capacity in infrastructure, public services, and other operational support.

Ineffective and inefficient government spending can be a serious problem. Sometimes, government spending in Jambi Province tends to focus on certain sectors, while other sectors that have economic growth potential do not get enough attention. Lack of diversification of government spending can lead to inequality in regional economic development and dependence on limited sectors. Economic growth in a region results from the interaction of various factors. One of the main components affecting economic growth is government spending, which includes capital expenditures, employee compensation, and goods and services. Government spending can boost the economy by increasing aggregate demand, in line with Keynesian theory, which posits that it can help overcome recessions and spur growth (Chang & Lee, 2017). But, in addition to government spending, other factors also play an important role in determining the direction of economic growth.

Investment is an important element in encouraging economic growth. However, it is important to remember that the size of investment is not the only factor affecting the speed of economic growth. What is more important is how those investments are managed and used. Previous studies examining the impact of investment on economic growth, such as those by Chidoko (2015), Rabnawas (2015), Williams et al. (2017), and Prasetyawan et al. (2017), show that investment has a positive and significant influence on economic growth. Investment is an action undertaken by individuals or legal entities to maintain or increase the value of their capital (Pangiuk, 2017). Nasution (2020) defines investment as expenditure made by individuals, companies, or governments to acquire capital assets or equipment to increase the production capacity of goods or services in the economic sector. The purpose of investment is to develop or expand existing production capabilities, to make a positive contribution to economic growth. Investment can be grouped into two types, namely government investment, which is carried out by local or central governments, and private investment, which consists of Domestic Investment (PMDN) by the national private sector and Foreign Investment (PMA) by foreign private companies.

This investment aims to increase domestic capital stock, accelerate economic growth, create jobs, improve community welfare, and increase income in the region (Sukirno, 2013). If investment flows into a country sustainably over a long period and is supported by a competitive economy, then this will contribute to increased investment through increased per capita income. The low level of investment is also an obstacle to economic growth in Jambi Province. There are still obstacles to attracting investment from both the public and private sectors. Regulatory uncertainty, inadequate infrastructure, and a lack of investor attractiveness hampered capital inflows into the province.

The existence of investment, both domestic and foreign, is expected to provide a positive boost to the regional economy. Investment in the region is expected to encourage economic growth in the area, thus helping the local government in improving the welfare of the community in the investment location. Investment, both foreign and domestic, is one of the key factors in calculating national income, the main indicator of economic growth. Understanding the relationship between government spending, investment, and regional economic growth is an important task in economics and public policy. First, government spending, whether in the form of capital expenditure, employees, or goods and services, is a direct reflection of a region's policy priorities and is one of the main tools of local government in influencing the local economy. The efficiency and effectiveness of allocating these resources can significantly impact the welfare of local communities. Second, investment, both made by the government and the private sector, represents a long-term commitment to regional economic development. Investment in infrastructure, technology, and human capital can increase regional productivity, attract further investment, and accelerate economic growth.

2. LITERATURE REVIEW

2.1 Economic Growth

According to Kuznets (2000), economic growth refers to the long-term increase in a country's capacity to provide economic goods to its population. One of the many indicators that can serve as a benchmark for the success of a region's development is the region's economic condition (Todaro, 2006). There are three measures of economic growth: increasing output, increasing output per worker, and increasing *per capita* output (Boediono, 2012).

2.2 Regional Finance Concept

Finance is a very important aspect of organizing government. Government activities will not be able to run without financial support. In other words, finance is the primary factor to consider in every budget plan. For this reason, an autonomous region must increase its sources of income to improve development and service to the community. Local government work plans implemented as funds over specific time periods constitute regional finance or the budget. The main policy tool used by local governments is the regional budget, which is presented as a Regional Revenue and Expenditure Budget (Mardiasmo, 2002).

2.3 Theory of Government Spending

Government spending reflects the implementation of government policies. When the government establishes a policy to purchase goods and services, government expenditure reflects the costs incurred to implement the policy (Mangkoesebroto, 1994). The basis of the theory of government spending is derived from the identity of the balance of national income, where $Y = C + I + G + (X - M)$, which is the source of legitimacy for the Keynesian view of government interference in the economy. From the equation above, it can be analyzed that an increase or decrease in government spending will increase or decrease national income. Many considerations underlie government decision-making in regulating its spending.

2.4 Employee Shopping

Employee spending is expenditure on compensation, in both money and goods, provided to state officials and employees working with the government. This compensation is given in return for work that has been carried out,

especially if the work relates to capital formation or to various activities carried out by the government in the performance of its functions. In the context of the government budget, employee spending includes salaries, benefits, and other facilities and benefits provided to employees within the scope.

2.5 Shopping for Goods and Services

Shopping for goods and services, commonly known as auctions, is an activity that is widely carried out by government agencies and the private sector. This activity aims to obtain goods and services and involves a process that ranges from planning needs to completing all activities related to their acquisition. In the Big Dictionary of Indonesian, shopping for goods and services is defined as offering a price and making a purchase for the provision of goods/services.

2.6 Capital Expenditure

In the context of accounting and finance, capital expenditure is defined as a budget allocation intended for the acquisition of fixed assets and other assets that have a utilization duration exceeding one cycle of the accounting period. According to Mursyidi (2018), capital expenditure is a budgeted expenditure used to acquire fixed and other assets that provide benefits over more than one accounting period. In addition, this expenditure also includes the use of services to implement local government programs. Thus, capital expenditure includes expenditure to acquire assets that will provide benefits for more than one accounting period and the use of services that support the implementation of local government programs.

2.7 Investment Theory

Investment is the expenditure by investors or companies on capital goods and production equipment to increase the economy's capacity to produce goods and services (Sukirno, 2011). In macroeconomics, investment means a flow of expenditure that adds to the stock of physical capital. In other words, investment is the amount of spending by the business sector to increase the capital stock over a given period (Budiono, 2012).

2.8 Domestic Investment

According to Widjaya (2005), Domestic Investment is part of the wealth of Indonesian society, including rights and objects, which can be owned by foreign private parties domiciled in Indonesia. Domestic investment is used to run a business, and the capital is not regulated under Article 2 of Law No. 1 of 1967 concerning Foreign Investment, which defines foreign capital. Private parties with this domestic capital may be individuals or legal entities established under applicable Indonesian law. Domestic investment involves the use of wealth, either directly or indirectly, to conduct business by the provisions of the Investment Law.

2.9 Foreign Direct Investment

According to Widjaya (2005), Foreign Investment refers to foreign investment made under the provisions of Law No. 1 of 1967 and operating in Indonesian territory. In this context, foreign capital owners directly bear the risk of such investments. Foreign capital is a foreign means of payment that is not part of Indonesia's foreign exchange wealth, but with government approval, is used to fund companies in Indonesia. Thus, foreign capital investment plays a role in accelerating economic development and creating useful economic opportunities.

3. METHODOLOGY

The study used panel data regression analysis; panel data is a combination of time series data and cross-sectional data. Time-sequence data usually include one object/individual but span several periods. Cross data consists of several or many objects in a given period. This model shows the relationship between variables. Independent variables are capital expenditure, employee expenditure, expenditure on goods and services, foreign investment, and domestic investment, with a *dependent variable*, namely Economic Growth. The above functions are written in econometric models with the following equation:

$$EG = \beta_0 + \beta_1 CE_{it} + \beta_2 EE_{it} + \beta_3 SGS_{it} + \beta_4 FDI_{it} + \beta_5 DI_{it} + \mu$$

Where:

- β_0 = Constant (intercept)
- $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ = Regression coefficients
- PE = Economic Growth (Dependent Variable)
- CE = Capital Expenditure (Independent Variable 1)
- EE = Employee Expenditure (Independent Variable 2)
- SGS = Shopping for Goods and Services (Independent Variable 3)
- FDI = Foreign Direct Investment (Independent Variable 4)
- DI = Domestic Investment (Independent Variable 5)
- i = Cross-sectional units (11 regencies/cities in Jambi Province)
- t = Time period (2017–2022)
- μ_{it} = Error term

Regression analysis with panel data can be estimated using three methods: Common Effects, Fixed Effects, and Random Effects. Method selection is adjusted to the available data and the reliability between variables. Before conducting a regression analysis, the step taken is to test the model estimate to obtain the most appropriate model estimate to use. After the model is selected, the next step is to test the research hypothesis, consisting of a statistical f, a t-test, and a coefficient of determination.

4. FINDINGS AND DISCUSSION

Based on the model selection results, the Fixed Effects Model was chosen. So, the estimated results are obtained as follows:

Table 1

Estimate Date Panel *Fixed Effects Model*

Variable	Coefficient	t-Statistic	Prob.
C	7.250394	6.181194	0.0000
LOGCE?	-0.044275	-2.197241	0.0327
LOGSEE?	0.397046	4.102003	0.0002
LOGSGS?	0.145889	3.451673	0.0011
LOGFDI?	-0.001918	-0.984996	0.3294
LOGDI?	0.004546	1.633158	0.1087

Fixed Effects (Cross)

_BTH--C	-0.018099
_BNG--C	-0.017490
_KRC--C	-0.273798
_MRN--C	-0.120411

_MJ--C	0.108761		
_SRL--C	-0.029212		
_TJB--C	0.399565		
_TJT--C	0.183899	R-squared	0.992340
_TB--C	-0.034824	Adjusted R-squared	0.990042
_KJ--C	0.115784	F-statistic	431.8298
_KSP--C	-0.314174	Prob(F-statistic)	0.000000

Source: Processed Data, 2024

Based on Table 1 of panel data regression results with the selected *Fixed Effects Model*, the regression equation is obtained as follows:

$$EG = 7.250394 - 0.044275 \text{ LogCE} + 0.397046 \text{ LogEE} + 0.145889 \text{ LogSGS} - 0.001918 \text{ LogFDI} + 0.004546 \text{ LogDI}$$

Based on the results of the *Fixed Effects Model* estimation, if there is a change between the variables of employee expenditure, capital expenditure, goods and services expenditure, foreign investment, and domestic investment, both between districts and cities and between times, then the constant value is 7.250394 percent, meaning that if employee expenditure, capital expenditure, goods and services expenditure, foreign investment, and domestic investment Still, economic growth increased by 7.25 percent. The following is an explanation of the estimated results of the regression coefficient equation, namely: The value of the capital expenditure regression coefficient is -0.044275, which means that if capital expenditure increases by one percent, economic growth decreases by 0.044275 percent. The value of the regression coefficient of employee spending is 0.397046; this means that if employee spending increases by one percent, economic growth increases by 0.397046 percent. The value of the regression coefficient of goods and services spending is 0.145889; this means that if goods and services spending increases by one percent, economic growth increases by 0.145889 percent. The value of the regression coefficient of foreign investment is -0.001918; this means that if foreign investment increases by one percent, economic growth decreases by 0.001918 percent. The value of the regression coefficient of domestic investment is 0.004546; this means that if domestic investment increases by one percent, economic growth increases by 0.004546 percent.

Hypothesis Testing Results

The hypothesis test aims to see the influence of each independent variable on the dependent variable, which is tested as follows:

Statistical F test

Testing the effect of independent variables together on the dependent variable is carried out with the F-Statistical Test. To determine the f value of the table, which is $66-5-1=60$, the f value for a 95 percent significance level ($\alpha = 0.05$) is 2.37. If the value of Prob (F-statistic) is smaller than that of α , then it can be concluded that all independent variables together affect the dependent variable significantly. In the estimation results, it is known that the prob value of $0.00000 < 0.05$ or F Statistics $431.8298 > F$ Table 2.37, then H_0 is rejected and H_1 is accepted, meaning that the variables of employee expenditure, capital expenditure, goods and services expenditure, foreign investment, and domestic investment together have a significant effect on the economic growth of districts and cities in Jambi Province.

Statistical t-Test

The t-test is used to test the individual influence of the independent variables on the dependent variable. To determine the table t value, which is $66-5=61$, the table t value at a 95 percent significance level ($\alpha = 0.05$) is 1.99962. If the value of Prob (t-statistic) is smaller than α , it can be concluded that the independent variable has

a significant effect on the dependent variable. Conversely, if the value of Prob (t-statistic) is greater than α , it can be concluded that the independent variable has no significant effect on the dependent variable. Based on the results of regression estimation, the panel data obtained the following results:

Table 2

Partial Statistical t Test on Fixed Effects Model

Variable	t statistic	Prob	t table	Alfa	Remarks
LOG CE?	-2,197241	0,0327	1,99962	0,05	Significant
LOG EE?	4,102003	0,0002	1,99962	0,05	Significant
LOG SGS?	3,451673	0,0011	1,99962	0,05	Significant
LOG FDI?	-0,984996	0,3294	1,99962	0,05	Not Significant
LOG DI?	1,633158	0,1087	1,99962	0,05	Not Significant

Source: Processed Data, 2024

Based on Table 2 above, it can be explained that the capital expenditure variable is known to be the statistical t value $<$ from the table t $(-2.197241 > 1.99962)$ or the prob value $>$ alpha $(0.0327 < 0.05)$ meaning that H_0 is rejected and H_1 is accepted, meaning that capital expenditure has a significant effect on the economic growth of districts and cities in Jambi Province in 2017 - 2022. The variable of employee expenditure is known as the statistical t value of $<$ from the table t $(4.102003 > 1.99962)$ or the prob value of $>$ alpha $(0.0002 < 0.05)$, meaning that H_0 is rejected and H_1 is accepted, meaning that employee spending has a significant effect on the economic growth of districts and cities in Jambi Province in 2017 - 2022. The variable of spending on goods and services is known as the statistical t value $<$ from the table t $(3.451673 > 1.99962)$ or the prob value of $>$ alpha $(0.0011 < 0.05)$, meaning that H_0 is rejected and H_1 is accepted, meaning that spending on goods and services has a significant effect on the economic growth of districts and cities in Jambi Province in 2017 - 2022. The variable of foreign investment is known to be the statistical t value of $<$ from the table t $(-0.984996 < 1.99962)$ or the value of prob $>$ alpha $(0.3294 > 0.05)$, meaning that H_0 is accepted and H_1 has been rejected, which means that foreign investment does not have a significant effect on the economic growth of districts and cities in Jambi Province in 2017 - 2022. The variable of domestic investment is known to be the statistical t value of $<$ from the table t $(1.633158 < 1.99962)$ or the value of prob $>$ alpha $(0.1087 > 0.05)$, meaning that H_0 is accepted and H_1 is rejected, meaning that domestic investment does not have a significant effect on the economic growth of regencies and cities in Jambi Province in 2017 - 2022.

Coefficient of Determination

From the test results, the coefficient of determination is seen from the R Square value of 0.992340, meaning that 99.23 percent of the economic growth of districts and cities in Jambi Province in 2017 – 2022 is explained by the variables of employee expenditure, capital expenditure, goods and services expenditure, foreign investment, and domestic investment, while the remaining 0.77 percent explained other variables that were not included in this study.

The Effect of Capital Expenditure on Economic Growth

Based on the results of panel data regression estimation with the selected model, which is a fixed effect model, the effect of capital expenditure on the economic growth of regencies and cities in Jambi Province has a negative and significant influence. This is shown by the statistical t-hypothesis test at an alpha significance level of 5 percent, which means that the increase in capital expenditure tends to reduce economic growth, but the influence caused by increased capital expenditure has a negative impact on economic growth, meaning that it can reduce the economic growth of districts and cities in Jambi Province. The theory states that increased government spending can boost economic growth, thereby improving people's welfare. One of the government expenditures is government investment in public goods, including capital expenditure. Higher capital expenditure will increase productivity in carrying out economic activities, thereby increasing income and welfare. Although the results of the above research are considered contrary to theory, research by Gunantara (2019) finds that capital expenditure has a

negative and significant effect on economic growth, as the allocation of regional revenues for capital expenditure is not utilized properly, resulting in redundant projects.

The Effect of Employee Spending on Economic Growth

Based on the results of panel data regression estimation with the selected model is a fixed effect model, the influence of employee spending on the economic growth of regencies and cities in Jambi Province has a positive and significant influence. This is shown by the statistical t-hypothesis test at the alpha significance level of 5 percent, which means that increased employee spending tends to increase economic growth, but the influence caused by increased capital expenditure has a positive impact on economic growth, meaning that it can increase the economic growth of districts and cities in Jambi Province. The theory posits a relationship between employee spending and economic growth. The increase in employee spending, especially in salaries and benefits, for example, has an impact on public consumption. According to (Sasana, 2012) conceptually indirect spending does not or less touch the needs of the public in running their business. However, the allocation of indirect expenditures, such as employee spending, when carried out appropriately, will support the performance of each work unit in public services, and better public services will create a conducive investment climate to increase economic activity. Then it will eventually improve people's welfare. The results of the above research are considered consistent with theory and with research by Matthew and Udom (2015), which states that employee spending has a positive and significant effect on economic growth. This is due to the proper allocation of regional income for employee spending, thereby improving public service performance.

The Effect of Goods and Services Spending on Economic Growth

Based on the results of panel data regression estimation with the selected model is a fixed effect model, the influence of spending on goods and services on the economic growth of regencies and cities in Jambi Province has a positive and significant impact. This is shown by the statistical t-hypothesis test at an alpha significance level of 5 percent, which means that increased spending on goods and services tends to increase economic growth, but the influence caused by increased spending on goods and services has a positive impact on economic growth, meaning that it can increase the economic growth of districts and cities in Jambi Province. The theory states that there is a relationship between spending on goods and services and economic growth. Increased spending on goods and services, especially on improving public facilities, affects public consumption. According to Sasana (2012), consumption is one of the components forming the total value of goods and services produced in an economy. The increase in economic growth of a region cannot be separated from the support of public consumption spending. The results of the above research are considered in line with theory, and line with research conducted by Hutabarat (2013) states that spending on goods and services has a positive and significant effect on economic growth, this is due to the allocation of regional revenues for spending on goods and services is utilized properly so that government spending on goods and services will cause demand for goods and services that will be responded by producers to produce Goods and services by consumer needs that will result in economic growth in the area.

The Effect of Foreign Investment on Economic Growth

Based on the results of panel data regression estimation with the selected fixed-effects model, foreign investment has a negative and insignificant effect on the economic growth of regencies and cities in Jambi Province. This is shown by the statistical t-hypothesis test at an alpha significance level of 5 percent, which means that increasing foreign investment tends to reduce economic growth, and the influence caused by increasing foreign investment has a negative impact on economic growth, meaning that it can reduce the economic growth of districts and cities in Jambi Province. In theory, the correlation between investment and economic growth is explained by the Harrod-Domar model, a development of Keynes's theory that focuses on the role of savings and investment in determining economic growth. The more savings and investments, the faster the economy will grow. The influx of foreign investment from other countries provides opportunities for developing countries to support development (Todaro, 2006). Although the results of the above research are not in line with theory, they align with research by Kalangi and Tolosang (2021), which finds that investment does not have a significant effect on economic growth. According to Prasasti (2022), investment has a negative and insignificant effect on economic growth. This means that if

foreign investment increases, economic growth will also decline due to the weakening of the rupiah against the dollar.

The Effect of Domestic Investment on Economic Growth

Based on the results of panel data regression estimation with the selected model is a fixed effect model, the influence of domestic investment on the economic growth of regencies and cities in Jambi Province has a positive and insignificant influence. This is shown by the statistical t-hypothesis test at an alpha significance level of 5 percent, which means that increasing domestic investment tends to increase economic growth, and the influence caused by increasing domestic investment has a positive impact on economic growth, meaning that it is possible to increase the economic growth of districts and cities in Jambi Province. In Harrod-Domar's theory, economic growth requires capital formation to increase the capital stock. Capital formation is seen as an expenditure that will increase the ability of an economy to produce goods, as well as an expenditure that will increase the effective demand of the whole society. However, to grow the economy, new investments are needed as a capital booster stock (Mankiw, 2011). Although the results of the above research are considered not in line with theory, research conducted by Kalangi and Tolosang (2021) states that investment does not have a significant effect on economic growth. According to Pangestu (2018), research states that investment has a positive and insignificant effect on economic growth. This means that if the value of state investment increases, economic growth will also increase, as investment is the engine of economic growth in each region.

5. CONCLUSION

The results of panel data regression using the fixed-effects model show that capital expenditure, employee expenditure, and expenditure on goods and services have a significant effect on the economic growth of regencies and cities in Jambi Province. In contrast, foreign and domestic investment do not have a significant effect on the economic growth of regencies and cities in Jambi Province.

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