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THE EFFECT OF GOVERNMENT SPENDING AND INVESTMENTS ON ECONOMIC GROWTH AND DISTRIBUTION OF INCOME DISTRICTS/CITES IN BALI PROVINCE

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Abstract

Economic growth is still the main objective and an important indicator of the success of economic development. The role of government in economic growth is in the provision of public goods. Whereas investment is needed to drive human resource factors, process natural resources and innovate technology updates. This study aims to analyze the effect of government spending and investment on economic growth and the inequality of income distribution of districts/cities in Bali Province, Indonesia from 2010-2015. The data used is secondary data obtained from the Bali Provincial Statistics Agency and other related agencies. The analysis technique used is path analysis and adding fixed effects, random effects and finding the best results with a hausman test. This study concluded that government spending and investment from 2010-2015 had a positive and significant effect on the economic growth of districts/cities in Bali Province. Government expenditure, investment and economic growth have a negative and significant effect on the inequality of income distribution, economic growth partially mediates districts/cities in Bali Province. Government and investment expenditures have a significant effect on the inequality of income distribution through the economic growth of districts/cities in Bali Province.

Keywords: Government Expenditure, Investment, Economic Growth, Inequality, Income Distribution

INTRODUCTION

National development in Indonesia cannot be separated from regional development because the Unitary State of the Republic of Indonesia (NKRI) consists of provinces and districts/cities as well as smaller regions, namely sub-districts and villages. Regional development itself is an integral part and as an elaboration of national development in the context of achieving development targets in the region. Regional development includes all regional and sectoral development activities that take place in the regions carried out by the government and the community (Nugroho and Rochim Danuri, 2004).

After the economic crisis, consumption is an engine of growth for Indonesia's economic growth. Economic growth driven by consumption not only does not provide a higher multiplier effect, but also does not improve the macro economy well. This fact shows that, the economy of regencies/cities in Bali Province is still very dependent on consumption expenditure, especially on government consumption. If this continues, it is difficult for districts/cities to improve their economic performance well or rise from the economic crisis.

The source of economic growth of a country or a region can be seen or measured from three approaches, namely, production factor approach (Neo Classical), sectoral approach and expenditure approach which includes consumption, investment, government expenditure and export difference with imports. Weak response to investment activities that have a higher multiplier effect than consumption due to the low level of investment. The low realization of investment in regencies/cities in Bali Province is inseparable from the investment climate that is still not conducive, besides the relatively high investment credit rates.

There are two steps that need to be taken to improve the welfare of low income people, namely by helping to reduce public expenditure to meet basic needs and increase their income. The provision of free education and treatment is a step by the government to help reduce the burden on low-income communities in their areas of expenditure. To increase the income of low-income people it is necessary to increase employment opportunities, because the main source of income is wages. Tambunan (2001) mentions the main factors causing economic inequality are the concentration of economic activity, investment allocation, low level of mobility of factors of production between regions, differences in resources between regions, differences in demographic conditions between regions, and inadequate trade between regions.

According to Todaro and Smith, an economy dominated by the government will prioritize the development of public infrastructure and rural development programs compared to development with private dominance (Todaro & Smith, 2006). One type of expenditure on government expenditure is social assistance spending which is a transfer of money or goods given to the public in the fields of education, health, community empowerment and social protection. This will directly affect the economic growth of districts/cities in Bali Province.

The results of this study are also in accordance with the research conducted by Jamzani Sodik (2007) on government expenditure and regional economic growth, emphasizing the influence of government spending on goods expenditure and government investment, which concluded that government spending had a significant effect on regional economic growth. The same research was also carried out by Deddy Rustiono (2008) with the results of the workforce research, private investment and regional government spending that had a positive impact on the GRDP of Central Java Province. The results of this study are in line with Manuaba's research, B.P. (2006) who said there was a positive and real relationship between government expenditure and Gross Regional Domestic Product (GRDP).

Most districts/cities in the Province of Bali, such as southern Bali, are setting the tourism sector as a pillar of the economy in their regions. The main problems that exist in the tourism sector are security and comfort issues. The high level of crime, terror and riots is caused by the inability of the government to maintain economic and political stability in the region. Convenience issues are also a concern in this matter, for example congestion problems that occur in most of the cities of Denpasar and Badung regency, especially in southern Badung which is the destination of foreign tourists. This is evidenced by the emergence of Andrew Marshal's article in Time magazine published on April 1, 2011 entitled “Holidays in Hell: Bali's Ongoing Woes”. To overcome this, the government needs to allocate its budget for the provision of public infrastructure to increase comfort in the community. As has been done by the Badung district government together with the Bali provincial government and the private sector by building the Bali Mandara toll road and the “under pass” project. The government cannot hand over the provision of public infrastructure to the private sector, although it does not rule out the possibility of cooperating with the private sector.

Research Purposes

Based on the description, this study aims as follows:

1 To find out the direct effect of government spending and investment on the economic growth of districts/cities in Bali Province?

2 To find out the direct effect of government spending, investment and economic growth on the inequality of income distribution of districts/cities in Bali Province?

3 To find out the effect of government spending and investment on the imbalance of indirect income distribution through the economic growth of districts/cities in Bali Province?

LITERATURE REVIEW, RESEARCH CONCEPT AND HYPOTHESES

Government Expenditures

In carrying out the functions of the government, the government carries out through its expenditure. Government expenditure is the consumption of goods and services carried out by the government as well as financing by the government for the purposes of government administration and development activities (Sukirno, 2002). In more detail government spending is used to pay the salaries of government employees, finance the education system and public health, finance shopping for the armed forces and finance various types of infrastructure in the development process. Zavadjil (2006) revealed that by increasing Government spending will support and encourage economic growth in a region.

The negative influence of government spending on income distribution inequality is also in accordance with the opinion of Todaro (2000) which states that to improve community welfare and reduce income inequality between community groups, the government can allocate a larger budget for the public interest, namely directly in the form of “transfer payments”, and indirectly through the creation of jobs, education subsidies, health subsidies, and so on.

Investment

Investment is every vehicle where funds are placed in the hope of being able to maintain or increase value or give positive results (Elyani, 2010). Todaro in Lubis (2008) said that the resources that will be used to increase income and consumption in the future are called investments. According to Samuelson and Nordhaus (1996), investment is an important thing in economic development because this investment is needed as a supporting factor in the increase in the production process. Thus investment is defined as spending or spending on investors or companies to buy capital goods and production equipment to increase the ability to produce goods and services available in the economy, so that investment is also called investment (Sukirno, 2010).

Investment is a step to sacrifice current consumption to increase consumption in the future. In addition, investment encourages capital accumulation. Addition of building stock and other important equipment will increase a nation's potential output and stimulate long-term economic growth. Investment is the motor of an economy, many investments realized in a country will show the pace of economic growth in the country concerned, while the little investment realized will show the slow pace of growth (Rosyidi in Suwarno, 2008). Investment in an area will encourage other investors to invest, both as investors in the fields that support their investment and as investors in the same field (Case & Fair, 2009). With the increase in people's welfare, income tends to improve, so that it can reduce the inequality of community income distribution.

Economic Growth

Many definitions of economic growth are expressed by experts. Economic growth can be interpreted as the development of activities in the economy that causes goods and services produced in society to increase (Sukirno, 2004). In actual economic activities economic growth means physical development of the production of goods and services that applies in a country, such as the increase and amount of production industrial goods, infrastructure development, increase in number of schools, increase in service sector production and increase in production of capital goods.

Todaro (2003) defines economic development as a multidimensional process that includes various fundamental changes to social structure, attitudes of society, and national institutions, while still pursuing accelerated economic growth, handling income inequality, and alleviating poverty. Inequality in income distribution is caused by differences in ownership of production factors. For example the difference in capital, the low technology used, the level of management skills and market access lead to inequality in income distribution. The concept conveyed by Todaro and Smith is that the character of economic growth (character of economic growth) determines whether economic growth affects the poor or not. The character is built through how to achieve it, the priority sector, and the institutions that regulate it.

Income Distribution

Functional income distribution or functional or factor share distribution of income is a measure that focuses on the share of national income or total received by each factor of production (land, labor, and capital), Nehen (2010). According to Nehen (2010) economists generally distinguish two basic measures of income distribution, both of which are used for analytical and quantitative purposes regarding the fairness of income distribution.

Unlike the classical school which believes that equal distribution of income will occur by itself with increasing per capita income, the structuralist stream considers that the problem of income distribution and equity must be done through government intervention. One form of government intervention is through government spending. World Bank (2001) states that from a governance perspective, improving public services and reducing poverty can be achieved by improving: (a) allocation efficiency (allocative efficiency) through better adjustment of public services, and productive efficiency through increased accountability, responsiveness. According to Kusnets (in Todaro, 2000) that at the beginning of the growth rate, income distribution tends to be ugly or lame, then at a certain level of income has been exceeded, then the income distribution tends to improve. Inequality in income distribution is also caused by differences in ownership of production factors. For example the difference in capital, the low technology used, the level of management skills and market access lead to inequality in income distribution.

The relationship of economic growth to income inequality is negative. This can be seen from research conducted by Salvadore Barrios and Elic Strobl (2006) writing research reports on the relationship between inequality between regions and economic development. This study uses data on Gross Domestic Product in the European Union countries processed with the econometric method to explain the pattern of the relationship between GDP and inequality between regions in the form of an inverse U-letter curve. The results of this study provide strong evidence that for countries belonging to the European Union to have a pattern of regional inequality in the form of a reverse "U" curve. This finding is in line with Kuznets' findings. Other findings from this study prove that the variables related to the policy of economic integration of EU countries include the structure of the state budget and fiscal decentralization and the mechanism of redistribution of social security have an impact on inequality between regions

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Research Concept

The effect of government spending and investment on economic growth can occur directly or indirectly. The direct effect of government spending and investment is when financing activities are being carried out. The construction of public facilities funded by the government through development expenditures is closely related to the inequality of income distribution of districts/cities in the Province of Bali. Construction of public facilities that are concentrated in densely populated areas and potentially lead to increasingly inequality. Furthermore, from the flow of thought, a conceptual framework is visualized through Figure 1.

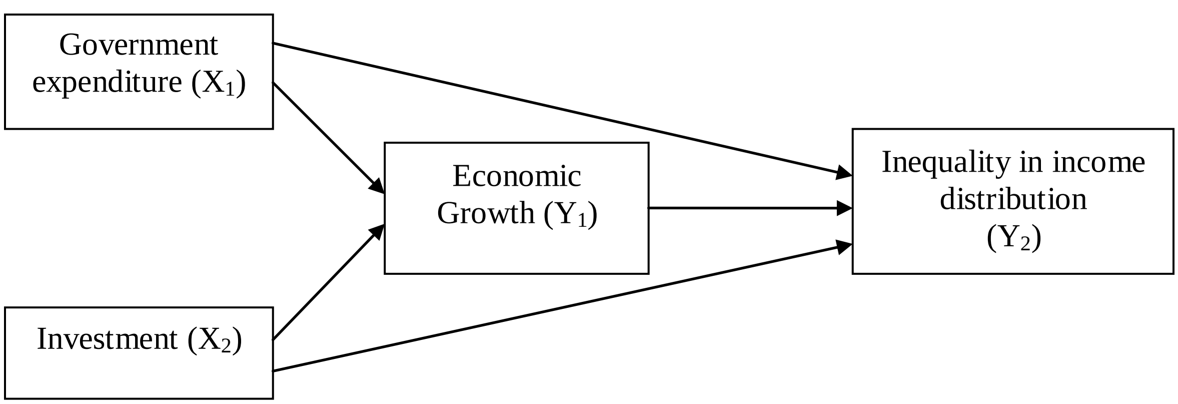

Figure 1. Research Concept of the Effects of Government Expenditures and Investments on Economic Growth and Inequality of District/City Income Distribution in Bali Province

Hypotheses

Based on literature studies and research concepts, there are a number of direct and indirect influences between variables, with the following hypotheses:

1 Government and investment spending has a direct positive effect on the economic growth of districts/cities in Bali Province.

2 Government and investment spending has a direct and negative effect on the inequality of income distribution of regencies/cities in Bali Province.

3 Economic growth has a negative and significant direct effect on the inequality of income distribution of districts/cities in Bali Province.

4 Government and investment expenditures have an indirect effect on the inequality of income distribution through the economic growth of districts/cities in Bali Province.

RESEARCH METHODS

Research Sites

This research was conducted in the Province of Bali, which covers all districts/cities in Bali Province with a period of research from 2010 to 2015. The data from this study uses the period 2010 to 2015 because the availability of data from the Central Statistics Agency only recapitulates every five year, when this data was obtained by researcher in 2017. Since the construction of the Five-Year Phase I began, Bali's economic development focused on the agricultural sector in the broad sense, tourism development and development the industry is mainly the handicraft industry that supports the agricultural and tourism sectors. The economic structure of Bali has unique characteristics compared to other provinces in Indonesia. Economic pillars are built through comparative advantage in the tourism sector as its leading sector. This is due to the fact that sectors that are directly related to the tourism industry (tertiary sector groups), very much are then jointly through multiplier effects, the spread effect and also the tricle down effect grow the economy in the district/cityin Bali Province.

Research Variable

The research variable is basically everything in the form of what is determined by the researcher to be studied so that information is obtained about it, then conclusions are drawn (Sugiyono, 2009). As explained in the conceptual framework, this research has three research variables, namely: (1) exogenous variables, (2) endogenous variables, and (3) intermediate variables (intervening variables). Exogenous variables are variables that influence or become the cause of changes or the emergence of endogenous variables, while endogenous variables are variables that are influenced or become a result of exogenous variables. The intermediate variable is the interlocutor between the exogenous and endogenous variables, so that exogenous variables do not directly affect the change in endogenous variables (Sugiyono, 2009).

Method of Collecting Data

All data in this study were collected using nonparticipant observation methods. Nonparticipant observation methods are carried outby observing directly the documents issued by the authorized institutions, namely: the Regional Secretariat of Finance of the Province of Bali, the Central Bureau of Statistics of the Province of Bali, and the Bappeda of the Province of Bali.

Data Analysis Technique

Panel data regression with a fixed effect model is different from panel data regression with the OLS method. In this fixed effect model, the intercept is possible to change for each individual and time. Because in this study only aims to determine the differences in income distribution inequality in each regency/city in Bali Province, then the fixed effect model in this study will only see the differences in intercepts in each district/city, regardless of differences between times, results panel data regression with a fixed effect model (Fixed effect).

RESULTS AND DISCUSSION

Data Analysis

Path analysis or path analysis is an extension of multiple linear regression analysis to estimate causality between variables (causal mode). In path analysis there is a variable that has a dual role, namely as an independent variable in a relationship but becomes an independent variable in another relationship. Kerllinger (2002) states that using path analysis can be calculated directly and indirectly between variables.

Based on the results of calculations with calculations using the program eviews 6.0 the results of the hausman test are obtained as follows. The Hausman test results can be seen in Table 1.

Table 1. Hausman results

Test Summary	Chi-Sq. Statistic	Chi-Sq.d.f.	Prob
Random cross-section	11.210618	3	0.0106

Because the value = 11.210618> = 7.81 and also p-value = 0.0106> α = 0.05, then Ho is rejected or H1 is accepted. This means that the fixed effect model is better used to estimate panel data compared to the random effect model. After testing with Hausman test, it can be concluded that the panel data regression that will be used is panel data regression with the fixed effect model.

Hypotheses Testing

Direct Influence

Direct Influence is a standardized regression coefficient (beta) which shows the direct effect of an independent variable on the dependent variable in the path model. Based on Table 2, a summary of path coefficients can be made as shown in Table 2.

Table 2. Summary of Direct Influence

Relationship	Coefficient Reg Standard	Coefficient Reg no Standard	t count	P value	Results
$X_1 \rightarrow Y_1$	0,324	0,350	2,138	0,577	Significant
$X_2 \rightarrow Y_1$	0,582	0,421	3,842	0,378	Significant
$X_1 \rightarrow Y_2$	-0,422	0,448	3,728	0,000	Significant
$X_2 \rightarrow Y_2$	-0,271	0,193	2,195	0,033	Significant
$Y_1 \rightarrow Y_2$	-0,292	0,287	2,910	0,005	Significant

Information:

X1 = Government Expenditures

X2 = Investment

Y1 = Economic Growth

Y2 = Income Distribution Inequality

Based on Table 2 describes that government spending and investment have a positive and significant effect on economic growth. Economic growth has a positive and significant effect on the inequality of income distribution. Based on the summary of the direct influence in Table 2, a path diagram can be made like Figure 2.

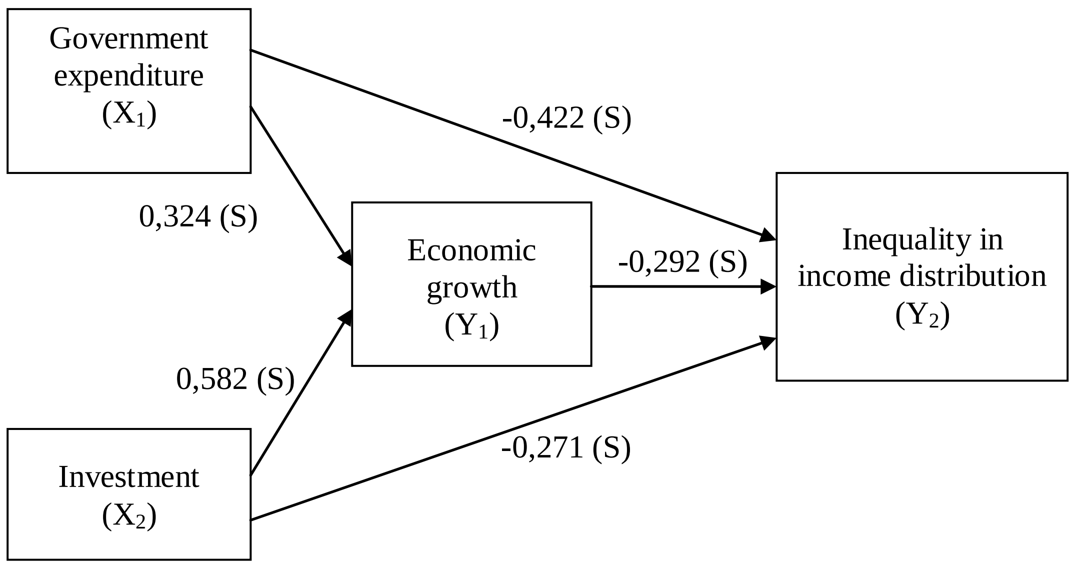

Figure 2. Results of the Research Path Diagram

Indirect Effects

he results of the analysis test output using the path analysis method to test the indirect influence between variables can be seen in table 3 below.

Table 3. Summary of Indirect Effects

Relationships	Variable Mediation	ab	Sab	Z	Results
$X_1 \rightarrow Y_2$	0,324	0,122	0,047	-2,09	Significant
$X_2 \rightarrow Y_2$	0,582	-0,120	0,053	-2,26	Significant

Information:

X1 = Government Expenditures

X2 = Investment

Y1 = Economic Growth

Y2 = Income Distribution Inequality

Based on the results of calculations presented in table 3, it can be seen that the Government Expenditure and Investment variables significantly influence indirectly the Inequality of Variable Income Distribution through Economic Growth. This can be seen from the p value which is smaller than the real level of 0.05.

The results of the analysis test output using the path analysis method to test the direct, indirect and total influence between variables can be seen in table 4 below.

Table 4. Summary of Direct, Indirect, and Total Influences between variables

	X_1			X_2			Y_1		
	PL	PTL	PT	PL	PTL	PT	PL	PTL	PT
Y_1	0,324	-	0,324	0,582	-	0,582	-	-	-
Y_2	-0,422	-0,094	-0,328	-0,271	-0,169	-0,102	-0,292	0,000	-0,292

Information:

X1 = is government expenditure

X2 = is investment

Y1 = is economic growth

Y2 = is inequality in income distribution

PL = is a direct influence

Table 4 can be explained that the direct effect of government expenditure on inequality in income distribution is -0.422. The indirect effect of government spending on inequality in income distribution through economic growth is -0.094. Thus the effect of the total effect of government expenditure on income distribution inequality is equal to -0,328. Likewise the direct effect of investment on the inequality of income distribution through economic growth is -0.169 so that the total effect becomes equal to -0.102.

DISCUSSION

Direct Effects of Government Expenditures on Regency/City Economic Growth in Bali Province

By using path paths, the analysis results show that during 2010-2015, government expenditure had a positive and significant effect on the economic growth of districts/cities in Bali Province. This shows that there is a unidirectional relationship between government expenditure and the economic growth of regencies/cities in Bali Province, so that the increase in government spending will increase economic growth.

Welfare is a product of development that involves government and private activities in various fields. The government as an agent of development has several functions in order to create a prosperous society. The first is the allocation function, which means that with a limited amount of resources optimal results can be obtained. Second is the distribution function which is intended so that the resources and results of development can be used and enjoyed by all levels of society. Third is the dynamical function which is intended to improve the economic and social activities of the community so that it is more dynamic and developing, the last is the stabilization function, it is hoped that the government can create economic and social and political stability, so that the development process can be more certain. The increasing role of the government can be indicated by regional government spending.

The role of the government is very necessary in regulating the economy. One of the government's roles in regulating the economy is by implementing fiscal policies by allocating government spending to build facilities and infrastructure needed by the community. Government expenditure is a tool for government intervention in the economy which is considered the most effective. The level of effectiveness of government spending can be measured by how much economic growth can be achieved. This is because government spending is more closely related to the regional income and expenditure budget (APBD), which will directly affect regional revenues and regional financing, which will directly affect economic growth.

According to Todaro and Smith, an economy dominated by the government will prioritize the development of public infrastructure and rural development programs compared to development with private dominance (Todaro & Smith, 2006). One type of expenditure on government expenditure is social assistance spending which is a transfer of money or goods that are given to the community in the fields of education, health, community empowerment and social protection. This will directly affect the economic growth of districts/cities in Bali Province.

The results of this study are also in accordance with the research conducted by Jamzani Sodik (2007) on government expenditure and regional economic growth, emphasizing the influence of government spending on goods expenditure and government investment, which concluded that government spending had a significant effect on regional economic growth. The same research was also carried out by Deddy Rustiono (2008) with the results of the workforce research, private investment and regional government spending that had a positive impact on the GRDP of Central Java Province. The results of this study are in line with Manuaba's research, B.P. (2006) who said there was a positive and real relationship between government expenditure and Gross Regional Domestic Product (GRDP).

Most districts/cities in the Province of Bali, such as southern Bali, are setting the tourism sector as a pillar of the economy in their regions. The main problems that exist in the tourism sector are security and comfort issues. The high level of crime, terror and riots is caused by the inability of the government to maintain economic and political stability in the region. Convenience issues are also a concern in this matter, for example congestion problems that occur in most of the cities of Denpasar and Badung regency, especially in southern Badung which is the destination of foreign tourists. This is evidenced by the emergence of Andrew Marshal's article in Time magazine published on April 1, 2011 entitled “Holidays in Hell: Bali's Ongoing Woes”. To overcome this, the government needs to allocate its budget for the provision of public infrastructure to increase comfort in the community. As has been done by the Badung district government together with the Bali provincial government and the private sector by building the Bali Mandara toll road and the “under pass” project. The government cannot hand over the provision of public infrastructure to the private sector, although it does not rule out the possibility of cooperating with the private sector.

But the research conducted by M.A. Loto (2011) who examined the impact of government expenditure per sector on economic growth in the country in the 1980-2008 period, not in line. The results of his research show that the influence of all sectors on government expenditure on economic growth is not significant. The possibility of this difference is caused by the data taken differently and the location being carried out is also different, or there are differences in the management of expenditure of the Government of Nigeria with the Government of regency/city in the Province of Bali.

Direct Investment Effect on Regency/City Economic Growth in Bali Province

The role of the private sector in the drafting process is very strategic, this is reflected in the GDP structure that is more dominant than the role of the government. Through additional investments invested in various sectors that cause the economy to grow and develop with its indicators, increase employment, income which is an indication of an increase in welfare. So that the increase in private investment will increase economic growth, because there is an expansion of production and demand that has an impact not only on the economic sector, it will still be widespread in the social sectors.

The results of data analysis show that during 2010-2015, investment showed a positive and significant influence on the economic growth of districts/ cities in the Province of Bali. This shows the increase in investment in districts/ cities in Bali Province will increase economic growth. Investment is an element of production that actively determines the level of output. Investment can be a starting point for the success and sustainability of future development because it can absorb labor, so that it can open new employment opportunities for the community which in turn will have an impact on increasing community income. This is because the greater investment will cause economic growth to increase.

The results of this study are consistent with the hypothesis and research conducted by Nata Wirawan (2005) which states that investment growth has a significant and positive effect on Bali GRDP. The same was expressed by Manuaba, B.P. (2006) which states that partially investment growth has a positive and real effect on the GDP of Badung Regency.

The amount of investment that goes to districts/cities in Bali Province will give a strong impetus to the district/city economic growth. During 2010-2015, the investment of districts/cities in Bali Province on average increased. However, Badung Regency is a region that has the strongest increase in the province of Bali. This is because Badung is a tourism area and investors invest more in tourism compared to the agricultural sector. Soekarni et al. (2010) argued that this increase was the implementation of a package of policies to improve the investment climate through Presidential Instruction (Inpres) No. 3 of 2006 as well as the enactment of Law Number 25 of 2007 concerning Investment.

The results of this study are in line with research conducted by Mahnaz Rabiei & Mazoidi (2012) which examines foreign investment in economic growth in eight Muslim-majority countries, such as Egypt, Iran, Malaysia, Pakistan, Nigeria, Bangladesh, Indonesia and Turkey. In this study it was concluded that foreign investment had a positive effect on the economic growth of each country. The role of foreign investment is reflected in economic growth, the creation of employment opportunities, technology transfer, and increased business competitiveness.

But this research contradicts the research conducted by Omoniyi, at.al (2011) in Nigeria. In the research conducted concluded that there is a negative relationship between foreign investment and economic growth in Nigeria. This is because foreign investment into the country of Nigeria is not large enough to influence economic growth in Nigeria.

Indirect Effects of Government Expenditures on Inequality in District/City Income Distribution in Bali Province

Government expenditure is the consumption of goods and services carried out by the government as well as financing by the government for the purposes of government administration and development activities (Sukirno, 2002). In this study, government expenditure has a negative and significant effect on income inequality. The greater the government expenditure, the lower the distribution of income. This means that government spending can reduce the level of inequality in the income distribution of the community. Expenditures classified as public expenditure which should be able to improve people's welfare and can reduce inequality in income distribution in this study have increased. This is because government spending is not yet fully affordable or can be enjoyed directly by the community. Todaro (2000) said that to improve community welfare and reduce income disparities among community groups, the government could allocate a larger budget for the public interest, namely directly in the form of "transfer payments" and indirectly through job creation, education subsidies, subsidies health and so on.

This research is in line with the research conducted by Yoga (2006), that in his research it was stated that in the period 1993-2004, simultaneously the variables of government expenditure and investment growth had a significant effect on the level of development disparity between regencies/cities in Bali Province. Partially the investment growth variable increases the level of development inequality between regencies/cities in Bali Province, while the government expenditure variable does not show any such influence.

Indirect Effects of Investment on Inequality of District/City Income Distribution in Bali Province

Investment is an important thing in economic development because investment is needed as a supporting factor in increasing the production process. Investment has an active role in determining the level of output, and the rate of growth of output depends on the rate of investment (Arsyad, 1999). The results of the 2010-2015 analysis show that investment has a negative and significant effect on the inequality of income distribution. This means that investment increases, the inequality of income distribution will decrease. In areas that are experiencing development, rising demand will encourage income and demand, which further increases investment. In other regions where development is very slow, the demand for capital for investment is low as a result of the low supply of capital and income which tends to be lower. With these differences in development and the concentration of investment in the established area resulting in inequality or increasing inequality.

In accordance with the theory, investment will expand employment opportunities and improve people's welfare as a consequence of rising income received by the community (Sunan & Astuti, 2008). With the increase in people's welfare, income tends to improve, so that it can reduce the inequality of community income distribution.

As in the regencies/cities in Bali Province, investment development is very dominant in southern Bali, namely Badung Regency and Denpasar City. The amount of investment in these two regions is inseparable from the influence of the tourism sector which is the backbone of the economy in the region. The reluctance of investors to invest in other sectors such as agriculture makes it difficult for other districts to compete with these two regions in attracting investment. This research is in accordance with research conducted by Yoga (2006) which states that investment growth increases the level of development disparity between regencies/cities in Bali Province and investment growth has a real influence or positive influence on the income gap.

The Direct Effect of Economic Growth on Inequality of District/City Income Distribution in Bali Province

Economic growth is one of the conditions for achieving economic development, but what needs to be considered is not only statistics that describe the rate of growth, but more about who created the growth. Are only a handful of people or most people. If a small number of people enjoy it, economic growth cannot reduce poverty and reduce inequality. Conversely, if the majority of those who participate in increasing economic growth, poverty can be reduced and the gap between the rich and the poor can be minimized, Todaro (2006).

Based on the results of statistical analysis it is known that there is a significant negative relationship between economic growth and the inequality of income distribution. This means that the higher the economic growth the higher the income inequality. The results of this study are not in accordance with Kuznet (in Soekirno, 1995) which says that the process of economic development of a country at an early stage is generally accompanied by a considerable decline in income distribution, and has only recently turned towards better equity at a later stage of development. With the increase in per capita income, income inequality will also increase, then it will decrease which is known as the inverse U hypothesis. This theory is in line with the research conducted by Suarteja (2003) which states that the GRDP growth rate has a negative effect on the level of disparity in development outcomes. But this research is the same as what was done by Noegroho and Soelistianingsih (2008) which states that economic growth has a positive influence on income disparity.

The concept presented by Todaro & Smith, (2006) that characterizes economic growth (character of economic growth) as a determinant of whether economic growth affects the poor or not. The character is built through how to achieve it. The character of economic growth in districts/cities in Bali Province is capital sector-based growth, with the tourism sector as its priority sector. This means that the tourism sector will accelerate economic growth but not be followed by a decrease in inequality in income distribution.

Indirect Effects of Government Expenditures and Investments on Inequality of Income Distribution Through Regency/City Economic Growth in Bali Province

Based on the results of the analysis the indirect effect of government expenditure and investment on the inequality of income distribution through economic growth is significant, it can be said that economic growth partially mediates the influence of government spending and investment on the inequality of income distribution. Adelmen and Morris in Yoga (2006) say the cause of inequality in income distribution in developing countries is high population growth, inflation, inequality in regional development, capital intensive, low social mobility, industrial policy, deteriorating exchange rates (term of trade) for the country which is developing with developed countries and the destruction of folk handicraft industries such as carpentry, home industries.

As an indicator of the success of development in an area, it is indicated by an increase in per capita income for the region. But not only so, regional development is also said to be successful if it is followed by a decrease in the unemployment rate, a decrease in the level of poverty and an equal distribution of development in the region. Regional development is a process that requires capital or development funds to finance the development. Government expenditure can be used as an indicator of the size of government activities. Government expenditure in the Regional Expenditure Budget (APBD) is very important in the development of a region, if the proportion of routine expenditure is greater then it will have an impact on the income of certain people which will then lead to higher income distribution inequality. If the development expenditure is greater, it will have a direct effect on economic growth and income distribution, so that the inequality of income distribution is getting smaller. Government expenditure can affect economic growth and inequality in income distribution, where the increasing role of the government can be seen from the increase in government expenditure in proportion to GDP.

In supporting economic growth new investments are needed as capital stocks. The more savings that are then invested, the faster economic growth will occur. But in real terms, the level of economic growth that occurs in each savings and investment depends on the level of productivity of the investment (Harrod Domar in Jawas, 2008).

Districts/cities in Bali Province are economically including having a strategic position so that research on the Balinese economy also has important and strategic power. Given the strategic position of economic growth (GRDP) and its geographical location, the results of this growth are expected to be able to provide significant benefits to absorption and other economic growth indicators. So the study of economic potential and the relevance of other indicators by considering regional relations is important to do.

The concept conveyed by Todaro and Smith is that the character of economic growth (character of economic growth) determines whether economic growth affects the poor or not. These characters are built through how they are achieved, priority sectors, and institutions that regulate them (Todaro & Smith, 2006). Unbalanced investment allocations in districts/cities will greatly influence the economic growth of the region, because the higher the investment, the higher economic growth. The amount of investment in each region will increase people's income, so that it will have an impact on the inequality of the income distribution of the community. High investment will indirectly influence the imbalance of income distribution through economic growth. Investment contributes greatly to economic growth as a process of creating long-term output. This is in line with the results of Were's research in Haryadi (2009), that investment does not have a direct impact on the year concerned, but it can only be felt its influence on economic growth after a few years later.

In connection with the policies that can be taken by the government in accelerating the process of convergence of GDP per capita in the Province of Bali, namely the pattern of unbalanced growth in the amount of investment allocation to increase GRDP per capita. The opening of labor-intensive employment by considering physical equality and educational infrastructure in each district/city is also an appropriate effort to improve community welfare. Equity in educational facilities will help accelerate the process of convergence between regions.

The allocation of development budgets as an instrument to reduce economic inequality seems to need more attention. The strategy for budget allocation must encourage and accelerate national economic growth as well as a tool to reduce regional inequality (Majidi, 1997). Delis (2008) growth does not always occur evenly in all regions. In the initial stage, the development process tends to be concentrated and politicized in the central area of a region

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RESEARCH LIMITATIONS

This study analyzes the influence of government spending and investment on economic growth and the inequality of income distribution of districts/cities in Bali Province. The data used in this study are secondary data, the researchers are guided by data from the Bali Provincial Statistics Agency, the Regional Secretariat Finance Bureau of Bali Province and Bali Province Bappeda, so there tends to be differences in data in the field with the data provided by the central statistical agency and related agencies others.

CONCLUDING REMARKS

Government spending and investment have a positive and significant effect on economic growth, this means that the amount of government and investment expenditures in 2010-2015 districts/cities in Bali Province has increased.

Government expenditure, investment and economic growth have a negative and significant effect on the inequality of the income distribution of the people in regencies/cities in Bali Province in 2010-2015. This government expenditure, investment and economic growth which have different proportions between districts/cities will cause a decrease in the income distribution imbalance.

Government expenditure and investment have an indirect effect on the inequality of income distribution through the economic growth of districts/cities in Bali Province in 2010-2015. This means that with the economic growth, the influence of economic growth can mediate in real time government spending and investment in the inequality of income distribution.

The government as a policy maker is advised that in allocating investments it should be more focused on districts/cities that have less physical investment than other regions. So that investment allocation is not focused on areas that have developed and are able to provide a positive influence on economic growth in the area.

The Regency/City Government in overcoming the income distribution imbalance needs to allocate a budget for the provision of infrastructure such as the addition of toll road construction, clean water, electricity and telecommunications facilities. In addition to improving the welfare of low-income people, it can be done by providing free education and free medical treatment as a government effort to reduce the burden of low income people and need to increase job openings.

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