

## CHAPTER 1

### INTRODUCTION

#### A. Research Background

Indonesian government is currently under development to create a prosperous society through the implementation of economic development programs. This government policy is implemented through regional autonomy. The government prioritizes equitable economic development because its aim is to improve the standard of living and welfare of its people. Through economic development, it is hoped that economic growth will be high enough to keep pace with the growing population.

Economic growth is a long-term economic problem and is a reality that is always experienced by a nation or region. Economic growth is a process of changing the economic conditions of a country or a region towards a better state during a certain period. An economy is said to experience a change in its development if the level of economic activity is higher than that achieved in the previous period. According to Sadono Sukimo's opinion, the definition of economic growth is the change in the level of economic activity that applies from year to year. According to Budiono's opinion, economic growth is a long-term per capita output growth process that occurs when there is an increase in output that comes from the internal processes of the economy itself and is temporary in nature. In economic growth there are several factors that affect such as investment which will increase the amount of capital goods, technology used, increase in labor as a result of

increasing population, work experience, and education which will increase skills in productivity.

Economic growth is an indicator of successful development. The higher the economic growth, the higher the people's welfare. The success of a region's development can be seen from its economic growth rate. Therefore, each region always sets high economic growth targets. An important indicator to determine the economic condition of a region in a certain period is shown by the Gross Regional Domestic Product (GDP) data. The value of GDP will provide an overview of the economic growth of a region and how the region's ability to manage existing resources. What we will discuss this time is economic growth in East Java, especially in Pacitan Regency. Pacitan is a district located at the southern tip of the province of East Java and directly adjacent to the province of Central Java.

**Table 1.1**

**Economic Growth in Pacitan Regency 2012-2019**

<b>Year</b>	<b>Economic Growth (percentage)</b>	<b>Government Spending (IDR)</b>
2012	6,33	1.015.901.277
2013	5,87	982.284.363
2014	5,21	1.332.627.378
2015	5,10	1.272.573.006
2016	5,21	1.673.975.802
2017	4,98	1.575.153.260
2018	5,51	1.841.890.481
2019	5,08	1.865.400.911

*Source : Badan Pusat Statistik*

From table 1.1 it can be seen that the performance of the Pacitan district government in the economy is measured from the gross regional domestic product which is used to calculate economic growth. It can be seen from the data taken from BPS that the annual government expenditure taken from the regional budget (APBD) will have an impact on the economic growth of various sectors. Pacitan district government expenditure tends to fluctuate, has increased and decreased. In 2013, economic growth and expenditure decreased to 5.87 percent and IDR. 982,284,363 from the previous year, namely 2012 with economic growth of 6.33 percent and expenditure of IDR. 1,015,901,277. In 2014, economic growth decreased again to 5.21 percent, but expenditures increased to IDR. 1,332,627,378. In the following years it has also decreased and then increased. The lowest point of economic growth in Pacitan Regency was in 2017, namely 4.98 percent, while the highest point of economic growth was in 2013 which was 5.87 percent. The highest expenditure of the Pacitan Regency government is in 2019 amounting to IDR. 1,865,400,911, while the lowest expenditure of the Pacitan district government was in 2013 amounting to IDR. 982,284,363. Economic growth and fluctuating government spending cannot be separated from the poverty side of an area. Many people are still in poverty. Poverty is an important problem that must be resolved by the government and society itself. Economic factors are one of the causes of poverty in an area.

**Table 1.2**

**Percentage and Number of Poor People in Pacitan**

<b>Year</b>	<b>Percentage of Poor People (Percentage)</b>	<b>Number of Poor People(Population)</b>
2012	17,23	94500
2013	16,66	91700
2014	16,18	88900
2015	16,68	92080
2016	15,49	85530
2017	15,42	85260
2018	14,19	78600

*Source : Badan Pusat Statistik*

From table 1.2 above, we can see that the poverty rate in Pacitan Regency has decreased every year, although not significantly. Decline in the poverty rate in Pacitan Regency indicates that the poverty alleviation program implemented by the government has brought success. When the economy develops in an area, there is more income to spend, which, if distributed properly, will reduce the poverty rate in that area. Poverty is a problem that always exists in an area, especially in Pacitan Regency. What remains is the role and seriousness of the government in reducing poverty and alleviating the population from poverty.

A surprising fact must be accepted by the Pacitan Regency Government where the Provincial Government and BPS place Pacitan in the region with the

lowest economy according to the 2016 Economic Census results (SE 2016). In the midst of the Pacitan Regency Government's hard efforts to revive the tourism sector as the spearhead of economic growth, the results of the SE became a bitter gift for the Regency Government in 2017. The pattern of economic growth experienced a slowdown in 2013 with a growth rate generally below East Java Province. Pacitan's HDI rating is at number 29 on a provincial scale. Poverty rate was at the level of 16.68 percent or the equivalent of 92,100 people. One of the reasons why Pacitan is categorized as the lowest economy and the poorest district is the sluggish business growth. Pacitan's economic growth has not increased when viewed from the contribution of gross regional domestic product (GRDP) which is still below one percent of the provincial GRDP sharing. Relatively low economic growth in Pacitan Regency and the relatively high poverty rate has attracted the author's interest to discuss this matter into a study.

## **B. Limitation of The Research**

Many factors influence economic growth that we can not discuss one by one. The limit on the object research only specified in:

1. Only focus on Economic Growth in Pacitan District.
2. Only focus on two independent variables there are government spending and poverty level.

## **C. Research Problem Formulation**

1. How does government spending affect to economic growth in Pacitan Regency?
2. How does the poverty rate affect to economic growth in Pacitan Regency?

**D. Research Objective**

1. To analyze the effect of government spending on economic growth in Pacitan Regency.
2. To analyze the effect of poverty levels on economic growth in Pacitan Regency.

**E. Research Benefits**

1. As input for the government, especially related agencies.
2. As input for the people of Pacitan Regency to be able to find out the current economic conditions.
3. As an addition to knowledge and insight for writers.