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PUBLIC SECTOR EXPENDITURE AND SUSTAINABLE DEVELOPMENT: AN EMPIRICAL ANALYSIS OF DEVELOPED AND DEVELOPING COUNTRIES

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ABSTRACT

This study aims to analyze the relationship between public sector spending and sustainable development in developed and developing countries. Using panel data from a number of countries divided into two categories, this study examines the effect of government spending in various sectors (such as education, health, infrastructure, and environment) on sustainable development indicators, including quality of life, poverty reduction, and environmental protection. The analysis method used is panel data regression with fixed effects and random effects approaches. The results of the analysis show that public sector spending focused on the social and environmental sectors has a significant positive impact on sustainable development, although the impact varies between developed and developing countries. In developing countries, increased public spending in the infrastructure and health sectors contributes more to achieving sustainable development. Conversely, in developed countries, focusing on environmental management and education has proven to be more effective. This study suggests the importance of adaptive fiscal policy to maximize the positive impact of public spending on sustainable development according to the economic and social conditions of each country.

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A. INTRODUCTION

State spending is spending made by the government to finance various activities related to the administration of the state. State spending includes all spending used to finance government policies and programs, both at the central and regional levels. In general, state spending can be divided into two types, namely routine spending and development spending. Routine spending includes spending to finance government operational activities such as civil servant salaries, subsidies, and debt interest payments, while development spending relates to spending on projects aimed at improving infrastructure, public services, and sectors that support economic growth.

Large state spending requires efficient and transparent management, considering its direct impact on a country's economy. State spending that is well-targeted can encourage economic growth, improve public welfare, and accelerate development. Conversely, inefficient or uncontrolled state spending can cause a budget deficit that endangers economic stability and burdens future generations through increased state debt.

In Indonesia, state spending is managed through the State Revenue and Expenditure Budget (APBN) which is prepared annually by the government and ratified by the DPR. In the APBN, the government determines budget allocations for various sectors such as education, health, infrastructure, defense, and others, in accordance with national development priorities. The government also needs to pay attention to the balance between spending and state revenues so that the budget deficit remains under control.

One of the challenges in managing state spending is ensuring that the funds spent are truly effective and efficient in achieving development goals. This requires a transparent, accountable, and community-based budgeting system as well as periodic evaluation of the impact of these expenditures.

B. THEORITICAL FRAMEWORK

The theoretical framework of this research is built on several basic concepts related to the relationship between public sector spending and sustainable development, both in developed and developing countries. This theoretical framework will include theories on the role of government spending in the economy, sustainable development theory, and differences between developed and developing countries in the context of public spending allocation.

a. Public Sector Spending Theory

Keynesian Theory

This theory emphasizes the importance of the government's role in managing the economy, especially through public sector spending to stimulate aggregate demand and improve socio-economic inequality. In the context of sustainable development, public spending focused on the social sector (education, health) and the environmental sector can accelerate the achievement of development goals.

Government Spending Theory for Development

Government spending allocated to certain sectors such as education, health, infrastructure, and environmental protection is believed to be able to improve social welfare and the quality of life of the community, which is directly related to the achievement of sustainable development.

b. Sustainable Development Theory

Sustainable Development Theory

Sustainable development aims to meet current needs without compromising the ability of future generations to meet their needs. In this theory, development must consider three main dimensions: economic, social, and environmental. Public sector spending that is directed at achieving a balance between the three dimensions will support sustainable development.

Sustainable Development Indicators

The main indicators that are often used to measure the success of sustainable development include poverty reduction, access to better health and education services, and sustainable management of natural resources.

c. Differences between Developed and Developing Countries

Developed Countries

Developed countries generally have greater fiscal capacity and more stable governance systems to focus public spending on sectors that support the development of technology, innovation, and better environmental management. In developed countries, policies oriented towards education, health, and environmental protection play a major role in achieving sustainable development.

Developing Countries

Developing countries often face constraints in the allocation of limited public sector spending. The priority of government spending in developing countries is more focused on basic sectors such as infrastructure, health, and education, which function to reduce poverty and improve the quality of life of the community. Despite its limitations, effective public sector spending can be the key to overcoming social and environmental problems in developing countries.

d. Relationship between Public Sector Spending and Sustainable Development

Impact of Spending on Social Welfare

Public sector spending on the social sector (education, health) can improve the quality of life and reduce social inequality. Increasing access to basic social services will accelerate the process of sustainable human development.

Impact of Spending on the Environment

Public sector spending directed at environmental protection and sustainable natural resource management has a significant influence in achieving sustainable development goals, especially in the context of climate change mitigation and nature conservation.

Variation in Impact Based on Level of Development

The influence of public sector spending on sustainable development can differ between developed and developing countries. In developed countries, investment in green technology and higher education tends to be more dominant, while in developing countries, the focus is more on providing basic infrastructure and improving health and education services.

e. Fiscal Policy and Sustainable Development

Fiscal Policy in Developed and Developing Countries

Adaptive fiscal policy can help developed and developing countries maximize the positive impact of public spending on sustainable development. Developed countries typically have larger budgets and more flexible fiscal space, while developing countries are often hampered by budget constraints and debt.

C. METHOD

This research is a library research, which is a research conducted through examination of library materials or secondary materials that are relevant to the problem being studied. Meanwhile, the research is classified as descriptive and detailed analysis for each topic discussed. The method used in this study is a qualitative method. Qualitative research is a research approach that focuses on understanding, describing, and interpreting the phenomena being studied. This method emphasizes the search for meaning, concepts and understanding related to the research topic. The data used in this study are secondary, obtained through collecting information from various books and scientific journals that are relevant to the discussion of this research. The data collection technique used is a library study, where the data is analyzed descriptively and presented in narrative form.

D. FINDINGS AND DISCUSSION

❖ Definition of APBN

The State Budget or often called APBN is an accounting system that describes all expected revenues and estimated expenditures by the central government for one year. APBN is a budget plan carried out by the central government, while the budget plan made by the regions is called the Regional Budget or APBD. In recording the APBN consists of two columns. In the left column, all government revenues are recorded, most of which are expected to be obtained from various types of taxes collected by the government, while in the right column, all expenditures estimated to finance all government activities are recorded. If the amount of the revenue side exceeds the expenditure side, the APBN is said to have a surplus, while conversely if the revenue side is smaller than the expenditure side, the APBN is said to be in deficit.

Many efforts have been made by the government to stabilize the economy. One of the most frequently used government efforts is to encourage a conducive climate so that income distribution can be better which is carried out through the State Budget. This effort is often called fiscal policy. In addition to fiscal policy, the government also makes regulations in the management of State-Owned Enterprises (BUMN) and makes other policies that support efforts to stabilize the economy. Fiscal policy is a policy implemented by the government by manipulating government spending and revenues as seen in the state budget.

During the Old Order, the APBN was always in deficit. To overcome this problem, the government then covered the revenue shortfall by printing new money, causing inflation. Meanwhile, during the New Order, the deficit remained, but the shortfall was covered by foreign debt, which was a government loan to foreign creditors. During that government, government spending to be carried out was adjusted to the government revenues that were expected to be obtained (including those that would be obtained from foreign debt). Therefore, during the New Order, the revenue side of the APBN was always the same as the expenditure side. Such a condition is called a balanced APBN condition. In Indonesia's case, this condition never actually occurred because the balance in the APBN was covered by foreign debt and not from the productive activities of its people.

In an open economy or three-sector economy, national income (Y) is the accumulation of consumption (C), investment (I) and government spending (G). The addition of G will cause the flow of income to be greater.

Government expenditure can be exhaustive, which is the purchase of goods and services in the economy that can be directly consumed or can also be used to produce other goods. In addition, government expenditure can also be transfer-only, which is the transfer of money to individuals for social interests, to companies as subsidies or perhaps to other countries as grants. So exhaustive expenditure shifts production factors from the private sector to the government sector. While transfer payments only shift purchasing power from one economic unit to another and let the latter determine the use of the money. Exhaustive expenditures can be purchases of goods produced by the private sector, such as food, buildings, machinery and so on, and purchases can also be made for goods produced by the government itself, such as teacher services, the military and civil servants.

Balanced and Dynamic Budget

State Revenue	**State Expenditures**
1.Income and taxes	1. Routine Shopping
2. Non-Tax Income	2. Transfer Shopping (Spending for Subsidies and Other Social Transactions)
3. Development Revenue (Revenue and Aid from Abroad)	3. Development Expenditure

- **Definition of APBN According to Islam**

The State Budget (APBN) has a different meaning from an Islamic perspective compared to the conventional economic system. In the Islamic context, the APBN is often identified with Baitul Mal, which is a state financial management institution tasked with regulating revenues and expenditures in accordance with sharia principles.

a. Baitul Mal: In Islamic tradition, Baitul Mal functions as a place to store and manage assets that are the rights of Muslims. All income, both from taxes and other sources, is managed for the benefit of the community. This includes all income from Muslims and non-Muslims, which is then allocated for public welfare.

b. Management Principles: The APBN in Islam is not prepared annually as in the modern system. Instead, all sources of income and expenditure items are determined based on sharia, making it more stable and not tied to a certain period. The Caliph as leader is responsible for preparing the budget by considering ijtihad and input from the community.
c. Public Welfare: The main objective of the APBN in the Islamic context is to maximize the welfare of all citizens. This means that fiscal policy must focus on meeting the basic needs of society and the equitable distribution of wealth. In this case, the APBN serves as a tool to achieve broader social and economic goals, not just a financial accounting tool.
d. Balanced Financial Management: In Islamic economic principles, state expenditure must be balanced with revenue. Although in emergencies tax increases may be permitted, debt is not recommended as the primary means of financing the budget. This reflects Islam's commitment to sustainable and responsible financial management.

❖ **State Expenditure Management Can Ensure Effectiveness and Efficiency in the Use of the State Budget**

Effective and efficient management of state spending is one of the main keys to achieving a country's development goals. Effectiveness refers to the extent to which the budget issued by the government can achieve the goals that have been set, such as improving public welfare, infrastructure development, education, and health. Meanwhile, efficiency relates to the use of limited resources to achieve optimal results, namely at the lowest possible cost. Therefore, it is important for the government to ensure that budget allocations are based on real needs, as well as programs that have a direct and significant impact on the progress of the country.

One of the first steps that can be taken in managing state spending is the preparation of a budget based on careful planning. The budget must be prepared by considering development priorities that are in accordance with the needs of the community and existing economic conditions. This planning process must involve an in-depth analysis of which sectors require greater financing, and how the allocation of funds can provide optimal impact in a relatively short time. A performance- based approach, where each expenditure is measured based on the expected output and outcome, can be one tool to ensure budget effectiveness. This will encourage the government to be more selective in choosing projects and programs that truly provide great benefits to the community.

In addition, the management of state spending also requires a strict monitoring system and high transparency. With good monitoring, every use of the budget can be evaluated and it can be ensured that the budget is not misused or allocated for unproductive activities. The Financial Supervisory Agency (BPK) and other internal monitoring institutions have an important role in carrying out this task. In addition, information technology can also be utilized to increase transparency, by opening public access to real-time state spending reports, so that the public can participate in monitoring budget use. It is also important to note that ongoing evaluation is essential to ensure that state spending is not only effective and efficient in the short term, but also sustainable in the long term. The use of the budget must be based on a comprehensive impact analysis, taking into account not only costs, but also the long-term benefits that will be received by the community. Therefore, the government must integrate a comprehensive monitoring and evaluation system into every program or project funded by state spending. Thus, although state spending often has to overcome various fiscal challenges, effectiveness and efficiency can still be maintained.

- **State Expenditure Can Drive Economic Growth and Improve Public Welfare Without Adding to Excessive State Debt Burden**

State spending plays an important role in driving economic growth and improving public welfare. Through the state budget, the government can allocate funds to various sectors that are vital to the economy, such as infrastructure, education, health, and social subsidies. Investment in infrastructure, for example, can stimulate other sectors, improve connectivity, and increase long-term productivity. Likewise, spending on the education and health sectors contributes directly to improving the quality of human resources, which in turn can increase the competitiveness and productivity of the economy as a whole.

However, state spending must be done carefully so as not to increase the burden of excessive debt. Increasing state debt can reduce the government's fiscal capacity in the future, because most of the budget will be allocated for interest payments and debt installments, rather than for productive spending. Therefore, one of the biggest challenges in managing state spending is maintaining a balance between the need to fund development programs and the obligation to manage debt wisely. If state spending is driven by uncontrolled debt, it can pose serious fiscal risks, including a downgrade of the country's credit rating and increased borrowing costs in the future.

Therefore, the government needs to apply the principle of prudence in debt management and ensure that state expenditure financed by debt has a greater positive impact on the economy in the long term. For example, spending on infrastructure projects financed by debt can provide a multiplier effect, such as creating jobs, increasing tax revenues, and attracting domestic and foreign investment. However, if state expenditure is financed by debt used for routine consumption or unproductive projects, then the debt will not provide comparable results, and will actually increase the fiscal burden without making a real contribution to the economy.

In addition, state expenditure management must prioritize sectors that have a direct impact on reducing poverty and social inequality. Programs that support the empowerment of the poor and vulnerable groups, such as social protection programs and subsidies for strategic sectors, can accelerate the distribution of welfare. However, this must be done by ensuring that every budget allocation is carried out with high efficiency, so that every rupiah spent provides maximum benefits to the community without excessively increasing the budget burden.

The importance of strict planning and supervision in the management of state expenditure cannot be ignored. In order for state spending to drive economic growth without increasing the debt burden, a transparent and accountable monitoring mechanism is needed, as well as an evaluation system that can measure the impact of each program implemented. The government also needs to ensure that state revenue sources, especially taxes, can be increased by expanding the tax base and reducing leakage in the tax system.

- **Challenges faced by the government in preparing and implementing the State Revenue and Expenditure Budget (APBN) in order to achieve optimal development goals.**

The preparation and implementation of an effective and efficient State Budget (APBN) is one of the crucial steps in achieving national development goals. However, the government is faced with various challenges in this process, both in terms of planning, implementation, and evaluation. Some of the main challenges that are often faced by the government in preparing and implementing the APBN are as follows:

1) Economic Uncertainty and Macroeconomic Conditions

One of the biggest challenges in preparing the APBN is economic uncertainty, both at the domestic and global levels. Factors such as commodity price fluctuations, changes in interest rates, and international trade tensions can affect state revenue projections. This uncertainty often makes it difficult for the government to plan state spending appropriately, because state revenues cannot be predicted accurately. For example, a decline in global oil prices can reduce state revenues that depend on the energy sector, which in turn affects the government's ability to finance various development programs.

2) Budget Deficit and Debt Management

The next challenge is managing the budget deficit and state debt. Although the APBN is designed to achieve a balance between revenue and spending, in practice there is often a budget deficit that leads to increased debt. Reliance on debt financing to cover the deficit can burden the budget in the future, because most of the funds will be used to pay interest on debt rather than for productive spending. Therefore, the main challenge is to ensure that any debt financing is used for programs that can provide long-term economic results and not for routine consumption or financing unproductive projects.

3) Effective Planning and Prioritization of Expenditure

The government must face the challenge of determining budget allocation priorities. Limited resources force the government to make difficult decisions about which sectors to prioritize, whether it is infrastructure, education, health, or social subsidies. Budget constraints often force the government to choose between financing large projects or meeting other urgent needs. An inadequate planning process or one that is not based on accurate data and analysis can result in waste or misallocation of funds, which ultimately reduces the effectiveness of the APBN in achieving development goals.

4) Inter-Agency Coordination and Program Implementation After the APBN is ratified, the next challenge is the
implementation of state spending by various ministries and institutions. Poor inter-agency coordination often leads to waste and inefficiency in spending. For example, similar programs from various ministries that are not well coordinated can result in duplication, while spending in other areas can be hampered due to lack of coordination. In addition, the availability of inaccurate data or poor reporting systems can worsen budget management and make it difficult to monitor program implementation.

5) Challenges in Increasing State Revenue

State revenue, which is largely dependent on taxes, often faces major challenges in terms of increasing the tax base. A weak tax system and public non-compliance in paying taxes cause state revenue to be less than optimal. Therefore, one of the main challenges for the government is how to improve the tax system, expand the tax base, and reduce leakage in the system to ensure that state revenue can meet the targets set in the APBN.

6) Supervision and Accountability

Another challenge is maintaining supervision and accountability for budget use. Weak supervision, corruption, and non-transparency in budget implementation can reduce the effectiveness of the APBN. The government must ensure that the allocation of funds and the implementation of budget projects are closely monitored, both by internal supervisory institutions such as the Financial Supervisory Agency (BPK) and by the public. Transparency in financial reporting and budget management is essential to avoid misuse of state funds.

7) Social and Political Challenges

The APBN is also influenced by political and social dynamics. Political pressure from various community groups requesting increased budget allocations for certain sectors, such as subsidies or social programs, can influence budget decisions. In some cases, programs that are not in line with long-term development priorities can receive a large portion of the budget simply for political reasons. Therefore, the government needs to remain consistent with the vision and mission of national development despite pressure from various parties.

❖ **The Government Can Prioritize State Spending in Sectors That Are Most Urgent and Have a Direct Impact on National Development**

The government is faced with a major challenge in allocating state spending, given limited resources and very diverse needs in various sectors. Therefore, to achieve optimal development goals, state spending priority must be given to sectors that have a direct impact on economic growth, improving public welfare, and meeting basic community needs. In this case, it is important for the government to have a strategic approach in determining state spending priorities.

1. Using a Performance and Data-Based Approach

   One way that the government can prioritize state spending is by using a performance-based approach. Each sector that receives a budget allocation must have clear and measurable performance indicators, so that the budget can be used more efficiently and effectively. The government needs to conduct a comprehensive data analysis to identify sectors that can have a major impact on the economy and society. For example, a good infrastructure sector can spur the growth of other sectors such as trade, manufacturing, and tourism. Therefore, state spending allocated for the development of strategic infrastructure such as roads, ports, and airports can have a broad and sustainable impact.

2. Priority for Social Sector: Education and Health

   The government must prioritize spending in sectors that are directly related to improving the quality of human resources, such as education and health. Quality education is the key to improving the competitiveness and productivity of society in the long term. Likewise, the health sector has a direct impact on the productivity and welfare of the people. Amidst the inequality of access and quality of services in many regions, allocating a large budget for education and health programs can reduce social disparities and create a strong foundation for sustainable development.

3. Prioritize Poverty Alleviation and Social Protection Programs

   The government must also pay special attention to poverty alleviation and reducing social inequality. Social protection programs, such as direct cash assistance (BLT), food subsidies, and other social security programs, can have a direct impact on increasing people's purchasing power, especially among the poor and vulnerable groups. Prioritizing spending on these social programs is important, especially in the context of economic uncertainty and the global crisis that can worsen people's socio- economic conditions. In addition, allocating the budget to create jobs through labor-intensive programs can accelerate poverty reduction.

4. Focus on the Infrastructure and Natural Resources Sector

   The infrastructure sector is one of the most important sectors in driving economic growth. State spending allocated for infrastructure development such as roads, bridges, ports, and electricity networks can create a solid foundation for economic growth. Good infrastructure will increase a country's competitiveness, improve connectivity between regions, and accelerate the distribution of goods and services. In addition, sustainable management of natural resources must also be a priority, taking into account environmental impacts and long- term ecosystem sustainability.

5. Increasing Efficiency and Supervision of Expenditure

   In order for state spending priorities to truly provide optimal impact, the government needs to ensure that budget allocation is carried out efficiently. Strict supervision of budget use, from planning to implementation, must be implemented to avoid waste and corruption. The use of information technology for transparency and accountability in budget management can help ensure that the state budget is used optimally, and that each project or program has measurable and accountable results.

6. Integrating Sustainable Development Goals (SDGs)

   As part of its international commitment, the Indonesian government needs to ensure that state spending supports the achievement of the Sustainable Development Goals (SDGs). By integrating the SDGs into the planning and budgeting process, the government can more easily identify the most pressing sectors and provide long-term impacts for inclusive and sustainable national development. State spending directed at improving environmental quality, reducing carbon emissions, and meeting basic needs will contribute to the long-term welfare of the community.

E. CONCLUSION

The State Budget or often referred to as APBN is an accounting system that describes all expected revenues and expenditures estimated by the central government for one year. The APBN is a budget plan carried out by the central government, while the budget plan made by the regions is called the Regional Budget or APBD.

During the Old Order, the APBN was always in deficit. To overcome this problem, the government then covered the revenue shortfall by printing new money, which caused inflation. Meanwhile, during the New Order, the deficit remained, but the shortfall was covered by foreign debt, which was a government loan to foreign creditors.

The management and implementation of the State Budget (APBN) have a crucial role in driving economic growth and public welfare. However, the government faces various challenges in preparing and implementing the APBN, such as economic uncertainty, budget deficits, and limited resources. To overcome this, it is important for the government to prioritize the most urgent sectors and have a direct impact on national development, such as education, health, infrastructure, and poverty alleviation. The use of a budget based on accurate data analysis, strict supervision, and the use of technology for transparency can ensure that every rupiah of the budget is used efficiently and effectively. In addition, careful and sustainable debt management is key to avoiding excessive fiscal burdens. With a planned approach and integration of sustainable development goals (SDGs), the APBN can support inclusive and sustainable long-term development, create a strong foundation for sustainable economic growth, and improve people's quality of life.

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