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THE EFFECT OF INVESTMENT, CONSUMPTION, AND GOVERNMENT SPENDING ON POVERTY THROUGH ECONOMIC GROWTH

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Abstract

This study aims to analyze the influence of consumption, investment, government spending, and poverty on economic growth during the 2014 Q1–2024 Q4 period. The study uses a quantitative approach with secondary data in the form of time series obtained from official sources. The collected data were tested using multiple linear regression, and supported by descriptive statistical tests, stationarity tests, correlation tests, and autocorrelation tests. The results show that consumption, investment, and government spending have a positive but insignificant influence on economic growth. Conversely, poverty has a negative but significant influence on economic growth. Simultaneously, all independent variables do not have a significant effect on economic growth. The relatively low coefficient of determination value indicates that there are still other factors outside the model that influence economic growth. This finding emphasizes the importance of poverty reduction in driving increased economic growth.

Keywords: Investment, Consumption and Government Expenditure, Economic Growth as a Mediator.

INTRODUCTION

Poverty is one of the most complex economic issues and a major concern for governments worldwide. High poverty rates not only reflect low incomes but also contribute to social inequality, limited access to education, health care, and economic opportunities. Therefore, understanding the factors that influence poverty is crucial for formulating effective development policies (Pagestin, 2021). Investment is a key driver of economic growth, believed to be able to reduce poverty. Investments made by both the public and private sectors can create new jobs, increase productivity, and encourage capital accumulation. Increased investment activity is expected to increase public income, thereby significantly reducing poverty. Besides investment, household consumption also plays a crucial role in the economy. Consumption levels reflect people's purchasing power and serve as an indicator of well-being. High consumption can stimulate demand for goods and services, which in turn drives production activity and employment. Thus, household consumption can be a crucial factor in indirectly reducing poverty through economic growth (Amanda, 2025).

Government spending, or public expenditure, also contributes significantly to poverty alleviation. The government can use the budget for infrastructure development, public service provision, subsidies, and social assistance programs. These interventions not only improve the quality of life for the poor but also stimulate economic growth through the multiplier effect, where government spending triggers increased economic activity in the private sector (Halimah 2024). Economic growth is considered a mediating variable in the relationship between investment, household consumption, government spending, and poverty. Sustained economic growth can strengthen people's ability to earn higher incomes, increase employment opportunities, and expand access to basic services. In other words, economic growth serves as a mechanism linking macroeconomic factors to poverty reduction. Previous research has shown that the effects of investment, consumption, and government spending on poverty are not always direct. Some studies have found that economic growth plays a significant mediating role, with increased investment

or government spending only having a significant impact on poverty reduction if economic growth also accelerates. This emphasizes the importance of analyses that consider the interactions between these economic variables (Anwar, 2020). The role of economic structure, income distribution, and the effectiveness of public policy can also influence the relationship between investment, consumption, government spending, and poverty. These factors demonstrate the complexity of the poverty problem and the need for a comprehensive analytical approach to understand the contribution of each variable and their interactions through economic growth as an intermediary (Putra, 2022). Based on this description, this study aims to analyze the influence of investment, household consumption, and government spending on poverty levels, with economic growth as a mediating variable. The results are expected to provide a clearer understanding of poverty alleviation mechanisms and serve as a reference for policymakers in designing more effective and sustainable development strategies (Padli 2020).

METHOD

3.1 Types and Approaches of Research

This study uses a quantitative approach with econometric analysis methods. This approach was chosen because the study aims to empirically test the relationships between variables using numerical data. The data used is secondary data in the form of quarterly time series for the period 2014Q1 to 2024Q4. Data sources were obtained from official institutions such as the Central Statistics Agency (BPS), government reports, and other relevant macroeconomic publications. The variables in the study consisted of economic growth as the dependent variable, and consumption, investment, government spending, and poverty as the independent variables. The analysis was conducted through several stages: descriptive statistics to examine data characteristics, correlation tests to identify relationships between variables, stationarity tests to ensure data stability, and autocorrelation tests to check for residual correlation. Estimation was then performed using multiple linear regression with the help of EViews software. Hypothesis testing was conducted using partial tests (t-test), simultaneous tests (F-test), and the coefficient of determination (R^2).

3.2 Types and Sources of Data

The type of data used in this study is secondary data in the form of quarterly time series. The data covers the period 2014Q1 to 2024Q4, with a total of 44 observations.

Data sources are obtained from official publications such as:

- Central Statistics Agency (BPS)
- Government report
- Other relevant macroeconomic data sources

3.3 Research Variables

This study consists of one dependent variable and four independent variables, namely:

1. Dependent Variable (Y)

- Economic Growth (GROWTH) Measured using economic growth indicators in the form of quarterly data.

2. Independent Variable (X)

- X1: Consumption (CONSUMPTION) Describes the level of public consumption.
- X2: Investment (INVESTMENT)Reflects capital formation in the economy.
- X3: Government Expenditure (SG) Shows total government expenditure.
- X4: Poverty (POVERTY) Describes the level of poverty in the economy.

3.4 Data Analysis Techniques

Data analysis in this study was carried out through several stages as follows:

1. Descriptive Statistics

   Used to provide an overview of research data, including the average, median, maximum, minimum, standard deviation, skewness, kurtosis, and normality test (Jarque-Bera).

2. Correlation Test

   Used to determine the relationship between independent variables and detect the possibility of multicollinearity.

3. Stationarity Test (Unit Root Test)

This test is performed to ensure that the data is stationary and thus does not produce spurious regression. The methods used include:

- Levin, Lin & Chu (LLC)
- Im, Pesaran and Shin (IPS)
- ADF-Fisher Chi-square
- PP-Fisher Chi-square

Data is said to be stationary if the probability value is <0.05.

4. Autocorrelation Test

This is done using a Correlogram (Q-Statistic / Ljung-Box) to determine whether there is serial correlation in the model residuals. The model is declared autocorrelation-free if the probability value is > 0.05.

5. Multiple Linear Regression Analysis

The regression model used in this study is:

Model Level:

$GROWTH = \beta0 + \beta1\ CONSUMPTION + \beta2\ INVESTMENT + \beta3\ SG + \beta4\ POVERTY + \varepsilon$

Information:

- GROWTH = Economic Growth
- CONSUMPTION = Household Consumption
- INVESTMENT = Investment
- SG = Government Expenditure
- POVERTY = Poverty Level
- $\beta0$ = Constant
- $\beta1 - \beta4$ = Regression coefficient
- ε = Error term

Logarithmic Model:

$\log(GROWTH) = \beta0 + \beta1 \log (CONSUMPTION) + \beta2 \log(INVESTMENT) + \beta3 \log(SG) + \beta4 \log(POVERTY) + \varepsilon$

The logarithmic model is used to see the elasticity between variables and reduce the potential for heteroscedasticity.

6. Hypothesis Testing

a. Partial Test (t-Test)

The partial test (t-test) is used to determine the effect of each independent variable on the dependent variable individually. The test is performed by comparing probability values (p-values) with a significance level of 5% ($\alpha = 0.05$).

If the probability value is less than 0.05, then the independent variable has a significant effect on the dependent variable. Conversely, if the probability value is greater than 0.05, then the variable does not have a significant effect. Based on the estimation results, the consumption, investment, and government spending variables have probability values greater than 0.05, thus having no significant effect on economic growth. Meanwhile, the poverty variable has a probability value less than 0.05, thus having a significant effect on economic growth.

b. Simultaneous Test (F Test)

Used to determine the influence of independent variables together on the dependent variable.

c. Coefficient of Determination (R^2)

Used to measure the ability of independent variables to explain dependent variables.

3.5 Analysis Tools

This study uses EViews software to process data and conduct statistical and econometric analyses.

3.6 Research Procedures

The research steps include:

1. Data collection
2. Data processing in EViews
3. Basic assumption tests (stationarity and autocorrelation)
4. Regression model estimation
5. Hypothesis testing
6. Interpretation of results

RESULTS AND DISCUSSION

4.1 Descriptive Statistics

View | Proc | Object | Print | Name | Freeze | Estimate | Forecast | Stats | Resids

Dependent Variable: LOG(GROWTH)
Method: Least Squares
Date: 03/30/26 Time: 18:06
Sample: 2014Q1 2024Q4
Included observations: 44

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.673271	0.421125	3.973333	0.0003
LOG(X1KONSUMSI)	0.207655	0.196627	1.056083	0.2974
LOG(X2INVESTASI)	0.066710	0.112001	0.595625	0.5549
LOG(X3SG)	0.059194	0.077033	0.768430	0.4469
LOG(X4KEMISKINAN)	-0.258226	0.098213	-2.629237	0.0122

R-squared	0.172720	Mean dependent var	1.614950
Adjusted R-squared	0.087871	S.D. dependent var	0.043383
S.E. of regression	0.041434	Akaike info criterion	-3.422807
Sum squared resid	0.066953	Schwarz criterion	-3.220058
Log likelihood	80.30175	Hannan-Quinn criter.	-3.347618
F-statistic	2.035610	Durbin-Watson stat	1.800970
Prob(F-statistic)	0.108271		

Based on the results of descriptive statistics, all variables have a total of 44 observations (period 2014Q1–2024Q4). The GROWTH variable has an average value of 5.032273 with a standard deviation of 0.219257, indicating relatively small fluctuations. The X1CONSUMPTION variable has an average of 4.991591 and a standard deviation of 0.162752, indicating relatively high stability compared to other variables. The X2INVESTMENT variable has an average of 5.414773 with greater variation (standard deviation of 0.315237). The X3SG variable shows an average of 4.501136 with a standard deviation of 0.385536, which is the highest variability compared to other variables. Meanwhile, the X4KEMISKINAN variable has an average of 9.977955 with a standard deviation of 0.648442. The skewness values of all variables are around zero, indicating a relatively symmetrical distribution, and the Jarque-Bera probability value is > 0.05 in all variables, indicating that the data is normally distributed.

4.2 Correlation Test

View | Proc | Object | Print | Name | Freeze | Sample | Sheet | Stats | Spec

	GROWTH	X1KONSUMSI	X2INVESTASI	X3SG	X4KEMISKIN...
GROWTH	1.000000	0.140926	0.067704	0.041071	-0.358694
X1KON...	0.140926	1.000000	0.157591	-0.104695	0.039278
X2INVE...	0.067704	0.157591	1.000000	-0.148667	0.096786
X3SG	0.041071	-0.104695	-0.148667	1.000000	0.077266
X4KEMI...	-0.358694	0.039278	0.096786	0.077266	1.000000

The correlation matrix results show that the relationship between variables is relatively low. The correlation between GROWTH and X1CONSUMPTION is 0.140926, while with X2INVESTMENT it is 0.067704. The relationship with X3SG is 0.041071, and with X4POVERTY is -0.358694. There is no high correlation (above 0.8), so it can be concluded that there is no serious multicollinearity between the independent variables.

4.3 Stationarity Test (Unit Root Test)

View | Proc | Object | Print | Name | Freeze | Sample | Sheet | Stats | Spec

Group unit root test: Summary
Series: GROWTH, X1KONSUMSI, X2INVESTASI, X3SG, X4KEMISKINAN
Date: 03/30/26 Time: 18:10
Sample: 2014Q1 2024Q4
Exogenous variables: Individual effects
Automatic selection of maximum lags
Automatic lag length selection based on SIC: 0 to 4
Newey-West automatic bandwidth selection and Bartlett kernel

Method	Statistic	Prob.**	Cross-sections	Obs
Null: Unit root (assumes common unit root process)				
Levin, Lin & Chu t*	-3.04747	0.0012	5	209
Null: Unit root (assumes individual unit root process)				
Im, Pesaran and Shin W-stat	-8.97156	0.0000	5	209
ADF - Fisher Chi-square	99.5966	0.0000	5	209
PP - Fisher Chi-square	100.902	0.0000	5	215

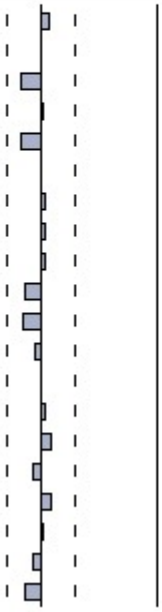
** Probabilities for Fisher tests are computed using an asymptotic Chi -square distribution. All other tests assume asymptotic normality.

Based on the Levin, Lin & Chu test, a statistical value of -3.04747 was obtained with a probability of 0.0012 (<0.05), indicating that the data is stationary. In addition, the Im, Pesaran and Shin, ADF-Fisher, and PP-Fisher tests also showed a probability of 0.0000, indicating that all variables were stationary at the level.

4.4 Autocorrelation Test

View | Proc | Object | Print | Name | Freeze | Estimate | Forecast | Stats | Resids

Date: 03/30/26 Time: 18:08
Sample: 2014Q1 2024Q4
Included observations: 44

Autocorrelation	Partial Correlation		AC	PAC	Q-Stat	Prob
		1	0.068	0.068	0.2200	0.639
		2	-0.001	-0.005	0.2200	0.896
		3	-0.176	-0.177	1.7562	0.625
		4	0.022	0.048	1.7808	0.776
		5	-0.180	-0.191	3.4613	0.629
		6	-0.007	-0.010	3.4636	0.749
		7	0.032	0.046	3.5191	0.833
		8	0.033	-0.044	3.5819	0.893
		9	0.025	0.043	3.6184	0.935
		10	-0.142	-0.181	4.8197	0.903
		11	-0.167	-0.164	6.5336	0.836
		12	-0.065	-0.023	6.8047	0.870
		13	-0.003	-0.076	6.8053	0.912
		14	0.028	0.001	6.8598	0.940
		15	0.095	0.036	7.4889	0.943
		16	-0.070	-0.185	7.8452	0.953
		17	0.091	0.124	8.4708	0.955
		18	0.013	-0.003	8.4844	0.971
		19	-0.069	-0.137	8.8711	0.976
		20	-0.147	-0.069	10.698	0.954

The correlogram results show that all Q-statistic probability values at various lags are greater than 0.05. This indicates that there is no autocorrelation in the model.

4.5 Linear Regression Results (Model Level)

View | Proc | Object | Print | Name | Freeze | Estimate | Forecast | Stats | Resids

Dependent Variable: GROWTH
Method: Least Squares
Date: 03/30/26 Time: 18:04
Sample: 2014Q1 2024Q4
Included observations: 44

Variable	Coefficient	Std. Error	t-Statistic	Prob.
X1KONSUMSI	0.203916	0.199956	1.019808	0.3141
X2INVESTASI	0.066601	0.104333	0.638351	0.5270
X3SG	0.057237	0.084635	0.676289	0.5028
X4KEMISKINAN	-0.129058	0.049837	-2.589606	0.0134
C	4.683884	1.245280	3.761310	0.0006

R-squared	0.168855	Mean dependent var	5.032273
Adjusted R-squared	0.083610	S.D. dependent var	0.219257
S.E. of regression	0.209891	Akaike info criterion	-0.177809
Sum squared resid	1.718120	Schwarz criterion	0.024939
Log likelihood	8.911805	Hannan-Quinn criter.	-0.102620
F-statistic	1.980809	Durbin-Watson stat	1.790618
Prob(F-statistic)	0.116526		

The regression results show that:

- X1CONSUMPTION has a coefficient of 0.203916 with a probability of 0.3141.
- X2INVESTMENT has a coefficient of 0.066601 with a probability of 0.5270.
- X3SG has a coefficient of 0.057237 with a probability of 0.5028.
- X4POVERTY has a coefficient of -0.129058 with a probability of 0.0134.

The R-squared value of 0.168855 indicates that the independent variables are able to explain 16.88% of the variation in GROWTH. The F-statistic probability value of 0.116526 (> 0.05) indicates that the model is simultaneously insignificant.

4.6 Logarithmic Regression Results

In the logarithmic model:

- LOG(X1CONSUMPTION) has a probability of 0.2974
- LOG(X2INVESTMENT) is 0.5549
- LOG(X3SG) is 0.4469
- LOG(X4POVERTY) is 0.0122

The adjusted R-squared value is 0.087871, indicating relatively low explanatory power of the model. However, the poverty variable remains statistically significant.

Discussion

5.1 The Effect of Consumption on Economic Growth

Based on the results of the t-test, the consumption variable has a probability value of 0.3141 (> 0.05), so it can be concluded that consumption does not have a significant effect on economic growth, even though it has a positive relationship direction. These results align with research by Padli et al. (2020), which states that household consumption does not always have a significant impact on economic growth, especially when consumption is more consumptive than productive. In theory, according to the Keynesian approach, consumption is a key component of aggregate demand that can drive economic growth. However, in the context of this research, unproductive consumption and high consumption of imported goods weaken the multiplier effect. Thus, even though consumption has increased, its impact on economic growth has not been significant because it has not been accompanied by an increase in productivity and investment. One factor that may influence these findings is the public's consumption patterns, which tend to be more focused on non-productive goods and services, such as daily necessities, entertainment, and imported goods. This type of consumption has a limited impact on increasing national productivity. Furthermore, Indonesia's economic structure, which still relies heavily on the informal sector, can also limit the impact of consumption on economic growth. Much of the consumption conducted by households in the informal sector does not directly increase output or productivity in the formal sector. Another factor is the relatively

low savings rate, which means that consumption is not accompanied by productive investment that could strengthen economic growth. In other words, high consumption has not been matched by capital accumulation that supports growth. Nevertheless, consumption remains a crucial indicator of economic health because it drives demand for goods and services and signals public confidence in economic stability. Long-term increases in consumption still have the potential to drive growth if balanced with appropriate fiscal and investment policies. Therefore, policies that encourage productive consumption, such as increasing purchasing power for strategic sectors and targeted subsidy programs, can increase consumption's contribution to economic growth in the future.

5.2 The Effect of Investment on Economic Growth

The results of the t-test show that the investment variable has a probability value of 0.5270 (> 0.05), so it can be concluded that investment does not have a significant effect on economic growth, even though it has a positive relationship. These findings are supported by research by Anwar (2020) and Putra et al. (2022), which found that investment does not always have a significant impact on economic growth if it is not allocated optimally. According to classical and neoclassical economic growth theories, investment is a key factor in increasing production capacity and economic growth. However, this study suggests that investment may be unevenly distributed, less productive, or hampered by bureaucratic bottlenecks, thus reducing its impact.

Thus, although investment increased, its contribution to economic growth was still limited during the study period. Investment showed a positive relationship with economic growth, but the results did not show statistical significance. This indicates that despite the increase in investment, its contribution to national economic growth during the study period was still limited. One cause is the suboptimal allocation of investment to productive sectors capable of creating a multiplicative effect. Investment focused on non-productive sectors, or sectors that do not absorb a large workforce, tends to have little impact on economic growth. Furthermore, investment in Indonesia remains concentrated in certain regions, resulting in uneven distribution. This concentration limits the impact on national economic growth, as other regions with high economic potential have not received sufficient investment incentives.

Regulatory and bureaucratic factors also pose obstacles. Complex licensing processes, regulatory uncertainty, and administrative hurdles can delay investment realization, preventing immediate impacts on economic growth. Although the impact of investment on economic growth is not yet significant, investment remains a crucial variable because it can form the basis for long-term growth. Well-targeted productive investment can stimulate innovation, increase production capacity, and strengthen national economic competitiveness. Therefore, policies that focus investment on strategic sectors, accelerate licensing, and support equitable investment distribution are key to increasing investment's contribution to economic growth.

5.3 Effect of Government Spending (X3SG)

Based on the results of the t-test, the government expenditure variable has a probability value of 0.5028 (> 0.05), so it can be concluded that government expenditure does not have a significant effect on economic growth, even though it has a positive relationship direction. These results align with research by Halimah et al. (2024), which shows that government spending does not always have a significant impact on economic growth if it is not used effectively. In Keynesian theory, government spending is a crucial instrument for stimulating aggregate demand. However, in practice, the effectiveness of government spending depends heavily on budget allocation. If more is spent on routine spending than productive spending, its impact on economic growth is limited.

Thus, the results of this study indicate that the increase in government spending has not been able to provide a significant contribution to economic growth during the study period. Government spending has a positive relationship with economic growth, but the research results show it is insignificant. This indicates that even though the government increased public spending, its effect on economic growth was limited during the study period. One influencing factor is the effectiveness of government budget utilization. Spending that is not properly directed toward productive sectors or programs capable of stimulating economic growth tends to have minimal impact.

Furthermore, a larger portion of government spending is devoted to routine and administrative expenditures rather than development projects or public investments that have a multiplicative effect. This limits the ability of government spending to significantly drive economic growth. Limited planning and implementation capacity can also be a limiting factor. Late project completion, misuse of funds, or poorly targeted planning can reduce the effectiveness of public spending in driving economic growth. Nevertheless, government spending remains a crucial instrument in the economy because it can stimulate aggregate demand and provide public services that support economic activity. With proper management, government spending has the potential to significantly boost economic

growth. Therefore, increasing the effectiveness of budget use, prioritizing productive projects, and monitoring implementation are key to ensuring government spending plays an optimal role in driving economic growth.

5.4 The Impact of Poverty on Economic Growth

The research results show that poverty has a negative and significant effect on economic growth, both in the level and logarithmic models. This finding indicates that increasing poverty levels will significantly reduce the rate of economic growth. This is consistent with development economics theory, which states that poverty limits community productivity, reduces purchasing power, and limits participation in formal economic activities. The higher the poverty rate, the fewer human resources available to contribute productively to the economy. Furthermore, poverty also impacts access to education, health care, and job skills. These limitations slow the accumulation of quality human resources, thereby reducing people's ability to increase productivity and participate in economic growth. High poverty also increases reliance on social assistance and subsidies, which can burden the state budget and reduce resources allocated for productive investment. This slows long-term economic growth. Structural factors, such as income inequality and low employment opportunities in the formal sector, contribute to the negative impact of poverty on economic growth. Therefore, poverty alleviation efforts are crucial for promoting sustainable economic growth. Based on these findings, poverty alleviation policies, including empowering poor communities through education, job training, and access to capital, are a top priority in strategies to increase economic growth.

5.5 Model Feasibility

Model analysis shows a relatively low R-squared value, indicating that other variables outside the model influence economic growth. This demonstrates the model's limitations in explaining the full range of economic growth in Indonesia. Furthermore, the overall F-test results were insignificant, indicating that the model is not strong enough to fully explain the relationships between the variables. This suggests the need to add other variables, such as inflation, foreign trade, or education level, to strengthen the model. Nevertheless, this model still provides important information about the direction and strength of the influence of each variable, especially poverty, which proved significant. These results form the basis for further analysis of the determinants of economic growth. The limitations of the model can also be taken into consideration for further research, such as expanding macroeconomic variables or using panel analysis methods to obtain more comprehensive results. Furthermore, data instability or differences in variable measurement methodologies can impact model feasibility, making data consistency crucial for analytical accuracy. Understanding these limitations can help researchers formulate more robust and relevant research strategies and provide insights for policymakers in designing evidence-based economic policies.

5.6 Implications of Research Results

The research results show that social factors, particularly poverty, play a dominant role in influencing economic growth compared to other macroeconomic variables such as consumption, investment, and government spending. This finding underscores the importance of focusing on poverty alleviation as a top priority. Policies that solely emphasize increasing investment or government spending without considering social aspects tend to be less effective in promoting sustainable economic growth. Well-targeted social interventions can increase the productivity of the poor and expand their participation in formal economic activities. Furthermore, improving access to education, health care, and skills training for the poor can strengthen the positive effects of long-term economic growth. These efforts will improve the quality of human resources and create a ripple effect on overall economic activity.

These findings also have implications for government budget planning, where funding allocation must consider effectiveness in reducing poverty while promoting economic growth. Integration of fiscal policy, investment, and social programs is key to success. In the context of this research, although the variables of consumption, investment, and government expenditure have not shown a significant influence, they remain important as supporters of long-term economic growth if combined with effective poverty alleviation strategies. Thus, a holistic development policy must consider social and economic factors simultaneously, ensuring that economic growth not only increases quantitatively but also has a positive impact on the welfare of the wider community.

CONCLUSION

Based on the results of the analysis that has been carried out, it can be concluded that the variables of consumption, investment, and government spending have a positive but insignificant influence on economic growth during the period 2014Q1–2024Q4. Meanwhile, the poverty variable is proven to have a negative and significant

influence on economic growth, which indicates that increasing poverty levels can significantly hinder economic growth. Simultaneously, all independent variables in the model have not been able to explain the variation in economic growth strongly, as indicated by the relatively low value of the coefficient of determination and the insignificant results of the F test. Thus, it can be concluded that social factors in the form of poverty have a more dominant role than other macroeconomic variables in influencing economic growth during the study period.

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