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Investigating Keynesian Theory in Reducing Unemployment and Poverty in Indonesia

P. Eko PRASETYO¹, E. Nur CAHYANI²

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Abstract

This research aims to investigate the application of Keynes's theory in Indonesia, particularly in solving unemployment and poverty problems through government spending, economic growth, and human resource capacity. The basic concepts of the Keynesian theory were used as a method, through which government spending was harnessed toward economic growth in reducing unemployment and poverty rate. The analytical materials used were panel data for the 2017–2021 period in Central Java, Indonesia. The analytical methodology used was a multiple regression experimental design in selecting the best model according to Keynes's theory, especially for overcoming formidable problems. The main results showed that large Government spending program is ineffective in encouraging pro-growth, pro-job, pro-poor, and pro-equity development policy strategies. The causes of this failure include the violation of Keynes' assumptions about rationality and the low quality of education investment, which do not encourage productive and innovative entrepreneurship, as well as self-employment opportunities. As a result, government spending, including subsidies and direct financial assistance, used to implement the macroeconomic monetary, unstructured, and fiscal policy system is insufficient to significantly reduce the enormous difficulties. The main research results confirm that human capital capacity is the key to mitigating and reducing unemployment and poverty.

Keywords: Government Spending, Economic Growth, Unemployment, Poverty

JEL Classification Code: E24, H53, I32, O47

1. Introduction

Increased unemployment, poverty, inequality, inflation, as well as low economic growth, are fundamental problems that are increasingly complex in global development, including in Indonesia. When these problems are associated with the achievement of sustainable development goals and community welfare, then they are contemporary issues of prudential policy in a country. Various policy programs have been carried out by the Indonesia Government to overcome

these problems with development strategies. During the administration of President Susilo Bambang Yudhoyono, the policy strategy known as the triple track, such as pro-growth, pro-job, and pro-poor, is considered a failure, because, it does not meet the set target. In the administration of President Joko Widodo, this strategy was better known as the four tracks, such as pro-growth, pro-job, pro-poor, and pro-equity, which is also declared inefficient (Prasetyo, 2020). Using this strategy, Indonesia should be able to have high economic growth and no longer experience problems of unemployment, poverty, and inequality. In reality, the three main problems of development still occur. Although they tend to decline, they are still relatively high and have not been able to advance the entire community in an economic-social manner.

Higher-income states as well as states with higher growth rates tend to have lower unemployment rates (Nepram et al., 2021; Khan et al., 2020; Iloabuchi, 2019; Misini & Pantina, 2017). It was revealed that unemployment does not have any significant impact on poverty (Falade & Babatunde, 2021). However, in various OECD countries,

¹First Author and Corresponding Author. Professor, Department of Development Economics, Faculty of Economics, Universitas Negeri Semarang, Indonesia. ORCID ID: 0000-0001-7824-0352. [Postal Address: Sekaran, Gunungpati, Semarang, Indonesia]
Email: pekoprasetyo@mail.unnes.ac.id

²Graduate Program, Universitas Negeri Semarang, Indonesia.
Email: cahyani.er@mail.unnes.ac.id

it has been found that there is a unidirectional causality relationship between unemployment to economic growth (Korkmaz, 2020). Furthermore, unemployment and wage had a significant positive effect on poverty in provinces of Indonesia and OECD countries (Feriyanto et al., 2020). Government spending policies continue to increase, to encourage the success of the development policy strategy. As a result, Indonesia has been recognized by the world as being able to achieve quite high economic growth for almost 50 years (Hill, 2021). The investigations to be carried out in this research include the cause of the increase in government spending and the reason behind the resulting economic growth which is unable to reduce the main problems of development. The quality of economic growth, and its use in the improvement of the standard of living and welfare of the people. This research aims to explore the role of government spending and economic growth in overcoming the problems of unemployment and poverty, using the basic approach of Keynes's theory in Indonesia.

The temporary answer to the observation of increasing government spending and economic growth for the normative welfare of society tends to be positive. However, as a condition of adequacy in *das Sein*, reality and ideality are not feasible. Even though the increase in government spending and economic growth was able to reduce unemployment, poverty, and inequality, for example during 2012–2019, this figure was still high and increased rapidly from 2020 to 2022, due to the impact of the Covid pandemic (Prasetyo & Kristanti, 2020). This implies that the triple-track and four-track development programs are declared failed concepts (Prasetyo, 2020). In terms of economics, the programs are declared inefficient, ineffective, as well as unproductive, because, during the period of decline (2012–2019), a lot of government spending was demanded. On average, the rate of decline in the three main problems is still minimum and vulnerable, therefore, it is only natural that the impact of COVID-19 increases more quickly than a little decline over a longer period. To overcome these main problems, a high government spending program is required, hence, the challenges remain difficult to significantly reduce and control. The government has always attempted to overcome poverty with various social, economic, and tax relief, subsidies, and direct cash assistance. These efforts have not been able to provide ideal results in measuring the socio-economic welfare of the people that are factual, dynamic, as well as economically, socially, and environmentally sustainable. Because, government spending has no effect on poverty (Kartika et al., 2021). Overall, there is no clear evidence that higher government spending has played a significant role in reducing income poverty in low- and middle-income countries (Anderson et al., 2018).

The achievement of reducing these problems before Covid-19 in Indonesia was obtained at an expensive cost,

hence, this strategy is not economic. Based on data from the Central Bureau of Statistics (BPS, 2022), from 2012 to 2019, the unemployment rate fell by 1.09% from 6.32% to 5.23% or only decreased by 0.16% yearly. The poverty rate during the 2012–2019 period fell by 2.74% from 11.96% to 9.22% or only decreased by 0.39% yearly. Even though the level of inequality has decreased, it is still relatively high. During the 2012–2019 period, the national inequality level only decreased by 0.03% from the index value of 0.410 to 0.380, or only decreased by 0.004% per year. The index value of Indonesia's economic freedom in 2019 was 65.8, or classified as moderately free (Prasetyo & Kristanti, 2020). Although the highest freedom index score between; 80–100 (free) is on government spending policies (91.6), Fiscal health (88.1), and Tax burden (83.7). The description is enough to reinforce the argument for the answer above. This suggests that government expenditure is wasteful and ineffective, and as a result, Indonesia's economy is unable to alleviate unemployment, poverty, and inequality while also achieving equitable socioeconomic wellbeing.

It is acknowledged that macroeconomic policies in recent years have succeeded in suppressing the inflation rate. The macro policy has not been able to boost people's purchasing power in real terms, therefore, the success of suppressing the inflation rate still needs to be studied. Contemporarily, the urgency of the objective in this empirical research is to focus mainly on the use of the basic approach of Keynes' theory in overcoming unemployment and poverty in Indonesia. Research other than these issues, including inflation, is limited, while those regarding the problem of poverty, inequality, and mitigation, have been discussed in previous research (Hill, 2021; Prasetyo & Thomas, 2021). Previous reports showed that economic growth in Indonesia is relatively able to reduce poverty and unemployment even though the figure is still high (Hill, 2021; Prasetyo & Thomas, 2021). Other research explained that economic growth is not able to reduce poverty significantly and the existing village funds have been used as pro-poor and pro-job policy strategies, but are still not pro-equity (Ernawati et al., 2021). Income inequality and poverty levels have a unidirectional relationship (Ernawati et al., 2021).

Empirically, based on data from BPS (2022), stated that although poverty and unemployment tend to decrease, the level of inequality is still high and relatively constant. This indicates that the government's policy program has not been successful, because it is only able to reduce the level of unemployment and poverty, and has not been able to improve the socio-economic welfare of the community which is ideally, favorable, gender-just, sustainable, and balanced in the dimensions of life, social, economic, and environmental. The novelty of this research lies in an attempt to examine the application of Keynes' theory as the basis for the research in carrying out the development policy program

in Indonesia, especially in overcoming unemployment and poverty. This is further expected to provide an understanding of the basic application of Keynes' theory in the strategic implications of economic policies in developing countries, such as Indonesia.

2. Literature Review

According to Seer (1969), development is about success in reducing poverty, unemployment, and inequality in a nation. When all three factors have decreased, it is stated that development has occurred. However, when only one or two of the three problems worsen, then the development has not occurred even though per capita income increased significantly. This signifies that the emphasis on successful development according to Seer's (1969) theory lies in the achievement of reducing poverty, unemployment, and inequality (Prasetyo & Thomas, 2021; Impalure, 2020). An urgent solution is needed when a country is no longer able to prevent these problems, then at least they should be able to reduce unemployment, poverty, and inequality that has occurred. Smart countries always try to prevent these fundamental problems from happening, and they end up achieving their goals. Therefore, should a community be considered developed, when there is a reduction of the problem of unemployment, poverty, and inequality in a country.

Keynes's theory asserts that poverty occurs inadvertently and is mainly caused by unemployment. According to Keynes, economic growth is the main element to overcome poverty (Prasetyo & Thomas, 2021). Keynes and Seer stated that development occurs because of high sustainable economic growth. The reality is that high economic growth is only a necessary condition and not yet a sufficient condition to achieve successful development for the welfare of the people. The achievement of the development of social welfare requires sustainable high-quality economic growth in the long term. High-quality economic growth is driven by the capacity of quality human capital, and productive, and appropriate technology (Prasetyo & Kistanti, 2020; Josephine et al., 2021). Additionally, according to Keynes and Wagner's theory, increasing economic growth requires effective government spending.

Fundamentally, Keynes's theory has been based on two main ideas. First, aggregate demand is more likely to be an agent in overcoming an economic recession than a mass supply. Second, wages and prices have become rigid and inflexible, therefore, when a recession occurs, unemployment increases, which in turn leads to poverty. According to Keynes, aggregate demand and supply control effective demand. Because supply is constant in the short run, Keynes concentrates more on employment, output, or

income which become dependent on effective demand. With the assumption of rationality, Keynes's theory in overcoming unemployment and poverty favors expansionary fiscal policy through increasing government spending on investment in education, unemployment benefits, and infrastructure as its main tools. One of the weaknesses in policies that often occurs in Indonesia is ineffective or excessive government spending, leading to inflation or corruption. Meanwhile, investment spending on education, skills, capacity, and quality of human capital has been neglected. Although infrastructure development in the last few years has increased rapidly, the benefits are only mostly used for the smooth running of public consumption, reducing energy wastage, and effective production.

According to Wagner's law, there is a functional relationship between economic growth and government spending (Pasetyo, 2020). Government spending is in the form of consumption, subsidies, and investment. The most important government spending should be for improving education, health, and protection. Because, the performance of economic volatility affects government spending on health and education (Mujahid et al., 2022). Additionally, Wagner's legal basis states that economic performance has a fundamentally positive impact on the growth of the public sector. The research of Nyasha and Odhiambo (2019) supported economic growth which is influenced by the performance of spending, but the results confirmed that there is no increasing cause-and-effect relationship. Other research stated that expenditure has a positive and significant impact on economic growth (Alexiou, 2009; Uzunur et al., 2017; Nguyen, 2019). Furthermore, long-term unemployment decreases if the government spends more on infrastructure, health, and education (Sarairoh, 2020). However, the spending on investment in education quality and growth has a different conclusion (Meyer & Muzindutsi, 2017; Nguyen, 2019; Muhammad et al., 2019; Prasetyo, 2020; Sarairoh, 2020; Korkmaz, 2020; Rambe et al., 2022).

The research of Thanh and Nguyen (2019) showed that there is an imbalance between government expenditure, growth in human capital productivity, and economic advancement in China. The main problem is that in Indonesia, the higher the quality of human resources, the increase in "brain drain", bringing about migration from resource-poor countries to high-income nations. Additionally, government spending has a positive and significant contribution to small and medium enterprises, but the effect is not significant to micro enterprises (Prasetyo, 2020). Therefore, the role and function of effective government spending in economic growth and other sectors are still under debate (Prasetyo, 2020). Unemployment is reduced mainly due to the Schumpeter Effect through entrepreneurship, not from large government expenditures (Prasetyo & Thomas,

2021). Prasetyo and Thomas (2021) have explained that entrepreneurial productivity is the main driving force for employment and sustainable economic development.

The basic concept of Keynes' theory mentioned above is very good, because it is based on rationality, and effectiveness, and is more focused on building investment in education and infrastructure to achieve high levels of decent work in overcoming unemployment and poverty. However, it should be understood that in reality, the causes of poverty are varied and not only unemployment. Classical and Neo-Classical theories in the *laissez-faire* policy model state that poverty is a life choice and is the responsibility of the individual. However, Neo-Classical states that lack is often beyond the control of individuals, especially in market failures. According to the structuralist view, poverty is characterized by a limited capacity to access resources as a result of a weak institutional framework in politics, society, culture, and the economy. The Marxist theory states that lack and inequality are functional from the production model of capitalism. Inequality and poverty are known to be transferred from one generation to another. The solution to these problems is proposed through the model of corporate social responsibility (CSR). Based on Keynes' theory, the failure of the market under a government indicates that the administration is inefficient. This is because, when monopoly profits continue to increase, inequality aggravates (Windsteiger, 2021). Additionally, inflation and poverty have a relationship that is often detrimental to economic growth, while unemployment has a positive correlation (Rehman et al., 2022). Because of this, contemporary inflation problems are becoming a threat to several countries in the world, including Indonesia.

According to Keynes, market failures are typically brought about by inflation because people overconsume. In reality, the community is irrational, because it tends to overspend, both in terms of government spending and individuals within the community. According to this research, the basic concept of Keynes' theory is better than the Classical and Marxian principles to be applied in Indonesia. Therefore, Indonesia is not wrong when it tends to adhere to the Keynesian theory approach in its policy application. Its implementation in Indonesia is less than optimal and inconsistent, hence, government spending becomes ineffective. For example, in the aspect of salary and wages for the middle class and above, including the granting of conglomerate tax breaks, the classical theory is used, which seems easier and more practical. In terms of wages and salaries for the lower middle class, including the provision of subsidies, Keynes's theory has only been used, which seems complicated. The basic concepts of the Classical and Keynes's theories of wages are different. In Keynes's theory, it has been emphasized that aggregate demand is not always the same as the production

capacity of the economy, because it is influenced by certain fundamental factors, especially erratic or irrational people's behavior, thereby, it reduces production, employment, and inflation.

Keynes's economic theory has emphasized that in various situations and conditions, there is no strong automatic mechanism that is always able to move output and employment to full completion. This indicates that unemployment continues to occur, and the subsequent impact of poverty is always there. Therefore, the basis of Keynes's theory is more general and recognizes the possibility of imbalance. The Classical theory does not apply in general, because it assumes that the economy is automatically always in full balance. It is economically difficult for such an automatic occurrence to be evident. The basic weakness of Keynes' theory through administrative intervention has an impact on government spending. This problem occurs because policy behavior is not strategic, lacks quality, and has good public control. Conversely, the more public control, the higher the policy becomes ineffective.

The basic view of Keynes' theory in the book titled "The General Theory of Employment, Interest, and Money" is quite simple, because it is based on the assumption of rationality, with the improvement of education and infrastructure. It has been emphasized that a decline in aggregate demand leads to a stable equilibrium with substantial unemployment and recognizes that wages are not always flexible and are also liable to be rigid. When people are rational and have many options with a fall in wages and rigidity, they prefer to increase their free time and search for other more decent jobs or they are forced to choose to be unemployed. Therefore, when unemployment increases, then poverty also increases. According to Keynes, it becomes more logical when wage rigidity is the cause of forced unemployment. The solution is that the government should pull the economy out of recession by stimulating aggregate demand, creating a cycle of increasing production capacity, and employment. To promote the interest in increasing capacity, an increase in Government spending is needed. However, the urgent problem that needs attention is whether government spending in Indonesia, either directly or indirectly, increases production and human resource capacity or reduces unemployment which further reduces poverty.

3. Research Method

This research uses the basic concepts of Keynesian theory through which government spending increases economic growth to reduce unemployment and poverty. The purpose of this empirical research using Keynesian theory is to evaluate the application in Indonesia. The main data source is panel information from 35 regencies and cities

in Central Java Province, Indonesia between; 2017–2021. The argument for selecting the province of Central Java is that it is often considered one of the main barometers of Indonesia’s national development besides DKI Jakarta, but has a high poverty rate. The main data source is obtained from the Central Statistics Agency (BPS, 2022), while the dimension of the variable used is a ratio scale. The research objectives include government spending, regional minimum wages, investment, economic growth, human capital or development index, unemployment, and poverty. The analytical method used to select the best model according to Keynesian theory includes multiple regression experimental techniques.

The activities were carried out after various stages of experimental testing on a strict econometric model, especially through the statistical test of the Chow model and the Hausman assessment. Based on this technique, the best panel data analysis model was selected in the form of a fixed effect model (FEM). After deciding and selecting the FEM as the best, then an experimental model was carried out to obtain the most effective by Keynes’s theory. After this, the interpretation is only based on the results of the model, and the basic description of the theory uses the path analysis model diagram method. In order to describe the direct and indirect influence models for overcoming poverty, the path analysis model is used (Prasetyo & Thomas, 2021). The simple stages of the path analysis and form of the Keynes theory model by das Solen are shown in Figure 1. The visible variable names were clearly understood in the model diagram.

4. Results and Discussion

Indonesia has historically used the fundamental ideas of Keynes’ theory, particularly when boosting public spending to promote economic growth and address development issues, particularly in lowering unemployment, poverty, inequality, and inflation. These problems continue to be a serious challenge in Indonesia, but various policy programs to solve them have been carried out by continuing to increase government spending daily. Previous research with panel data aimed to assess the impact of government spending, particularly the Special Allocation Fund (DAK) in Aceh on poverty alleviation, health services, and education. The results showed that although DAK plays an important role in reducing poverty, and improving sanitation, and education participation, it tends to be inconclusive (Yusri, 2022). In this research, the nature of DAK seems to be less independent, therefore, it is not in line with the basic concepts of Keynes’ theory of rational and effective expenditure. According to Keynes, when government spending increases independently, and all other components remain constant, then output aggravates. This implies that independent and rational public spending as a macroeconomic policy instrument is used effectively to increase national income and employment opportunities.

Indonesia already has a good economic freedom ranking, because it achieves an index above 80.0 in the aspects of Government spending of 91.4, Fiscal health of 88.1, and Tax burden of 83.7 (Prasetyo & Kristanti, 2020). In das Solen’s

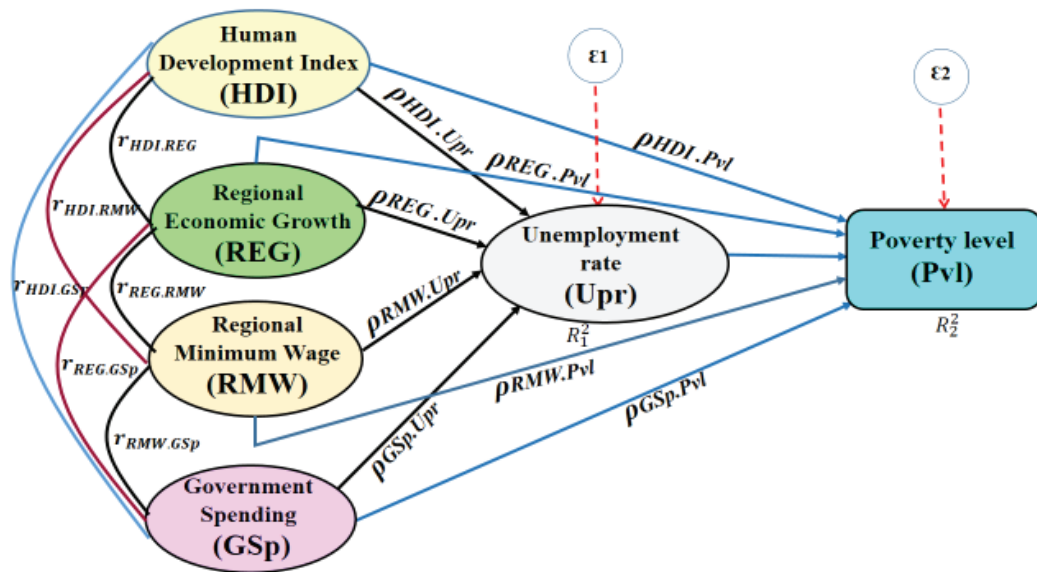


Figure 1: Description of the Keynes Analysis Model

terms, this good value of freedom reduces development problems. On a *das Sein* basis, it turns out to balanced unemployment, poverty, and inequality, even though they tend to decrease. This indicates that government spending is not efficient. One of the reasons for this inefficiency is that local government funds have been sitting in the banking sector for a long and often irritates the Minister of Finance. Based on the Minister of Finance's notes, regional government funds that have been deposited in banks until September 2022 have increased compared to the previous.

This real condition strengthens the argument above, because, when the phenomenon occurs frequently, then government spending is not only ineffective, but it increases inequality. This is because the rich are getting richer, while the poor conditions are getting worse.

The explanation is getting clearer and strengthened by the results in Tables 1, 2, 3, and 4. The results of the four models showed that, even though the influence of government spending has a negative effect, empirically, it does not have a significant impact on reducing unemployment and

Table 1: Determinant Factors Affecting Unemployment (UPR)

Variables	Coefficient	Std. Error	t-statistic	Prob.
Constant	94.30841	50.86959	1.853925	0.0667
Human Development Index (HDI)	-0.980459	0.519464	-1.887444	0.0620
Regional Economic Growth (REG)	-16.92682	3.933808	-4.302908	0.0000
Regional Minimum Wage (RMW)	18.61391	2.245085	8.290960	0.0000
Government Spending (GSp)	-0.024933	0.414131	-0.060205	0.9521
R-squared	0.877949	1.08E-08	-0.238559	4.931143
Adjusted R-squared	0.832028	Mean dependent var		1.851622
S.E. of regression	0.758875	S.D. dependent var		2.516662
Sum squared resid	58.16507	Akaike info criterion		3.336120
Log-likelihood	-137.1664	Schwarz criterion		2.849665
F-statistic	19.11895	Hannan–Quinn criter.		2.154340
Prob(F-statistic)	0.000000	Durbin–Watson stat		

Table 2: Determinant Factors Affecting Poverty (Pvl)

Variables	Coefficient	Std. Error	t-statistic	Prob.
Constant	2159832.	503446.1	4.290097	0.0000
Regional Economic Growth (REG)	-93130.36	43479.50	-2.141937	0.0346
Unemployment Rate (Upr)	2421.817	887.4260	2.729035	0.0075
Human Development Index (HDI)	-6687.021	3621.057	-1.846704	0.0677
Regional Minimum Wage (RMW)	-0.000782	0.000427	-1.830930	0.0701
Government Spending (GSp)	-2.58E-09	1.08E-08	-0.238559	0.8119
R-squared	0.990378	Mean dependent var		114800.0
Adjusted R-squared	0.986626	S.D. dependent var		66300.09
S.E. of regression	7667.480	Akaike info criterion		20.96232
Sum squared resid	5.88E+09	Schwarz criterion		21.80279
Log-likelihood	-1427.362	Hannan–Quinn criter.		21.30386
F-statistic	263.9212	Durbin–Watson stat		1.945989
Prob(F-statistic)	0.000000			

Table 3: Determinant Factors Affecting Poverty (Pvl)

Variables	Coefficient	Std. Error	t-Statistic	Prob.
Constant	2169446.	641565.5	3.381489	0.0010
Human Development Index (HDI)	-6763.304	3620.346	-1.868138	0.0647
Unemployment Rate (Upr)	2329.320	892.8148	2.608963	0.0105
Government Spending (GSp)	-329.7799	14343.35	-0.022992	0.9817
Regional Economic Growth (REG)	-93001.37	43511.35	-2.137405	0.0350
Investation (I)	-0.000793	0.000427	-1.855267	0.0665
R-squared	0.990373	Mean dependent var		114800.0
Adjusted R-squared	0.986618	S.D. dependent var		66300.09
S.E. of regression	7669.641	Akaike info criterion		20.96288
Sum squared resid	5.88E+09	Schwarz criterion		21.80335
Log-likelihood	-1427.402	Hannan–Quinn criter.		21.30443
F-statistic	263.7710	Durbin–Watson stat		1.941267
Prob(F-statistic)	0.000000			

Table 4: Determinant Factors Affecting Poverty (Pvl)

Variables	Coefficient	Std. Error	t-statistic	Prob.
Constant	2118742.	648685.8	3.266206	0.0015
Regional Economic Growth (REG)	-82575.63	43665.43	-1.891098	0.0615
Unemployment Rate (Upr)	2350.786	903.4679	2.601959	0.0107
Human Developm Inedx (HDI)	-7290.870	3652.532	-1.996114	0.0486
Government Spending (GSp)	-3495.024	14412.66	-0.242497	0.8089
R-squared	0.990041	Mean dependent var		114800.0
Adjusted R-squared	0.986294	S.D. dependent var		66300.09
S.E. of regression	7761.807	Akaike info criterion		20.98244
Sum squared resid	6.08E+09	Schwarz criterion		21.80190
Log-likelihood	-1429.771	Hannan–Quinn criter.		21.31544
F-statistic	264.2330	Durbin–Watson stat		1.913161
Prob(F-statistic)	0.000000			

poverty. In Table 1, the role of the human development index and regional economic growth has a negative and significant effect on reducing both conditions. The role of the regional minimum wage has a positive and significant impact on unemployment. The positive and significant effect of the regional minimum wage on unemployment is possible. Conversely, the regional wage rate in Central Java is relatively lower than that of other provinces. When the main motivation of investors who visit this province is based solely on the wage level, then it becomes less attractive for the people of Central Java who have other job options. This

is in line with the basic concept of Keynes's theory that wages are rigid and forced people to be unemployed.

The results of empirical research in Table 2 further strengthen the basis of Keynes' theory that unemployment is the cause of poverty. While economic growth is the most important element in reducing unemployment and poverty problems. This still supports previous research which explained that economic growth is the main element in reducing unemployment and poverty problems, but not as mitigation to overcome these conditions (Prasetyo & Thomas, 2021). The mitigation against unemployment and

poverty is a factor influencing the quality of human resources (Prasetyo & Thomas 2021). The positive and significant role of the regional minimum wage on poverty is difficult to explain, due to limited information, therefore, there is still a need for further research with fundamental microdata. This is possible since the level of wages is still low, it does not attract workers, unable to increase purchasing power, and people's welfare. The role of government spending still seems increasingly inefficient and ineffective, even though it has a negative effect on poverty.

To strengthen the results in Table 2 and the descriptive argument, this research has attempted a new model, as shown in Tables 3 and 4. In the table-3, investment factors have been included in efforts to reduce poverty. The results showed that the role of investment is negative and significant in reducing poverty, while the impact of human capital and economic growth also remains negative and significant to lack. However, the role of government spending remains negative and insignificant in reducing poverty. Table 4 has attempted a new model without the role of investment and regional minimum wages. The results showed that unemployment is positively and significantly the cause of poverty, while the role of human capital and economic growth is still able to reduce poverty significantly. The role of Government spending remains inefficient in reducing poverty. Even though government spending has a negative effect on poverty, its role is still not significant. That is, the results of this research support research which states that unemployment is an important driver for the improvement of the shadow economy in ASEAN, and government spending plays an important role in the shadow economy (Tran, 2021)

Based on the results in Table 4, it is increasingly clear that there are weaknesses in the effectiveness and efficiency of government spending in Indonesia, and need to be studied further. Based on the theory of government spending, the greater it is, the better the welfare of the people in Indonesia. Indirectly, the greater the expenditure, the higher the economic growth and subsequently more wealth creation for the community. In reality, these problems are not evident in Indonesia. This is due to the decline of unemployment, poverty, inequality, and inflation, and they are not enough to measure the welfare of the community that is economically-socially and environmentally sustainable. However, this research is limited not to examining the welfare of other dimensions. Therefore, this research supports the results of previous research which emphasized that the education budget should focus more on developing human resources, and the health budget should focus more on social security and improving the quality of life of the community (Zulkarnain et al., 2022).

Contemporarily, the problems of world economic development are increasingly complex and do not only focus on issues of unemployment, poverty, and inequality.

Presently, the world is faced with the problem of inflation which is increasingly difficult to control, while the monetary policy of contrast is unable to solve it. This is because, the problem of inflation in the world economy and especially in Indonesia shows symptoms that are in line with unemployment and poverty, transforming a contractionary fiscal policy into a bad choice. When monetary and fiscal policy contrasts are carried out simultaneously, it tends to accelerate the occurrence of stagflation. The expansionary fiscal policy is no longer effective and inefficient to control this problem. The critical note that needs to be studied and realized is the basic assumption of Keynes's theory, which is effective when society and institutions act and behave rationally. Inflation is caused more psychologically because people consume beyond their limits in an attempt to show off wealth, accompanied by large uneconomical government spending, and lack of control. Then monetary policy tends to become increasingly ineffective, causing new problems, such as unemployment, poverty, and inequality.

5. Conclusion and Recommendations

This research found that the basic theory of Keynes is still relevant to be applied in Indonesia. Consequently, it has been proven that unemployment impoverishes the community, while economic growth is the main element for reducing the problem. Even though economic growth reduces development problems, it is not capable of mitigating to overcome them. In addition, Keynes's theory explains that government spending is one of the main factors influencing economic growth to overcome these problems. The role of Government spending in Indonesia encourages economic growth, but it is not efficient and effective in reducing development problems, such as unemployment, poverty, and inequality. This is because the basic theory of Keynes asserts that government spending should be used effectively as an instrument to increase output and national income by controlling aggregate demand. Contemporarily, ineffective government spending derived from tax increases alone has a negative impact. Therefore, when ineffective spending is obtained from sources of foreign loans, it forces the country to destruction.

The problem of rigid wages and irrational actions is known to impel government spending to become more inefficient and the public to be more consumptive. Therefore, monetary policy to overcome poverty through government spending, as well as increasing social assistance to surmount lack becomes uneconomical. Generally, low wages continue to drive unemployment and poverty. This is because poverty is associated with various counterproductive economic behaviors (Bruijn & Antonides, 2021). When the phenomenon of community problems that tend to be consumptive has been integrated into the choice

of unproductive and uneconomical institutional policies, the irrational behavior of the people increasingly encourages high inflation and becomes difficult to control. The impact of monetary policy is increasingly ineffective to overcome poverty. Policies to improve the quality and capacity of Indonesian human resources, which are creative, productive, innovative, and adaptive, are not evenly distributed and are still relatively low, hence, they are unable to mitigate them. This research has a limitation which is, it only focuses more on Keynesian macroeconomic fundamentals. Government spending, unemployment, poverty, inequality, inflation, and economic growth are very complex issues, therefore, studies from other interrelated dimensions are still needed. The contribution of this research is expected to explain that Keynes's theory is empirically relevant in Indonesia, even though it still faces challenges from the assumption of the level of rationality of society, and the effectiveness of institutional policies which are not sufficiently measured from the economic and political dimensions.

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