Dear Editorial Board of Investment Management and Financial Innovations (IMFI).

First of all, allow me to introduce myself. My name is Baldric Siregar. I am a selected participant of ICOI 2018 conference hosted by Airlangga University Indonesia. My paper entitled Direct and Direct Effects of Investment on Community Welfare is chosen to be published in Investment Management and Financial Innovations journal.

In this regard, I attach this email:
1. Cover letter
2. Paper in PDF format
3. Paper in the format of MsWord
4. List of selected paper of ICOI Conference 2018

I understand that an article processing charge (APC) is needed. Of course I am willing to pay APC in accordance with your editorial provisions. However it will be very happy if you give me a discount.

I look forward to hearing from you soon.
Regards
Baldric Siregar
DIRECT AND INDIRECT EFFECTS OF INVESTMENT ON COMMUNITY WELFARE

Abstract

Despite the fact that the government is the main actor of economic development, it also invites private parties to be actively involved in the economic development. The main objective of public and private investment is economic development. But the ultimate goal of investment and economic development itself is to improve the welfare of the community. This study seeks to investigate the effect of private and public investment on economic growth. Furthermore, it also investigates the impact the investment on the community welfare either directly or indirectly through economic growth by way of analyzing data on private and public investment, economic growth, and the human development index of local governments in Indonesia for the period of 2012 to 2016. Hypotheses were tested using PLS (Partial Least Square). The results show that both private and public investment directly influence economic growth and indirectly affect the welfare of the people through economic growth. Direct test results also show the positive effect of economic growth on community welfare.

Keywords: private investment, public investment, economic growth, community welfare

JEL Classification E22, O16, R11

INTRODUCTION

The effect of public and private investment on economic growth has been widely addressed by various researchers. However, the results of those studies are not unidirectional. Several studies show that public investment has a positive impact on economic growth such as Kandenge (2010), Dwiningwarni (2010), Phetsavong and Ichihashi (2012), Haque (2012), Ramli and Andriani (2013), Muthui et al. (2013), Maharani and Isnowati (2014), Panggabean (2014), Sumanto (2015), and Sabir et al. (2015). The positive impacts of private investment on economic growth are also found in Kandenge (2010), Dwiningwarni (2010), Phetsavong and Ichihashi (2012), Haque (2012), Ramli and Andriani (2013), Nurmainah (2013), Rizky et al. (2014), Maharani and Isnowati (2014), and Sumanto (2015). But several other studies such as Ighodaro and Oriakhi (2010), Devarajan et al. (2013), and Iheanacho (2016) show that public investment negatively affect economic growth. Hendarmin (2012) and Phetsavong and Ichihashi (2012) find similar findings in that private investment also negatively affects economic growth.

It is obvious that not only is economic development aimed at achieving economic growth but also at improving social welfare. Research on the impact of economic growth on community welfare comes up with mixed results. Algifari (2011) found that economic growth is good for the welfare of society, but a study by Nurmainah (2013) reveals that economic growth has no impact on the welfare of society. Due to the mixed and unidirectional empirical results, this study intends to re-investigate the impact of government capital spending and private investment on economic growth for Indonesia’s case. In addition, this study also covers simultaneous testing to determine the impact of government capital spending and private investment on social welfare as mediated by economic growth. It is what distinguishes this research from other studies.

LITERATURE REVIEW

Investment can increase the supply side of economy. With investment there is expenditure to acquire land, building, equipment, machinery and raw material. Effective investment can increase the capacity of economy. Investment in production equipment can increase production productivity, investment in technology can increase production productivity, while investment in education and health can increase labor productivity. Effective investments like these can increase economic output and increase production capacity. On the other hand, investment can increase demand side. It also requires labor. Therefore investment can increase the income of the population. Increasing population income illustrates an increase in the demand for goods and services, thus ultimately growing the economy.

The government of Indonesia makes the investment sector a cornerstone to boost economic performance. Private sector is a development actor in addition to the government itself. The Government realizes that not all economic development can be financed through government budget due to limited funds. The role
of the private sector is increasingly important from year to year along with an increasing investment need for economic development. The government invites the private sector so that infrastructure development is no longer solely funded through the government budget. Economic development will be more optimistic if the private sector also contributes to growth in addition to those based on the contribution of the government budget.

In the past five years, namely 2013 to 2017, investment growth had taken place in Indonesia. However, this growth experienced a slowdown. During this period investment grew by 27.2%, 16.1%, 17.7%, 12.3% and 13%. On the one hand the government wants to increase private investment. On the other hand investors face various obstacles to investing. The Investment Coordinating Board itself realizes that there are several investment constraints that must be overcome, including a number of regulations that hinder investment, lack of tax incentives for investors, low quality of human resources, lack of supporting infrastructure, and difficulty in land acquisition for investment purposes.

Various things are done by the government to overcome these investment constraints. First, the government and the business world sometimes have different perceptions about taxation issues. On the one hand the government considers tax regulations to be conducive to investment. However, the business world wants taxation regulations to be more helpful in terms of investment. However to overcome these obstacles, the government is committed to support investment growth and therefore by 2018 the government is designing various taxation provisions so that investment could grow faster such as tax holidays, tax allowances, small and medium business taxes, and incentives for companies that carry out research and development and vocational training. Other solutions to overcome investment barriers are deregulating investment permits through Government Regulation No. 24 of 2018 on Integrated Licensing Services Electronically and establishing a public service body through Regulation of the Minister of Finance No. 54 of 2017 on Government Asset Management Agency Procedure and Organization to assist investors in land acquisition.

The importance of private investment in development is no longer questionable. But empirical evidence is not always as expected in accordance with the theory. Empirical findings related to the influence of private investment on economic growth are still mixed. There are several studies that find a positive influence between private investment and economic growth such as Kandenge (2010), Dwiningwarni (2010), Phetsavong and Ichihashi (2012), Haque (2012), Ramli and Andriani (2013), Nurmainah (2013), Risiky et al. (2014), Maharani and Isnowati (2014), and Sumanto (2015). The empirical findings about the negative effects of private investment on economic growth are revealed by Hendarmin (2012) and Phetsavong and Ichihashi (2012). Panggabean (2014) found that private investment has no effect on economic growth.

The development actors include the government, private sector, and community itself. It is obvious that not all development expenditures should be sourced from the government budget. The government budget is limited while the funding needs for development are huge and increasing over time. Therefore, it is expected that the private sector, both domestic and foreign investment, play significant role to accelerate the development process. To stimulate economic progress both nationally and regionally, it is not enough to rely on spending on the public sector. The role and portion of development by the private sector should be enlarged. The underlying reason for this is due to the very limited government fiscal capacity. Due to such limited fiscal capacity, it is very difficult to imagine that the government can cover the shortfall in development funds unless private investment can be drawn to engage in the economic development. Therefore, private investment plays an important role in economic growth. Thus, it is very important for the government to create a conducive business environment to attract investors to invest their capital. The government is preparing various incentives to encourage private sector involvement in development. One of the incentives given by the government to invite the private sector to help build the economy is the provision of land acquisition guarantee. The land acquisition guarantee is provided by the government to the private sector involved in infrastructure development. The government provides funds of tens of trillions rupiahs per year to ensure that land is available for private infrastructure development.

Private investment can improve people's lives, improve the ability of the community to access health and education services, and reduce poverty. Thus private investment can encourage the improvement of community welfare. Private investment produces economic output. The more the private investment, the higher the economic output. This increase in output illustrates economic growth. In the context of development, economic growth itself is not the ultimate goal of investment. Welfare is the ultimate goal of economic development instead. A growing economy can reduce unemployment, improve health and education services, and improve people's lives. A growing economy causes an increasing welfare of the society. In other words, through economic growth, investment can improve the welfare of the community.
In addition to the above arguments, the impact of investment on economy and public welfare is also contained in the regulations on investment. The main regulations related to investment in Indonesia are regulated in law number 25 of 2007 concerning investment. The law states that investment is all forms of investment activities, both by domestic investors and foreign investors to do business in the territory of the Republic of Indonesia. Explicitly stated, the investment objectives, as stipulated in the law, are to create jobs, increase technology capacity and capability, encourage the development of people’s economy, process potential economies into real economic power, increase the ability of business competitiveness, increase economic growth, enhance sustainable economic development, and improve community welfare. It is clearly stated in the law that investment objectives are, among others, to improve the economy and people’s welfare. It can be said that investment is thought to affect the economy and also the welfare of society. In addition to directly influencing the welfare of the community, investment, through economic growth, also affects the welfare of the community. Based on the above argument, it is possible to formulate the following hypotheses:

H1a: Private investment positively affects the economic growth
H1b: Private investment positively affects the community welfare
H1c: Economic growth mediates the relationship between private investment and community welfare

The long-term development direction is outlined in law number 17 of 2007 on national long-term development plan. The law states that the ultimate goal of development is to protect the entire nation, promote public welfare, educate the nation, and participate in carrying out world order based on independence, eternal peace and social justice. It is clear in the law that the government declares a vision of development, one of which is the welfare of the community.

To ensure the vision of development, namely the welfare of the community, is achieved, there needs to be harmony between development planning both between the central government and regional governments and between ministries and work units in the regional government. An integrated development planning system is formed. The central government develops long-term development plans, medium-term development plans, annual work plans, and budgets. Ministries within the central government shall refer to the central government planning documents in preparing their long-term and medium-term development plans, annual work plans, and their respective budgets.

Local governments are also required to develop long-term development plans, medium-term development plans, annual work plans, and budgets. These regional government development planning documents shall refer to the development planning document determined by the central government. In addition, work units in the regional governments shall refer to the regional government planning documents in preparing their respective long-term, medium-term plans, annual work plans, and budgets. If there is harmony in development planning, both between the central government and the ministries, between the regional government and the work units - the work unit, as well as between the central government and regional government, then the direction of development that is determined can be implemented so that the ultimate goal of development, namely community welfare can be achieved.

Every year the interior ministry assesses whether regional government development planning is aligned with national development planning. There are various items that are assessed and two of which are budget priorities and budget allocations. Regarding budget priorities, the Ministry of Home Affairs assesses the consistency of development priorities, synchronizes planning documents, synchronizes budget documents with planning and implementation of budget priorities in budget implementation documents. Regarding budget allocation, the Ministry of Home Affairs assesses the extent to which the proportion of the budget is made by the regional government for functions that are considered productive and functions that are less productive in economic development. Even the minimum provisions are regulated in relation to education, health and capital expenditure. The implementation value of the local government is issued by the interior ministry as a basis for providing incentives and also evaluating the improvement of planning and budgeting the following year.

As stated above, the central government, through the Ministry of Home Affairs, ensures that there is alignment in development. An important aspect that is confirmed to be aligned is capital expenditure in the context of economic growth. The importance of public investment for economic growth is recognized by the central government. The central government, through the ministry of home affairs, makes guidelines for the preparation of local budgets every year. Even in certain years the central government determines the minimum amount of public investment (Ministry of Home Affairs, 2013). Although there is no minimum public investment in the given year, the central government emphasizes that local governments allocate
public investments in accordance with development priorities (Ministry of Home Affairs, 2014). Determination of minimal public investment in local government budgets shows government awareness that public investment is a driver of economic growth. The central government expects that local governments budget adequate public investment and reduce unproductive expenditures to encourage regional economic activities to ultimately improve the welfare of the community.

Studies conducted by Muthui et al. (2013) and Nurmainah (2013) concluded that the allocation of government spending on infrastructure has a positive and significant impact on economic growth. These findings are also supported by Maryaningsih et al. (2014) study which reinforces that the availability of adequate infrastructure becomes the most demanding factor to achieve sustainable economic growth. Other studies that find a positive impact of government capital spending on economic growth are Kandenge (2010), Dwiningwarni (2010), Phetsavong and Ichihashi (2012), Haque (2012), Ramli and Andriani (2013), Muthui et al. (2013), Panggabean (2014), Maharani and Isonwati (2014), Sumanto (2015), and Sabir et al. (2015). However, some empirical evidences reveal the contrary result in that government public investments negatively affect economic growth as found in studies conducted by Ighodaro and Oriakhi (2010), Devarajan et al. (2013), and Iheanacho (2016) showing that government public investment negatively affects economic growth. In addition, there are also statements that government public investment has no impact on economic growth as found in the research findings Setiawaty and Hamzah (2007), and Hendarmin (2012).

It is argued that the government should be able to affect economic growth directly or indirectly. This can be done through various instruments, one of which is expenditure such as public investment. But the fact is that the relationship between government spending and economic growth does not always go hand in hand. According to Barro (1990), the impact of government spending on economic growth depends on the productivity of the expenditure. Productive spending will be positively correlated with economic growth; while unproductive spending will be negatively correlated. Regardless of expenditure productivity, government is the main actor of community development. To increase national output, government sector investment is needed. This investment activity will drive the optimum level of production and contribute to the increase of output. Government investment activities are reflected in the availability of infrastructure funded by government public investments such as roads, electricity, telecommunications and irrigation. Public investment provides employment opportunities and reduces poverty. Public investment also fosters an economy that ultimately benefits the people. Likewise, as expected by the government in the Law No. 25 of 2007 concerning investment, investment does not only affect economic growth but also the welfare of the community directly. Based on the above argument, it is possible to formulate the following hypotheses:

H2a: Public investment positively affects the economic growth.
H2b: Public investment positively affects the community welfare
H2c: Economic growth mediates the relationship between public investment and people's welfare

The public investment is a means to increase the economic growth. The economic growth itself is not the ultimate goal of economic development. The community welfare is the ultimate goal of any economic development. It is expected that the economy that grows through public investment has a positive impact on improving public welfare. Communities are prosperous if their needs such as housing, clothing, and food, health, and education, are fulfilled. The Human Development Index (IPM) provides a broader perspective for assessing human welfare. IPM describes human welfare in three dimensions, namely education, health and purchasing power. Per capita economic growth indicates individual purchasing power. If the individual purchasing power increases, the ability of individuals to meet the needs of their standard of living will also increase. So the best way to improve people's welfare is to maximize economic growth. Based on the above argument, it is possible to formulate the following hypothesis:

H3: Economic growth positively affects the community welfare

METHODOLOGY

The research unit analysis is the local government, namely the district and the city. By 2016, there were 415 districts and 93 cities spreading over 34 provinces in Indonesia. During the five-year observation period, 2012 to 2016, there were 2,540 observations. However, since the data of some districts and cities are incomplete, the total number of observations ultimately processed is 1,524 from 508 districts and cities in Indonesia.

The first endogenous variable in this study is private investment. Private investment is all forms of activities invest, both by domestic investors and foreign investors to do business in the territory of the Republic of
Indonesia. In this research, private capital investment is calculated for each local government, namely the district and city. The definition of investment above includes both domestic investment and foreign investment. Domestic investment is an investment activity to do business in the region the state of the Republic of Indonesia carried out by domestic investor using domestic capital. Meanwhile foreign investment is investment activity to do business in the country Republic of Indonesia carried out by foreign investor using foreign or joint venture capital. In this study there was no separation between domestic private investment and foreign private investment. Private investment data, both domestic and foreign investment, are derived from Investment Coordinating Board. The second exogenous variable is public investment. Public investment is capital expenditure budgeted by each district and city government in Indonesia. Public investment data is derived from the Central Bureau of Statistics.

Other variables are economic growth and community welfare. Economic growth is indicated by gross regional domestic product. Gross regional domestic product. This study uses gross regional domestic product based on constant prices. While the human development index shows the level of community welfare. Both the gross regional domestic product data and the human development index were derived from the Central Bureau of Statistics.

Figure 1
Research Model

Figure 1 shows the research model. The research equation is an equation that shows the relationship of mediation. Exogenous variables in private investment (PRI) and public investment (PUI). Private sector investment is measured by natural logarithm of domestic and foreign investment realization. Same with private investment, public investments are also measured by the natural logarithm of realization of regional government. The mediation variable is economic growth (ECG) as measured by the natural logarithm of gross regional domestic product (GRDP). Meanwhile, the endogenous variable is community welfare (CWF). The community welfare is a latent variable with an indicator of human development index. Data and hypotheses are analyzed using partial least square package. Analyzing is carried out both for direct and indirect testing. Direct testing is run between private investment as an exogenous variable with economic growth and community welfare. Direct testing is also carried out between public investment and economic growth and community welfare. While indirect testing is executed between private and public investment as exogenous variables on people's welfare as endogenous variables through economic growth as a mediating variable.

RESULTS

Table 1 presents descriptive statistics including minimum, average, maximum, and standard deviation values for each variable. The average value illustrates the central value of the data distribution; the maximum value indicates data with the highest value; the minimum value indicates the lowest value of the data, while the standard deviation shows the total deviation or variation of each variable against the average value. Descriptive statistics outlined for research variables include private investment, public investment, economic growth, and human development index.

Table 1 describes each variable in terms of minimum, mean, maximum, and standard deviation. Private investment has a minimum value of Rp5.9 billion, an average of Rp11,549.7 billion, a maximum of Rp37,231.4 billion, and a standard deviation of Rp4,168.1 billion. With minimum value of Rp5.9 billion, maximum value of Rp37,231.4 billion, and the average value of Rp11,549.7 billion, it can be said that generally the amount of private investment invested in districts and cities is below average. This means that the value of private investment is less spread evenly among districts and cities. Generally investment with a
large value is invested in large cities on the island of Java. The local government with the highest private investment is Bekasi District. The region with the lowest private investment is Padang Lawas District. Meanwhile, the value of public investment ranges from Rp68.2 billion to Rp2,856.0 billion with an average value of Rp349.6 billion. With figures above it can be said that generally the value of public investment in districts and cities is below average. The highest public investment is at South Tangerang District and the lowest public investment is in Ogan Ilir District. Other variables, namely gross regional domestic product and human development index, each has an average value of Rp19,247.3 billion and 66.8. The highest gross regional domestic product is in Surabaya City and the lowest is in Arfak Mountain District. The highest index of human development is in Yogyakarta City, while the lowest index of human development is in Tolikara District.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Minimum</th>
<th>Average</th>
<th>Maximum</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRI (Rp billion)</td>
<td>5.9</td>
<td>11,549.7</td>
<td>37,231.4</td>
<td>4,168.1</td>
</tr>
<tr>
<td>PUI (Rp billion)</td>
<td>68.2</td>
<td>349.6</td>
<td>2,856.0</td>
<td>305.8</td>
</tr>
<tr>
<td>ECG (Rp billion)</td>
<td>512.4</td>
<td>19,247.3</td>
<td>363,135.5</td>
<td>22,476.9</td>
</tr>
<tr>
<td>CWF</td>
<td>54.1</td>
<td>66.8</td>
<td>85.6</td>
<td>5.2</td>
</tr>
</tbody>
</table>

In this research, I tested both outer and inner model tests. The indicator in the outer model test is having an outer loading of more than 0.5 for the convergence validity to be eligible, cross loading of a variable with indicators greater than cross loading the variable with other variable indicators to meet discriminant validity, and possessing composite reliability of more than 0.7 to meet reliability requirement. All three test outer models are eligible. The determination coefficient (R2), predictive relevance (Q2), and goodness of fit index (GoF) are checked for inner model test. The determination coefficient for economic growth and social welfare are 67.1% and 42.8% respectively, while predictive relevance figure is 81.2%. From those figures, it is possible to conclude that the model is fit for hypothesis testing.

Table 2 shows the test results of the hypotheses testing. The hypotheses related to the influence of private investment on economic growth and community welfare are as follows: (H1a) private investment positively affects the economic growth, (H1b) private investment positively affects the community welfare, and (H1c) economic growth mediates the relationship between private investment and community welfare. All these hypotheses are proved to be in accordance with predictions.

Hypotheses about the positive effects of private investment on economic growth and community welfare are supported. Private investment directly affects economic growth and community welfare indirectly affect the welfare of the people through economic growth. This findings are in line with previous findings such as those in Kandenge (2010), Dwiningwarni (2010), Phetsavong and Ichihashi (2012), Haque (2012), Ramli and Andriani (2013), Nurmainah (2013), Rizky et al. (2014), Maharani and Isnowati (2014) and Sumanto (2015). Private investment contributes to the amount of output generated in an economy. As theory prediction suggest that the accumulation of capital used for the procurement of new production factors or for improving the quality of existing production factors can affect economic growth. Private investment activities affect economic activity through employment opportunities, thus increasing revenues that ultimately improve people's welfare. It is proven that the private sector plays an important role in development. The private sector is a development agent as well as the government. Local governments are required to encourage the private sector to grow through the provision of various assistance and encouragement such as the ease of licensing, the provision of taxes that are not too burdensome, and easier business land requisition.

<table>
<thead>
<tr>
<th>Hypotheses</th>
<th>Var. Relationship</th>
<th>Coeff.</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1a</td>
<td>PRI → ECG</td>
<td>0.314</td>
<td>0.000</td>
</tr>
<tr>
<td>H1b</td>
<td>PRI → CWF</td>
<td>0.156</td>
<td>0.001</td>
</tr>
<tr>
<td>H1c</td>
<td>PRI → ECG → CWF</td>
<td>0.113</td>
<td>0.018</td>
</tr>
<tr>
<td>H2a</td>
<td>PUI → ECG</td>
<td>0.523</td>
<td>0.000</td>
</tr>
<tr>
<td>H2b</td>
<td>PUI → CWF</td>
<td>0.217</td>
<td>0.005</td>
</tr>
<tr>
<td>H2c</td>
<td>PUI → ECG → CWF</td>
<td>0.202</td>
<td>0.006</td>
</tr>
<tr>
<td>H3</td>
<td>ECG → CWF</td>
<td>0.639</td>
<td>0.000</td>
</tr>
</tbody>
</table>
The statements of hypotheses about public investment, economic growth, and public welfare are as follows: (H2a) public investment positively affects the economic growth, (H2b) public investment positively affects the community welfare, and (H2c) economic growth mediates the relationship between public investment and people’s welfare. The results of data analysis as shown in table 2 show those hypotheses are supported according to the predictions. The results clearly show that public investments have good impact on economic growth. Public investment directly affects economic growth and community welfare. Public investment also indirectly affects the welfare of the people through economic growth. This findings are consistent with previous findings such as Kandenge (2010), Dwiningwarni (2010), Phetsavong and Ichihashi (2012), Haque (2012), Ramli and Andriani (2013), Muthui et al. (2013), Panggabean (2014), Maharani and Isnowati (2014), Sumanto (2015), and Sabir et al. (2015). If there is an increase in the amount of government public investment then this results in an increase in the regional economy. Public investments, for example infrastructure development, financed by the government budget encourage the economic activities of the people, thereby increasing the output of goods and services. It is evident that public investment is a stimulus for economic growth. Directives from the central government to determine the minimum allocation of public investment in local budget can be justified by this finding. Local governments should not hesitate to allocate budgets for public investments for a better economy. However, capital spending should not be made for unproductive expenditure. Despite the existing public investments, if done for unproductive activities, for example for military expenditures, it does not have a good impact on the economy (Iheanacho (2016)). The public investment from the government budget can also have an adverse effect on the economy if corruption is rampant (Okora, 2013). The use of capital budget must be really targeted to support the creation of community economy.

The finding related to the third hypothesis that economic growth positively has impacts on social welfare is certainly not surprising. The social welfare is shown by the level of human development index. The greater the level of the economy the greater the human development index. The positive effects of economic growth found in this study are consistent with those found in the Algifari study (2011). Economic growth is the intermediate goal. Development programs by the government and the private sector is not intended solely to improve the economy. The ultimate goal of economic development is the social welfare. Economic development boosts economic growth by boosting economic activity, opening up employment opportunities and this has an impact on increasing people’s incomes. If the income of the community increases, the community can improve their quality of life by fulfilling basic needs such as education and health. So if the income of the community increases, the level of community welfare also increases.

CONCLUSIONS

This study has explored how government capital spending and private sector investment affect economic growth and further affect community welfare. Based on the results of data analysis, it is possible to draw some conclusions. First, public investment has a positive impact on economic growth of local government. Greater public investment spent by the government leads to greater economic growth of the community. It is evident that the growth of government public investment is really an important driver in promoting the economic growth of the community. The decision to increase capital spending has a positive impact on society. Local governments need not hesitate to increase public investment. The central government’s demands on minimum public investments that have been difficult to meet should be implemented without hesitation.

Second, local economic growth is driven not only by government public investment but also by private sector investment. Empirical evidence suggests that the increase of private investment is followed by the increase of economic growth. The greater the private capital spending, the more driven the economic growth. The local government should not work alone to improve the economy of the local community. Local governments need to invite the private sector to jointly invest in order to improve the economy of the community. Factors inhibiting private investment should be avoided. Various incentive schemes need to be provided by the government to the private sector. Long-winded and expensive licenses also need to be changed so that the private sector will find it easier to invest. Government capital spending together with private sector investment will drive the economic growth faster.

Third, economic growth is good for social welfare. This is evident from the positive impact of economic growth on community welfare. Economic growth is not an end in economic development. A growing economy is not enough if not followed by improving the welfare of the community. The ultimate goal of development is to improve people’s well-being. Given the positive impact of economic growth on the welfare of the people, the government’s efforts through public investment and private sector contribution in economic development are not in vain. The important implication of this research is that the government
really needs to pay attention to public investment as it contributes positively to the economic development and ultimately on improving people's welfare. Indirect spending and routine expenditures need to be made more efficiently in order to allow available large allocations for public investments. The private sector should also be encouraged to do the development by providing various incentives and conveniences to attract investment.

However, his study has some limitations. The research data used in this study is the realization of public investment either by local government or private sector. The phenomenon of ineffective and inefficient public investment, particularly in the government sector, has not been addressed in this study. In addition, public investment has not yet been classified based on the exposure of the spending to the economy. Public investments for the construction of roads, bridges, ports, electricity, and irrigation can be said to be directly related to the people's economy. However, public investments for the purchase of office equipment and the construction of government offices may not be directly related to the economic development of the community. The public investment groupings as described above need to be examined in subsequent research.

REFERENCES

The manuscript is undergoing peer review process.
I'll inform you once the reviewing process is finished.

Would you please confirm that you have Ph.D. degree? You didn’t indicate it in the Cover letter form.

Waiting for your response.

With best regards,

Olga Vorozhko
Dear Olga Vorozhko,

Yes, I have a PhD degree in accounting

Best regards
Baldric Siregar, PhD

Sent: Thursday, January 17, 2019 at 8:58 PM
From: "Olga Vorozhko_Managing Editor of IMFI journal" <o.vorozhko@businessperspectives.org>
To: "Baldric Siregar" <siregar@accountant.com>
Cc: charles@iaoiusa.org
Subject: RE Comments after reviewing (IMFI Journal) FM-403-1118

Dear Baldric Siregar,

We have pleasure in informing you that the reviewing process was completed.

Here are the comments concerning your manuscript titled “DIRECT AND INDIRECT EFFECTS OF INVESTMENT ON COMMUNITY WELFARE”:

“This paper needs substantially better presentation. The English generally is acceptable, though several articles are missing. The larger problems are inadequate explanation of the research method and results and questionable conclusions. Additionally, we believe the variables need some adjustment to provide a valid test (item #21 below). We offer several specifics below.

1. The first two paragraphs (pages 1 - 2) list several papers with opposing results. Then you start a sentence by saying, "Due to the mixed and unidirectional empirical results." Why do you include "and unidirectional"? Unless there is a good reason, we would delete those two words.

2. We do not know what you intend with the statement that "the government considers tax regulations to be conducive to investment." Does that mean that the Indonesian government believes that Indonesia's current set of tax regulations is conducive to investment? Governments generally consist of various factions, and in some cases none of those factions may be content with the status quo. Nevertheless, getting a majority (or supermajority) required to make changes may be difficult with other issues competing for attention. We do not know the situation in Indonesia, but we are not sure that the second through fourth sentences in your paragraph add value to the article.

3. You assert, "The importance of private investment in development is no longer questionable." But the paragraph that follows does not seem to support that statement, given the quite mixed results reported. Something needs to be reconciled.

4. A similarly unsupported statement is, "The more the private investment, the higher the economic output." We would in general expect that to be true, but this paper at points seems more like an editorial than a scholarly research paper.

5. p. 4: "vision of development, one of which is the welfare." Insert "element" after "one."

6. p. 4: Change "harmony between development" to "harmony in development"
7. p. 5: We do not know what you mean by "the most demanding factor." Please rephrase.

8. p. 5: Delete "the relationship between" before "government." Change "does not always" to "do not always."

9. p. 5: "To increase national output, government sector investment is needed." This again is an assertion that is unaccompanied by consistent proof or citation, unless it is a continuation of Barrow's comments; it does not appear to be. Moreover, this type of conclusion simply seems unnecessary in an introductory section that is quite long in relation to the empirical content of the paper.

10. While the introduction is long, I believe it fails to clearly position the present research in the existing work. Are there other papers analyzing Indonesian data, and how does your paper differ? Or in what respects do your methods advance on the work from other geographic regions? Given that you defer discussion of methodology, some comparison to existing work may belong in that section, but it ought to be somewhere.

11. You seem to have a decent array of references, and I am not an expert in this area, but we notice that most of the papers are not from elite journals. we can accept that your choices are close in topic or context and appropriate. Nevertheless, we at least offer for your consideration some highly cited papers: Munnell (1992, J. of Econ Perspectives), van de Walle (1998, World Development), and Roller and Waverman (2001, AER).

12. Related to the last couple of comments, some citation regarding validity of the Human Development Index would be useful, whether or not any alternative welfare measures were readily available to you.

13. p. 7: you repeat the phrase "gross regional domestic product."

14. p. 6: Does private "investment" include all forms of both capital expenditure and R&D? we presume it does not include advertising (or purchases of licenses, trademarks, etc.), though that is considered an investment in the calculation of Economic Value Added. Any degree of clarification could be helpful here.

15. p. 7: we think "Exogenous variables in private investment" should be "Exogenous variables are private investment."

16. p. 7-8: Almost all readers of finance journals are well acquainted with the concepts of average, maximum, and standard deviation. You should delete the sentences defining those concepts.

17. p. 8: You state the figures 5.9 billion, 11,549.7 billion, etc. in two consecutive sentences, which is unnecessary.

18. p. 8: You say that "the value of public investment in districts and cities is below average." Below WHAT average? Are you simply pointing out that the mean value of private investment exceeds the mean of public investment? Clarify.

19. You assert that public and private investment are exogenous, but that is not entirely obvious. Economic growth may affect both types of investment. You may be unable to do anything empirically to resolve that concern, but we think it at least should be mentioned.

20. We suggest you comment on why you chose partial least squares as your regression method and perhaps provide a citation to an instance in which it was employed in a similar context or a reference supporting the method's value.
21. You present statistics in Rp and use log values for the regression. Even with the logs, the statistical significance of the results could derive from the simple fact that populous (and prosperous) regions tend to have larger absolute amounts of investment and larger absolute amounts of growth. I strongly advise that you run the test using economic growth in percentage terms and normalize investment as per-capita or calculate investment as a fraction output. The CWF can still be the development index, though we would also try percentage change in development index as an alternative dependent variable.

22. Once my previous adjustment is made, I probably would include in the discussion of results a measure of the relative importance of public and private investment in explaining variation in ECG and CWF (e.g., how much change in % ECG is explained by a one-standard-deviation change in PRI?)

23. p. 10: While it is not a major point, I will mention that the primary motivation for military expenditures would not normally be routine economic growth; long-term strategic considerations are at play.

24. p. 10: We tend to oppose licensing requirements, but I will once more say that you leave scholarly territory when you state that they should be removed. It is at least plausible that reasons (protecting the public) existed for their enactment, so the fact that they constrain investment is not by itself sufficient evidence to prove they are suboptimal. We would accept instead a statement that the government should consider reducing them.

Please make references list active (insert clickable link if literature source can be found online) in case it is applicable for the source. How to complete reference list: https://businessperspectives.org/images/site/pdf/orderform/Reference_and_citation_guide.pdf

You can use free of charge services to complete references list and citations in the text: Endnote, Zotero, Mendeley.

Please revise the manuscript according to the above mentioned comments and send me back a revised version of the manuscript along with a separate file named Response to the Reviewers (please explain point by point all made revisions; in case of impossibility of performance some point please state the reasons) within one week or let me know preferred terms.

Please confirm a receipt.
So you are kindly requested to study this material and work on the comments.
I should greatly appreciate an early reply.

With best regards,
Olga Vorozhko

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From: Baldric Siregar [mailto:siregar@accountant.com]
Sent: Monday, January 21, 2019 5:49 AM
To: Olga Vorozhko_Managing Editor of IMFI journal <o.vorozhko@businessperspectives.org>
Subject: Re: RE Comments after reviewing (IMFI Journal) FM-403-1118

Dear Olga Vorozhko

Thank you for your email
I understand that I must revise the paper.
I will do my best to revise it according to the inputs and suggestions from the reviewer.

Best regards
Baldric Siregar
Dear Baldric Siregar,

Thank you for response and confirmation.  
I hope to receive the revised version soon.

With best regards,  
Olga Vorozhko

From: Baldric Siregar [mailto:siregar@accountant.com]  
Sent: Tuesday, January 29, 2019 3:52 PM  
To: Olga Vorozhko, Managing Editor of IMFI journal <o.vorozhko@businessperspectives.org>  
Subject: Re: RE: RE Comments after reviewing (IMFI Journal) FM-403-1118

Dear Olga Vorozhko  

It’s been a week but I haven’t finished revising the paper yet.  
I apologize for this delay. I coughed and was feverish for a few days.  
Indeed, my environment is facing an epidemic of fever and coughing.

But the thing that made me unable to complete the revision on time is because my eyes hurt a few days ago.

I am revising the paper right now. I hope you to understand and give another 3 days to revise the paper. I will send the revision this friday.

Best regards  
Baldric Siregar

Sent: Tuesday, January 29, 2019 at 9:27 PM  
From: "Olga Vorozhko, Managing Editor of IMFI journal" <o.vorozhko@businessperspectives.org>  
To: "Baldric Siregar" <siregar@accountant.com>  
Subject: RE: Comments after reviewing (IMFI Journal) FM-403-1118

Dear Baldric Siregar,

Thank you for keep me in touch.  
I will be glad to receive the revised version at the end of this week.

Get well soon!

With best regards,  
Olga Vorozhko
Dear Olga Vorozhko,

In this e-mail attachment, I send a revised paper in accordance with the inputs from Reviewer. Besides that, I also attached a list of inputs from reviewers and responses related to the revisions I made.

I do the best I can. Hopefully I can accommodate input from reviewers. Thank you for your patience and give me enough time to review the paper.

Best regards
Baldric Siregar

Responses related to inputs from reviewer:

“This paper needs substantially better presentation. The English generally is acceptable, though several articles are missing. The larger problems are inadequate explanation of the research method and results and questionable conclusions. Additionally, we believe the variables need some adjustment to provide a valid test (item #21 below). We offer several specifics below.

1. The first two paragraphs (pages 1 - 2) list several papers with opposing results. Then you start a sentence by saying, "Due to the mixed and unidirectional empirical results." Why do you include "and unidirectional"? Unless there is a good reason, we would delete those two words.

   I agree that these two words should be deleted. I delete those words.

2. We do not know what you intend with the statement that "the government considers tax regulations to be conducive to investment." Does that mean that the Indonesian government believes that Indonesia's current set of tax regulations is conducive to investment? Governments generally consist of various factions, and in some cases none of those factions may be content with the status quo. Nevertheless, getting a majority (or supermajority) required to make changes may be difficult with other issues competing for attention. We do not know the situation in Indonesia, but we are not sure that the second through fourth sentences in your paragraph add value to the article.

   In this paragraph I try to explain that in the previous period (especially before 2018) there were various criticisms of tax provisions that hampered investment and the government's slow response to make improvements. However, in 2018 the investment conditions were improved with the issuance of several regulations described in the paragraph. I change the paragraph to describe my point.

3. You assert, "The importance of private investment in development is no longer questionable." But the paragraph that follows does not seem to support that statement, given the quite mixed results reported. Something needs to be reconciled.

   You are right that this first sentence is not supported by the next sentence. Basically I mean that based on theory, investment should have a positive impact on the economy. However, the concept of theory is not always in line with the empirical evidences. I reconcile the opening sentence and the next sentence.
4. A similarly unsupported statement is, “The more the private investment, the higher the economic output.” We would in general expect that to be true, but this paper at points seems more like an editorial than a scholarly research paper.

I realize that this sentence is indeed not supported by adequate description. I add a few sentences below to support the sentence above.

5. p. 4: "vision of development, one of which is the welfare." Insert "element" after "one."

I insert the word "element" according to the reviewer's suggestion.

6. p. 4: Change "harmony between development" to "harmony in development".

I changed the expression "harmony between development" into "harmony in development" according to the reviewer's suggestion.

7. p. 5: We do not know what you mean by "the most demanding factor." Please rephrase.

My point is that infrastructure is an important factor in improving the economy. I am changing the statement "the most demanding factor" into "an important factor".

8. p. 5: Delete "the relationship between" before "government." Change "does not always" to "do not always."

I delete the "the relationship between" expression and also change the expression "does not always" into "do not always" according to the reviewer's suggestion.

9. p. 5: "To increase national output, government sector investment is needed.” This again is an assertion that is unaccompanied by consistent proof or citation, unless it is a continuation of Barrow's comments; it does not appear to be. Moreover, this type of conclusion simply seems unnecessary in an introductory section that is quite long in relation to the empirical content of the paper.

I agree with you that this statement is not necessary. Therefore I delete the statement of “To increase national output, government sector investment is needed.”

10. While the introduction is long, I believe it fails to clearly position the present research in the existing work. Are there other papers analyzing Indonesian data, and how does your paper differ? Or in what respects do your methods advance on the work from other geographic regions? Given that you defer discussion of methodology, some comparison to existing work may belong in that section, but it ought to be somewhere.

I really need to apologize because I don’t understand exactly what I have to revise with regard to these 10 points. If it is related to the issue and position of my paper compared to other papers, I can say that my paper contributes in terms of (1) re-examining the mixed results of research, (2) covering all regions (cities and regencies) in Indonesia as many as 508 local governments, and (3) trying to test the mediation between investment and welfare through economic growth.

11. You seem to have a decent array of references, and I am not an expert in this area, but we notice that most of the papers are not from elite journals. We can accept that your choices are close in topic or context and appropriate. Nevertheless, we at least offer for your consideration some highly cited papers: Munnell (1992, J. of Econ Perspectives), van de Walle (1998, World Development), and Roller and Waverman (2001, AER).

I understand your point. Indeed, I use some local papers. I thank you for the 3 papers you suggested. I accommodate those three papers that you recommend.
12. Related to the last couple of comments, some citation regarding validity of the Human Development Index would be useful, whether or not any alternative welfare measures were readily available to you.

*There are various indices to measure the welfare of the community such as index of quality of life, prosperity index, etc. However, the available data on community welfare in Indonesia is the Human Development Index.*

13. p. 7: you repeat the phrase "gross regional domestic product."

*Yes, I made a mistake by repeating "gross regional domestic product." I delete the statement*

14. p. 6: Does private "investment" include all forms of both capital expenditure and R&D? we presume it does not include advertising (or purchases of licenses, trademarks, etc.), though that is considered an investment in the calculation of Economic Value Added. Any degree of clarification could be helpful here.

*Investment in this case is capital expenditure, not including operational expenses especially related to advertising. I add the sentence below to clarify the scope of investment*

15. p. 7: we think "Exogenous variables in private investment" should be "Exogenous variables are private investment."

*Yes, you are right. The sentence is indeed wrong. I change according to your suggestion, which is to change "in" to "are". *

16. p. 7-8: Almost all readers of finance journals are well acquainted with the concepts of average, maximum, and standard deviation. You should delete the sentences defining those concepts.

*In accordance with your advice, I delete the definitions of average, minimum, maximum, and standard deviation.*

17. p. 8: You state the figures 5.9 billion, 11,549.7 billion, etc. in two consecutive sentences, which is unnecessary.

*I delete the unnecessary sentence*

18. p. 8: You say that "the value of public investment in districts and cities is below average." Below WHAT average? Are you simply pointing out that the mean value of private investment exceeds the mean of public investment? Clarify.

*What I mean in that sentence is the comparison between private investment between regional governments. 74% of districts and cities get private investment below the national average of private investment. So the comparison is not between private investment and public investment. I change the sentence to explain my point*

19. You assert that public and private investment are exogenous, but that is not entirely obvious. Economic growth may affect both types of investment. You may be unable to do anything empirically to resolve that concern, but we think it at least should be mentioned.

*You are right that there is a possibility of economic growth affecting investment and both are likely to have reciprocal causal relationships. I made an additional explanation that in this research the possibility of economic growth affecting investment could be another issue. The factors that influence the investment exogenous variable are not examined in this case. In this study investment is an exogenous variable on economic growth. However, it is possible that*
economic growth affects investment. If investors see that economic growth is good then he can increase investment to anticipate demand for goods and services in the future. Conversely, if an investor sees that economic growth is declining, he can reduce or withdraw his investment. This issue was not examined in this study.

20. We suggest you comment on why you chose partial least squares as your regression method and perhaps provide a citation to an instance in which it was employed in a similar context or a reference supporting the method's value.

*I added the sentence as the reason for using PLS. Basically, my reasoning is, first, because of simultaneously testing investment in people's welfare through mediating economic growth. The second reason is because each variable contains only one indicator.*

21. You present statistics in Rp and use log values for the regression. Even with the logs, the statistical significance of the results could derive from the simple fact that populous (and prosperous) regions tend to have larger absolute amounts of investment and larger absolute amounts of growth. I strongly advise that you run the test using economic growth in percentage terms and normalize investment as per-capita or calculate investment as a fraction output. The CWF can still be the development index, though we would also try percentage change in development index as an alternative dependent variable.

You are right, I described investment in the form of rupiah so that the actual investment figure was reflected. But I regress the log value. I have tried your advice by measuring investment per capita, but the results are not as expected. I suspect because of the large variation in investment and also the population. Measurement of variables with logs produces findings that are more in line with the theory.

22. Once my previous adjustment is made, I probably would include in the discussion of results a measure of the relative importance of public and private investment in explaining variation in ECG and CWF (e.g., how much change in % ECG is explained by a one-standard-deviation change in PRI?)

*I accommodate your input by the way I use R2 for each relationship to explain this.*

23. p. 10: While it is not a major point, I will mention that the primary motivation for military expenditures would not normally be routine economic growth; long-term strategic considerations are at play.

*Yes, I made an additional explanation according to your suggestion that the motivation for capital expenditure for the military is routine and not for improving the economy.*

24. p. 10: We tend to oppose licensing requirements, but I will once more say that you leave scholarly territory when you state that they should be removed. It is at least plausible that reasons (protecting the public) existed for their enactment, so the fact that they constrain investment is not by itself sufficient evidence to prove they are suboptimal. We would accept instead a statement that the government should consider reducing them.*

*I agree with you that the licensing requirement is reduced and not removed. I sorry I did not find my statement “they should be removed.”*

Please make references list active (insert clickable link if literature source can be found online) in case it is applicable for the source. How to complete reference list: https://businessperspectives.org/images/site/pdf/orderform/Reference_and_citation_guide.pdf
You can use free of charge services to complete references list and citations in the text: Endnote, Zotero, Mendeley.
I have fixed citations and references using Mendeley

This is the response and revision that I have made to various input from reviewer. I have tried my best. However, the improvement may not be as expected by the reviewer. For that I am willing to revise the paper again if needed. thanks.

Paper Setelah Revisi Pertama

DIRECT AND INDIRECT EFFECTS OF INVESTMENT ON COMMUNITY WELFARE

Abstract

Despite the fact that the government is the main actor of economic development, it also invites private parties to be actively involved in the economic development. The main objective of public and private investment is economic development. But the ultimate goal of investment and economic development itself is to improve the welfare of the community. This study seeks to investigate the effect of private and public investment on economic growth. Furthermore, it also investigates the impact the investment on the community welfare either directly or indirectly through economic growth by way of analyzing data on private and public investment, economic growth, and the human development index of local governments in Indonesia for the period of 2012 to 2016. Hypotheses were tested using PLS (Partial Least Square). The results show that both private and public investment directly influence economic growth and indirectly affect the welfare of the people through economic growth. Direct test results also show the positive effect of economic growth on community welfare.

Keywords: private investment, public investment, economic growth, community welfare

JEL Classification E22, O16, R11

INTRODUCTION

The effect of public and private investment on economic growth has been widely addressed by various researchers. However, the results of those studies are not unidirectional. Several studies show that public investment has a positive impact on economic growth such as Kandenge (2005), Algifari (2011), Dwiningwarni (2009), Phetsavong & Hiroshima (2012), Haque (2013), Ramli & Andriani (2013), Muthui, Kosimbei, Maingi, & Thuku (2013), Maharani & Isnowati (2014), Panggabean (2014), Sumanto & Efendi (2015), and Sabir, Yustika, Susilo, & Maskie (2015). The positive impacts of private investment on economic growth are also found in Kandenge (2005), Dwiningwarni (2009), Phetsavong & Hiroshima (2012), Haque (2013), Ramli & Andriani (2013), Nurmainah (2013), Rizky, Agustin, & Mukhlis (2016), Maharani & Isnowati (2014), and Sumanto & Efendi (2015). But several other studies such as Ighodaro & Orikhi (2010), Devarajan, Swaroop, & Zou (1996), and Iheanacho (2016) show that public investment negatively affect economic growth. Herdarmin (2012) and Phetsavong & Hiroshima (2012) find similar findings in that private investment also negatively affects economic growth.

It is obvious that not only is economic development aimed at achieving economic growth but also at improving social welfare. Research on the impact of economic growth on community welfare comes up with mixed results. Algifari (2011) found that economic growth is good for the welfare of society, but a study by Nurmainah (2013) reveals that economic growth has no impact on the welfare of society. Due to the mixed empirical results, this study intends to re-investigate the impact of government capital spending and private investment on economic growth for Indonesia’s case. In addition, this study also covers simultaneous testing to determine the impact of government capital spending and private investment on social welfare as mediated by economic growth. It is what distinguishes this research from other studies.

LITERATURE REVIEW

Investment can increase the supply side of economy. With investment there is expenditure to acquire land, building, equipment, machinery and raw material. Effective investment can increase the capacity of economy. Investment in production equipment can increase production productivity, investment in technology can increase production productivity, while investment in education and health can increase labor productivity. Effective investments like these can increase economic output and increase production capacity. On the other hand, investment can increase demand side. It also requires labor. Therefore
investment can increase the income of the population. Increasing population income illustrates an increase in the demand for goods and services, thus ultimately growing the economy.

The government of Indonesia makes the investment sector a cornerstone to boost economic performance. Private sector is a development actor in addition to the government itself. The Government realizes that not all economic development can be financed through government budget due to limited funds. The role of the private sector is increasingly important from year to year along with an increasing investment need for economic development. The government invites the private sector so that infrastructure development is no longer solely funded through the government budget. Economic development will be more optimistic if the private sector also contributes to growth in addition to those based on the contribution of the government budget.

In the past five years, namely 2013 to 2017, investment growth had taken place in Indonesia. However, this growth experienced a slowdown. During this period investment grew by 27.2%, 16.1%, 17.7%, 12.3% and 13%. On the one hand the government wants to increase private investment. On the other hand investors face various obstacles to investing. The Investment Coordinating Board itself realizes that there are several investment constraints that must be overcome, including a number of regulations that hinder investment, lack of tax incentives for investors, low quality of human resources, lack of supporting infrastructure, and difficulty in land acquisition for investment purposes.

Various things are done by the government to overcome these investment constraints. First, the government overcomes economic and investment issues by the issuance of the Economic Policy Package Phase XVI in 2018. One part of the policy package is taxation policy which purpose is to provide tax incentives in order to increase investment such as such as tax holidays, tax allowances, small and medium business taxes, and incentives for companies that carry out research and development and vocational training. Second, the government issued Government Regulation No. 24 of 2018 on Integrated Licensing Services Electronically so that the investment permit process will be faster and more transparent. Third, the government established a public service body through Regulation of the Minister of Finance No. 54 of 2017 on Government Asset Management Agency Procedure and Organization to assist investors in land acquisition.

Based on theory, investment should have a positive impact on economic growth both in terms of supply and demand sides. Investment improves the economy by increasing productivity. Investment can also increase the economy with increasing community income. However, empirical evidence is not always in line with theoretical concepts. Empirical findings related to the influence of private investment on economic growth are still mixed. There are several studies that find a positive influence between private investment and economic growth such as Roller & Waverman (2001), Kandenge (2005), Dwiningwarni (2009), Phetsavong & Hiroshima (2012), Haque (2013), Ramli & Andriani (2013), Nurmainah (2013), Riszy, Agustin, & Mukhils (2016), Maharani & Isnowati (2014), and Sumanto & Efendie (2015). The empirical findings about the negative effects of private investment on economic growth are revealed by Herdarmin (2012) and Phetsavong & Hiroshima (2012). Panggabean (2014) found that private investment has no effect on economic growth.

The development actors include the government, private sector, and community itself. It is obvious that not all development expenditures should be sourced from the government budget. The government budget is limited while the funding needs for development are huge and increasing over time. Therefore, it is expected that the private sector, both domestic and foreign investment, play significant role to accelerate the development process. To stimulate economic progress both nationally and regionally, it is not enough to rely on spending on the public sector. The role and portion of development by the private sector should be enlarged. The underlying reason for this is due to the very limited government fiscal capacity. Due to such limited fiscal capacity, it is very difficult to imagine that the government can cover the shortfall in development funds unless private investment can be drawn to engage in the economic development. Therefore, private investment plays an important role in economic growth. Thus, it is very important for the government to create a conducive business environment to attract investors to invest their capital. The government is preparing various incentives to encourage private sector involvement in development. One of the incentives given by the government to invite the private sector to help build the economy is the provision of land acquisition guarantee. The land acquisition guarantee is provided by the government to the private sector involved in infrastructure development. The government provides funds of tens of trillions rupiah per year to ensure that land is available for private infrastructure development.
Private investment can improve people’s lives, improve the ability of the community to access health and education services, and reduce poverty. Thus private investment can encourage the improvement of community welfare. Private investment produces economic output. The more the private investment, the higher the economic output. Increasing private investment contributes as a lever to the movement of a nation’s economic development. Private investment acts as one component of national income, gross domestic product. When investors, entrepreneurs, or individuals make investments, there will be a certain amount of capital invested, there are a number of goods that are not consumed but used for production, so that they produce goods and services in the future. In simple terms, the influence of private investment on the economy of a country is reflected in the country’s national income and therefore private investment is positively correlated with gross domestic product. In general it can be said that if private investment rises, gross domestic product will rise and this will improve the economy. This increase in output illustrates economic growth. In the context of development, economic growth itself is not the ultimate goal of investment. Welfare is the ultimate goal of economic development instead. A growing economy can reduce unemployment, improve health and education services, and improve people’s lives. A growing economy causes an increasing welfare of the society. In other words, through economic growth, investment can improve the welfare of the community.

In addition to the above arguments, the impact of investment on economy and public welfare is also contained in the regulations on investment. The main regulations related to investment in Indonesia are regulated in law number 25 of 2007 concerning investment. The law states that investment is all forms of investment activities, both by domestic investors and foreign investors to do business in the territory of the Republic of Indonesia. Explicitly stated, the investment objectives, as stipulated in the law, are to create jobs, increase technology capacity and capability, encourage the development of people’s economy, process potential economies into real economic power, increase the ability of business competitiveness, increase economic growth, enhance sustainable economic development, and improve community welfare. It is clearly stated in the law that investment objectives are, among others, to improve the economy and people’s welfare. It can be said that investment is thought to affect the economy and also the welfare of society. In addition to directly influencing the welfare of the community, investment, through economic growth, also affects the welfare of the community. Based on the above argument, it is possible to formulate the following hypotheses:

H1a: Private investment positively affects the economic growth
H1b: Private investment positively affects the community welfare
H1c: Economic growth mediates the relationship between private investment and community welfare

The long-term development direction is outlined in law number 17 of 2007 on national long-term development plan. The law states that the ultimate goal of development is to protect the entire nation, promote public welfare, educate the nation, and participate in carrying out world order based on independence, eternal peace and social justice. It is clear in the law that the government declares a vision of development, one element of which is the welfare of the community.

To ensure the vision of development, namely the welfare of the community, is achieved, there needs to be harmony in development planning both between the central government and regional governments and between ministries and work units in the regional government. An integrated development planning system is formed. The central government develops long-term development plans, medium-term development plans, annual work plans, and budgets. Ministries within the central government shall refer to the central government planning documents in preparing their long-term and medium-term development plans, annual work plans, and their respective budgets.

Local governments are also required to develop long-term development plans, medium-term development plans, annual work plans, and budgets. These regional government development planning documents shall refer to the development planning document determined by the central government. In addition, work units in the regional governments shall refer to the regional government planning documents in preparing their respective long-term, medium-term plans, annual work plans, and budgets. If there is harmony in development planning, both between the central government and the ministries, between the regional government and the work units - the work unit, as well as between the central government and regional government, then the direction of development that is determined can be implemented so that the ultimate goal of development, namely community welfare can be achieved.

Every year the interior ministry assesses whether regional government development planning is aligned with national development planning. There are various items that are assessed and two of which are budget priorities and budget allocations. Regarding budget priorities, the Ministry of Home Affairs assesses
the consistency of development priorities, synchronizes planning documents, synchronizes budget documents with planning and implementation of budget priorities in budget implementation documents. Regarding budget allocation, the Ministry of Home Affairs assesses the extent to which the proportion of the budget is made by the regional government for functions that are considered productive and functions that are less productive in economic development. Even the minimum provisions are regulated in relation to education, health and capital expenditure. The implementation value of the local government is issued by the interior ministry as a basis for providing incentives and also evaluating the improvement of planning and budgeting the following year.

As stated above, the central government, through the Ministry of Home Affairs, ensures that there is alignment in development. An important aspect that is confirmed to be aligned is capital expenditure in the context of economic growth. The importance of public investment for economic growth is recognized by the central government. The central government, through the ministry of home affairs, makes guidelines for the preparation of local budgets every year. Even in certain years the central government determines the minimum amount of public investment as stipulated in the regulation of the Minister of Home Affairs number 27 of 2013. Although there is no minimum public investment in the given year, the central government emphasizes that local governments allocate public investments in accordance with development priorities as stated in the regulation of the Ministry of Home Affairs number 37 of 2014. Determination of minimal public investment in local government budgets shows government awareness that public investment is a driver of economic growth. The central government expects that local governments budget adequate public investment and reduce unproductive expenditures to encourage regional economic activities to ultimately improve the welfare of the community.

Studies conducted by Muthui et al. (2013) and Nurmainah (2013) concluded that the allocation of government spending on infrastructure has a positive and significant impact on economic growth. These findings are also supported by (Maryaningsih, Hermansyah, & Savitri, 2014) study which reinforces that the availability of adequate infrastructure becomes an important factor to achieve sustainable economic growth. Other studies that find a positive impact of government capital spending on economic growth are Munnell (1992), de Walle (1998), Kandenge (2005), Dwiningwari (2009), Phetsavong & Hiroshima (2012), Haque (2013), Ramli & Andriani (2013), Muthui, Kosimbei, Maingi, & Thuku (2013), Panggabean (2014), Maharani & Isnowati (2014), Sumanto & Efendie (2015) and Sabir, Yustika, Susilo, & Maskie (2015). However, some empirical evidences reveal the contrary result in that government public investments negatively affect economic growth as found in studies conducted by Ighodaro & Oriakhi (2010), Devarajan, Swaroop, & Zou (1996), and Iheanacho (2016) showing that government public investment negatively affects economic growth. In addition, there are also statements that government public investment has no impact on economic growth as found in the research findings Setiawati & Hamzah (2007), and Herdaarmin (2012)

It is argued that the government should be able to affect economic growth directly or indirectly. This can be done through various instruments, one of which is expenditure such as public investment. But the fact is that government spending and economic growth do not always go hand in hand. According to Barro (1990), the impact of government spending on economic growth depends on the productivity of the expenditure. Productive spending will be positively correlated with economic growth; while unproductive spending will be negatively correlated. Regardless of expenditure productivity, government is the main actor of community development. This investment activity will drive the optimum level of production and contribute to the increase of output. Government investment activities are reflected in the availability of infrastructure funded by government public investments such as roads, electricity, telecommunications and irrigation. Public investment provides employment opportunities and reduces poverty. Public investment also fosters an economy that ultimately benefits the people. Likewise, as expected by the government in the Law No. 25 of 2007 concerning investment, investment does not only affect economic growth but also the welfare of the community directly. Based on the above argument, it is possible to formulate the following hypotheses:

H2a: Public investment positively affects the economic growth.
H2b: Public investment positively affects the community welfare
H2c: Economic growth mediates the relationship between public investment and people's welfare

The public investment is a means to increase the economic growth. The economic growth itself is not the ultimate goal of economic development. The community welfare is the ultimate goal of any economic development. It is expected that the economy that grows through public investment has a positive impact on improving public welfare. Communities are prosperous if their needs such as housing, clothing, and food, health, and education, are fulfilled. The Human Development Index (IPM) provides a broader...
perspective for assessing human welfare. IPM describes human welfare in three dimensions, namely education, health and purchasing power. Per capita economic growth indicates individual purchasing power. If the individual purchasing power increases, the ability of individuals to meet the needs of their standard of living will also increase. So the best way to improve people’s welfare is to maximize economic growth. Based on the above argument, it is possible to formulate the following hypothesis:

H3: Economic growth positively affects the community welfare

METHODOLOGY

The research unit analysis is the local government, namely the district and the city. By 2016, there were 415 districts and 93 cities spreading over 34 provinces in Indonesia. During the five-year observation period, 2012 to 2016, there were 2,540 observations. However, since the data of some districts and cities are incomplete, the total number of observations ultimately processed is 1,524 from 508 districts and cities in Indonesia.

The first endogenous variable in this study is private investment. Private investment is all forms of activities invest, both by domestic investors and foreign investors to do business in the territory of the Republic of Indonesia. Investment in this case is capital expenditure which has an economic impact of one year or more. Routine and operation expenditures are not part of the investment. In this research, private capital investment is calculated for each local government, namely the district and city. The definition of investment above includes both domestic investment and foreign investment. Domestic investment is an investment activity to do business in the region the state of the Republic of Indonesia carried out by domestic investor using domestic capital. Meanwhile foreign investment is investment activity to do business in the country Republic of Indonesia carried out by foreign investor using foreign or joint venture capital. In this study there was no separation between domestic private investment and foreign private investment. Private investment data, both domestic and foreign investment, are derived from Investment Coordinating Board. The second exogenous variable is public investment. Public investment is capital expenditure budgeted by each district and city government in Indonesia. Public investment data is derived from the Central Bureau of Statistics. Other variables are economic growth and community welfare. Economic growth is indicated by gross regional domestic product. This study uses gross regional domestic product. This study uses gross regional domestic product based on constant prices. While the human development index shows the level of community welfare. Both the gross regional domestic product data and the human development index were derived from the Central Bureau of Statistics.

Figure 1 shows the research model. The research equation is an equation that shows the relationship of mediation. Exogenous variables are private investment (PRI) and public investment (PUI). Private sector investment is measured by natural logarithm of domestic and foreign investment realization. Same with private investment, public investments are also measured by the natural logarithm of realization of regional government. In this study investment is an exogenous variable on economic growth. However, it is possible that economic growth affects investment. If investors see that economic growth is good then he can increase investment to anticipate demand for goods and services in the future. Conversely, if an investor sees that economic growth is declining, he can reduce or withdraw his investment. This issue was not examined in this study.

The mediation variable is economic growth (ECG) as measured by the natural logarithm of gross regional domestic product (GRDP). Meanwhile, the endogenous variable is community welfare (CWF). The
Community welfare is a latent variable with an indicator of human development index. Data and hypotheses are analyzed using partial least square package. There are two reasons for using PLS. First, I conducted a simultaneous test by estimating the effect of investment on community welfare through mediating economic growth variables. Second, the variables in this study have only one indicator each. PLS is suitable for various types of measurements and one indicator variable. Analyzing is carried out both for direct and indirect testing. Direct testing is run between private investment as an exogenous variable with economic growth and community welfare. Direct testing is also carried out between public investment and economic growth and community welfare. While indirect testing is executed between private and public investment as exogenous variables on people’s welfare as endogenous variables through economic growth as a mediating variable.

RESULTS

Table 1 presents descriptive statistics including minimum, average, maximum, and standard deviation values for each variable. Descriptive statistics outlined for research variables include private investment, public investment, economic growth, and human development index. Table 1 describes each variable in terms of minimum, mean, maximum, and standard deviation. As many as 74% of districts and cities have private investment below the national average of private investment. This can be seen from the minimum value that is far below the investment average of private investment. This means that the value of private investment is less spread evenly among districts and cities. Generally investment with a large value is invested in large cities on the island of Java. The local government with the highest private investment is Bekasi District. The region with the lowest private investment is Padang Lawas District. Meanwhile, the value of public investment ranges from Rp68.2 billion to Rp2,856.0 billion with an average value of Rp349.6 billion. With figures above it can be said that generally the value of public investment in districts and cities is below average. The highest public investment is at South Tangerang District and the lowest public investment is in Ogan Ilir District. Other variables, namely gross regional domestic product and human development index, each has an average value of Rp19,247.3 billion and 66.8. The highest gross regional domestic product is in Surabaya City and the lowest is in Arfak Mountain District. The highest index of human development is in Yogyakarta City, while the lowest index of human development is in Tolikara District.

Table 1
Descriptive Statistics

<table>
<thead>
<tr>
<th>Variables</th>
<th>Minimum</th>
<th>Average</th>
<th>Maximum</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRI (Rp billion)</td>
<td>5.9</td>
<td>11,549.7</td>
<td>37,231.4</td>
<td>4,168.1</td>
</tr>
<tr>
<td>PUI (Rp billion)</td>
<td>68.2</td>
<td>349.6</td>
<td>2,856.0</td>
<td>305.8</td>
</tr>
<tr>
<td>ECG (Rp billion)</td>
<td>512.4</td>
<td>19,247.3</td>
<td>363,135.5</td>
<td>22,476.9</td>
</tr>
<tr>
<td>CWF</td>
<td>54.1</td>
<td>66.8</td>
<td>85.6</td>
<td>5.2</td>
</tr>
</tbody>
</table>

In this research, I tested both outer and inner model tests. The indicator in the outer model test is having an outer loading of more than 0.5 for the convergence validity to be eligible, cross loading of a variable with indicators greater than cross loading the variable with other variable indicators to meet discriminant validity, and possessing composite reliability of more than 0.7 to meet reliability requirement. All three test outer models are eligible. The determination coefficient (R2), predictive relevance (Q2), and goodness of fit index (GoF) are checked for inner model test. The determination coefficient for economic growth and social welfare are 67.1% and 42.8% respectively, while predictive relevance figure is 81.2%. From those figures, it is possible to conclude that the model is fit for hypothesis testing.

The coefficient of determination in the regression between investment and economic growth is 67.1%. This figure shows the relative influence or contribution of the effect of investment variables on economic growth. Every rupiah economic growth is affected by 0.671 rupiah in investment. Furthermore, the coefficient of determination between economic growth and community welfare is 42.8%. This indicates that one figure of community welfare is affected by 0.428 economic growth.

Table 2 shows the test results of the hypotheses testing. The hypotheses related to the influence of private investment on economic growth and community welfare are as follows: (H1a) private investment positively affects the economic growth, (H1b) private investment positively affects the community welfare, and (H1c) economic growth mediates the relationship between private investment and community welfare. All these hypotheses are proved to be in accordance with predictions.
Hypotheses about the positive effects of private investment on economic growth and community welfare are supported. Private investment directly affects economic growth and community welfare indirectly affect the welfare of the people through economic growth. This findings are in line with previous findings such as those in Kandenge (2005), Dwiningwarni (2009), Phetsavong & Hiroshima (2012), Haque (2013), Ramli & Andriani (2013), Nurmainah (2013), Rizky et al. (2016), Maharani & Isnowati (2014), and Sumanto & Efenndie (2015).

Private investment contributes to the amount of output generated in an economy. As theory prediction suggest that the accumulation of capital used for the procurement of new production factors or for improving the quality of existing production factors can affect economic growth. Private investment activities affect economic activity through employment opportunities, thus increasing revenues that ultimately improve people's welfare. It is proven that the private sector plays an important role in development. The private sector is a development agent as well as the government. Local governments are required to encourage the private sector to grow through the provision of various assistance and encouragement such as the ease of licensing, the provision of taxes that are not too burdensome, and easier business land requisition.

The statements of hypotheses about public investment, economic growth, and public welfare are as follows: (H2a) public investment positively affects the economic growth, (H2b) public investment positively affects the community welfare, and (H2c) economic growth mediates the relationship between public investment and people's welfare. The results of data analysis as shown in table 2 show those hypotheses are supported according to the predictions. The results clearly show that public investments have good impact on economic growth. Public investment directly affects economic growth and community welfare. Public investment also indirectly affects the welfare of the people through economic growth. This findings are consistent with previous findings such as Kandenge (2005), Dwiningwarni (2009), Phetsavong & Hiroshima (2012), Haque (2013), Ramli & Andriani (2013), Muthui et al. (2013), Panggabean (2014), Maharani & Isnowati (2014), Sumanto & Efenndie (2015), and Sabir et al. (2015).

If there is an increase in the amount of government public investment then this results in an increase in the regional economy. Public investments, for example infrastructure development, financed by the government budget encourage the economic activities of the people, thereby increasing the output of goods and services. It is evident that public investment is a stimulus for economic growth. Directives from the central government to determine the minimum allocation of public investment in local budget can be justified by this finding. Local governments should not hesitate to allocate budgets for public investments for a better economy. However, capital spending should not be made for unproductive expenditure. Despite the existing public investments, if done for unproductive activities, for example for military expenditures, it does not have a good impact on the economy (Iheanacho, 2016). This can be understood because the motive for capital expenditure for the military is routine in the context of security and defense. The public investment from the government budget can also have an adverse effect on the economy if corruption is rampant (Okoro, 2013). The use of capital budget must be really targeted to support the creation of community economy.

The finding related to the third hypothesis that economic growth positively has impacts on social welfare is certainly not surprising. The social welfare is shown by the level of human development index. The greater the level of the economy the greater the human development index. The positive effects of economic growth found in this study are consistent with those found in the (Algifari, 2011) study. Economic growth is the intermediate goal. Development programs by the government and the private sector is not intended solely to improve the economy. The ultimate goal of economic development is the social welfare. Economic development boosts economic growth by boosting economic activity, opening up employment.

### Table 2

<table>
<thead>
<tr>
<th>Hypotheses</th>
<th>Var. Relationship</th>
<th>Coeff.</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1a</td>
<td>PRI → ECG</td>
<td>0.314</td>
<td>0.000</td>
</tr>
<tr>
<td>H1b</td>
<td>PRI → CWF</td>
<td>0.156</td>
<td>0.001</td>
</tr>
<tr>
<td>H1c</td>
<td>PRI → ECG → CWF</td>
<td>0.113</td>
<td>0.018</td>
</tr>
<tr>
<td>H2a</td>
<td>PUI → ECG</td>
<td>0.523</td>
<td>0.000</td>
</tr>
<tr>
<td>H2b</td>
<td>PUI → CWF</td>
<td>0.217</td>
<td>0.005</td>
</tr>
<tr>
<td>H2c</td>
<td>PUI → ECG → CWF</td>
<td>0.202</td>
<td>0.006</td>
</tr>
<tr>
<td>H3</td>
<td>ECG → CWF</td>
<td>0.639</td>
<td>0.000</td>
</tr>
</tbody>
</table>
opportunities and this has an impact on increasing people's incomes. If the income of the community increases, the community can improve their quality of life by fulfilling basic needs such as education and health. So if the income of the community increases, the level of community welfare also increases.

CONCLUSIONS

This study has explored how government capital spending and private sector investment affect economic growth and further affect community welfare. Based on the results of data analysis, it is possible to draw some conclusions. First, public investment has a positive impact on economic growth of local government. Greater public investment spent by the government leads to greater economic growth of the community. It is evident that the growth of government public investment is really an important driver in promoting the economic growth of the community. The decision to increase capital spending has a positive impact on society. Local governments need not hesitate to increase public investment. The central government's demands on minimum public investments that have been difficult to meet should be implemented without hesitation.

Second, local economic growth is driven not only by government public investment but also by private sector investment. Empirical evidence suggests that the increase of private investment is followed by the increase of economic growth. The greater the private capital spending, the more driven the economic growth. The local government should not work alone to improve the economy of the local community. Local governments need to invite the private sector to jointly invest in order to improve the economy of the community. Factors inhibiting private investment should be avoided. Various incentive schemes need to be provided by the government to the private sector. Long-winded and expensive licenses also need to be changed so that the private sector will find it easier to invest. Government capital spending together with private sector investment will drive the economic growth faster.

Third, economic growth is good for social welfare. This is evident from the positive impact of economic growth on community welfare. Economic growth is not an end in economic development. A growing economy is not enough if not followed by improving the welfare of the community. The ultimate goal of development is to improve people's well-being. Given the positive impact of economic growth on the welfare of the people, the government's efforts through public investment and private sector contribution in economic development are not in vain. The important implication of this research is that the government really needs to pay attention to public investment as it contributes positively to the economic development and ultimately on improving people's welfare. Indirect spending and routine expenditures need to be made more efficiently in order to allow available large allocations for public investments. The private sector should also be encouraged to do the development by providing various incentives and conveniences to attract investment.

However, his study has some limitations. The research data used in this study is the realization of public investment either by local government or private sector. The phenomenon of ineffective and inefficient public investment, particularly in the government sector, has not been addressed in this study. In addition, public investment has not yet been classified based on the exposure of the spending to the economy. Public investments for the construction of roads, bridges, ports, electricity, and irrigation can be said to be directly related to the people's economy. However, public investments for the purchase of office equipment and the construction of government offices may not be directly related to the economic development of the community. The public investment groupings as described above need to be examined in subsequent research.

REFERENCES


Note: The research was funded by the Ministry of Research and Higher Education, Republic of Indonesia
Dear Baldric Siregar,

I acknowledge a receipt of the revised manuscript and response to the reviewers. The revised manuscript will be considered.

I will inform you about decision soon.

With best regards,
Olga Vorozhko

From: Baldric Siregar [mailto:siregar@accountant.com]
Sent: Monday, June 24, 2019 5:06 AM
To: Olga Vorozhko_Managing Editor of IMFI journal <o.vorozhko@businessperspectives.org>
Subject: Re: RE: RE: Comments after reviewing (IMFI Journal) FM-403-1118

Dear Olga Vorozhko

I haven't heard from you for a long time.

My paper entitled "DIRECT AND INDIRECT EFFECTS OF INVESTMENT ON COMMUNITY WELFARE" is in the process of being published in your journal.

But for the past few months I have not received yet a decision regarding the acceptance of my paper for publication.

I am looking forward to your information about the paper.

Thank you

Best regards
Baldric Siregar

Sent: Monday, June 24, 2019 at 2:40 PM
From: "Olga Vorozhko_Managing Editor of IMFI and PMF journals" <o.vorozhko@businessperspectives.org>
To: ""Baldric Siregar"" <siregar@accountant.com>
Subject: RE: Comments after reviewing (IMFI Journal) FM-403-1118

Dear Baldric Siregar,

The manuscript FM-403-118 is undergoing next round of review. I'll inform you about result soon.

With best regards,
Olga Vorozhko
From: Baldric Siregar [mailto:siregar@accountant.com]
Sent: Tuesday, June 25, 2019 1:20 PM
To: Olga Vorozhko_Managing Editor of IMFI and PMF journals
      <o.vorozhko@businessperspectives.org>
Subject: Re: RE: Comments after reviewing (IMFI Journal) FM-403-1118

Thank you very much

Best regards
Baldric Siregar

Sent: Tuesday, July 09, 2019 at 8:49 PM
From: "Olga Vorozhko_Managing Editor of IMFI and PMF journals"
      <o.vorozhko@businessperspectives.org>
To: "Baldric Siregar" <siregar@accountant.com>
Subject: RE: Comments after reviewing (IMFI Journal) FM-403-1118

Dear Baldric Siregar,

We got the following additional comment about the revised version of the manuscript Ma-403-1118 “DIRECT AND INDIRECT EFFECTS OF INVESTMENT ON COMMUNITY WELFARE”:

“As we mentioned previously, there were some missing articles (“the” and “a”). We turned on Track Changes and inserted suggested modifications of that sort.

We are not commenting on any new topics, but we will revisit some of the previous comments.

Comment #10: your reply’s statement of your contribution is fine and could appear almost in the same form in the paper. The other point we were trying to make, though, was that the paragraphs full of citations in the text do not make clear whether all, a few, or none of the existing papers addressed Indonesia. (we can see from the reference list at the end of the paper that at least two or three did.) We recognize that results from your work could be informative outside of Indonesia, but each data set is different, so there is a reason to inform your reader of the extent to which Indonesia has previously been studied.

#14: We are not sure whether the change we made at the top of page 7 reaches the intended meaning, but “activities invest” did not make sense in English.

#21: The potential for spurious size-driven results is still concerning, but we will not reject the paper over the matter.

#24: Your statement in the text is “Long-winded and expensive licenses also need to be changed.” “Changed” admittedly does not necessarily mean “removed,” but my main point in that comment was that you are unequivocally advocating for a change without proving the licenses serve no purpose. More tentative phrasing of the sort “…licenses may warrant easing” or “should consider” (as I mentioned previously) seems appropriate to us.

Waiting for the revised version as soon as possible.

Please confirm a receipt.

With best regards,
Olga Vorozhko
From: Baldric Siregar <siregar@accountant.com>
Sent: Wednesday, July 10, 2019 3:28 AM
To: Olga Vorozhko_Managing Editor of IMFI and PMF journals <o.vorozhko@businessperspectives.org>
Subject: Re: RE: Comments after reviewing (IMFI Journal) FM-403-1118

Dear Olga Vorozhko

Thank you and I understand the inputs given by the reviewer. I will make revisions to the paper as best as possible.

Best regards
Baldric Siregar

Sent: Monday, September 02, 2019 at 4:27 PM
From: "Olga Vorozhko_Managing Editor of IMFI and PMF journals" <o.vorozhko@businessperspectives.org>
To: "Baldric Siregar" <siregar@accountant.com>
Subject: URGENTLY Comments after reviewing (IMFI Journal) FM-403-1118

Dear Baldric Siregar,

Please send the revised paper as soon as possible. It can be considered for publication in the current issue 3_2019 (published till the end of September).

With best regards,
Olga Vorozhko

From: Baldric Siregar <siregar@accountant.com>
Sent: Friday, September 6, 2019 6:29 AM
To: Olga Vorozhko_Managing Editor of IMFI and PMF journals <o.vorozhko@businessperspectives.org>
Subject: Re: URGENTLY Comments after reviewing (IMFI Journal) FM-403-1118

Dear Olga Vorozhko

I am very sorry for the my late response. I will send my revised paper this week.

Thank you very much

With best regards
Baldric Siregar
Dear Baldric Siregar,

Thank you.

I’ll wait for the revised version.
Have a nice weekend.

With best regards,
Olga Vorozhko

From: Baldric Siregar [mailto:siregar@accountant.com]
Sent: Wednesday, September 11, 2019 2:18 PM
To: Olga Vorozhko_Managing Editor of IMFI and PMF journals
:o.vorozhko@businessperspectives.org>; siregar@accountant.com
Subject: Re: RE: URGENTLY Comments after reviewing (IMFI Journal) FM-403-1118

Dear Olga Vorozhko

With this email, I attach the revised paper. Hopefully meet the expectations of reviewers.

Comment #10: your reply’s statement of your contribution is fine and could appear almost in the same form in the paper. The other point we were trying to make, though, was that the paragraphs full of citations in the text do not make clear whether all, a few, or none of the existing papers addressed Indonesia. (we can see from the reference list at the end of the paper that at least two or three did.) We recognize that results from your work could be informative outside of Indonesia, but each data set is different, so there is a reason to inform your reader of the extent to which Indonesia has previously been studied.

====
I describe similar studies in the Indonesian context to illustrate the development of similar research in Indonesia. I add three more articles related to the context of specific research in Indonesia.

====
#14: We are not sure whether the change we made at the top of page 7 reaches the intended meaning, but “activities invest” did not make sense in English.

====
The definition of private investment in this matter is indeed incorrect with the writing "investing activities". I make a change so that this sentence would be better and more meaningful. I also explain that capital investment includes all expenditures that have an economic impact in the future both investment.

====
#21: The potential for spurious size-driven results is still concerning, but we will not reject the paper over the matter.

====
Related to this thing, I have not found a way, method, and measurement, which produces findings that are more in line with the theory. This will be my consideration for further research. However, I am grateful for your statement that “but we will not reject the paper over the matter.”

#24: Your statement in the text is “Long-winded and expensive licenses also need to be changed.” “Changed” admittedly does not necessarily mean “removed,” but my main point in that comment was that you are unequivocally advocating for a change without proving the licenses serve no purpose. More tentative phrasing of the sort “…licenses may warrant easing” or “should consider” (as I mentioned previously) seems appropriate to us.

It is true that this sentence does not yet contain definitive suggestions with the expression “changed”. I changed the sentence to make it more meaningful, which is related to reducing the stages and processes of the bureaucracy, time consumed, and costs associated with licensing.

Thank you
Baldric Siregar

Direct and Indirect Effects of Investment on Community Welfare

Abstract

Despite the fact that the government is the main actor of economic development, it also invites private parties to be actively involved in the economic development. The main objective of public and private investment is economic development. But the ultimate goal of investment and economic development itself is to improve the welfare of the community. This study seeks to investigate the effect of private and public investment on economic growth. Furthermore, it also investigates the impact the investment on the community welfare either directly or indirectly through economic growth by way of analyzing data on private and public investment, economic growth, and the human development index of local governments in Indonesia for the period of 2012 to 2016. Hypotheses were tested using PLS (Partial Least Square). The results show that both private and public investment directly influence economic growth and indirectly affect the welfare of the people through economic growth. Direct test results also show the positive effect of economic growth on community welfare.

Keywords: private investment, public investment, economic growth, community welfare
JEL Classification E22, O16, R11

Introduction

The effect of public and private investment on economic growth has been widely addressed by various researchers. However, the results of those studies are not unidirectional. Several studies show that public investment has a positive impact on economic growth such as Kandenge (2005), Algifar (2011), Dwiningwarni (2009), Phetsavong & Hiroshima (2012), Haque (2013), Ramli & Andriani (2013), Muthui, Kosimbei, Maingi, & Thuku (2013), Maharani & Isnowati (2014), Panggabean (2014), Sumanto & Efendie (2015), and Sabir, Yustika, Susilo, & Maskie (2015). The positive impacts of private investment on economic growth are also found in Kandenge (2005), Dwiningwarni (2009), Phetsavong & Hiroshima (2012), Haque (2013), Ramli & Andriani (2013), Nurmainah (2013), Rizky, Agustin, & Mukhlis (2016), Maharani & Isnowati (2014), and Sumanto & Efendie (2015). But several other studies such as Ighodaro & Oriakhi (2010), Devaraj, Swaroop, & Zou (1996), and Iheanacho (2016) show that public investment negatively affect economic growth. Herdarmin (2012) and Phetsavong & Hiroshima (2012) find similar findings in that private investment also negatively affects economic growth.
It is obvious that not only is economic development aimed at achieving economic growth but also at improving social welfare. There are several similar studies for the Indonesian context with various perspectives. Studies on the effect of government capital expenditure and private investment for the scope of certain provincial governments in Indonesia include Dwiningwarni (2009), Herdarmin (2012), Maharani & Isnowati (2014), and Sabir, Yustika, Susilo, & Maskie (2015). With a broader scope that includes Indonesia as a whole, related studies include the effect of investment on economic growth (Setiawati & Hamzah, 2007; Rizky, Agustin, & Mukhlis, 2016; and (Ridzuan, Khalid, & Zarin, 2018), unemployment Setiawati & Hamzah (2007), human development Algifari (2011), exports (Rahmaddi & Ichihashi, 2013), community welfare Sumanto & Efendie (2015), and poverty (Setiawati & Hamzah, 2007 and (Ahmad et al., 2019). Both studies in other countries as well as similar studies in Indonesia have found inconsistent results about the relationship between investment, economic growth and welfare. Due to the mixed empirical results, this study intends to re-investigate the impact of government capital spending and private investment on economic growth for Indonesia’s case. In addition, this study also covers simultaneous testing to determine the impact of government capital spending and private investment on social welfare as mediated by economic growth. It is what distinguishes this research from other studies.

LITERATURE REVIEW

Investment can increase the supply side of economy. With investment there is expenditure to acquire land, building, equipment, machinery and raw material. Effective investment can increase the capacity of economy. Investment in production equipment can increase production productivity, investment in technology can increase production productivity, while investment in education and health can increase labor productivity. Effective investments like these can increase economic output and increase production capacity. On the other hand, investment can increase demand side. It also requires labor. Therefore investment can increase the income of the population. Increasing population income illustrates an increase in the demand for goods and services, thus ultimately growing the economy.

The government of Indonesia makes the investment sector a cornerstone to boost economic performance. Private sector is a development actor in addition to the government itself. The Government realizes that not all economic development can be financed through government budget due to limited funds. The role of the private sector is increasingly important from year to year along with an increasing investment need for economic development. The government invites the private sector so that infrastructure development is no longer solely funded through the government budget. Economic development will be more optimistic if the private sector also contributes to growth in addition to those based on the contribution of the government budget.

In the past five years, namely 2013 to 2017, investment growth had taken place in Indonesia. However, this growth experienced a slowdown. During this period investment grew by 27.2%, 16.1%, 17.7%, 12.3% and 13%. On the one hand the government wants to increase private investment. On the other hand investors face various obstacles to investing. The Investment Coordinating Board itself realizes that there are several investment constraints that must be overcome, including a number of regulations that hinder investment, lack of tax incentives for investors, low quality of human resources, lack of supporting infrastructure, and difficulty in land acquisition for investment purposes.

Various things are done by the government to overcome these investment constraints. First, the government overcomes economic and investment issues by the issuance of the Economic Policy Package Phase XVI in 2018. One part of the policy package is taxation policy which purpose is to provide tax incentives in order to increase investment such as such as tax holidays, tax allowances, small and medium business taxes, and incentives for companies that carry out research and development and vocational training. Second, the government issued Government Regulation No. 24 of 2018 on Integrated Licensing Services Electronically so that the investment permit process will be faster and more transparent. Third, the government established a public service body through Regulation of the Minister of Finance No. 54 of 2017 on Government Asset Management Agency Procedure and Organization to assist investors in land acquisition.

Based on theory, investment should have a positive impact on economic growth both in terms of supply and demand sides. Investment improves the economy by increasing productivity. Investment can also increase the economy with increasing community income. However, empirical evidence is not always in line with theoretical concepts. Empirical findings related to the influence of private investment on economic growth are still mixed. There are several studies that find a positive influence between private investment and economic growth such as Roller & Waverman (2001), Kandenge (2005), Dwiningwarni (2009),
Private investment can improve people's lives, improve the ability of the community to access health and education services, and reduce poverty. Thus, private investment can encourage the improvement of community welfare. Private investment produces economic output. The more the private investment, the higher the economic output. Increasing private investment contributes as a lever to the movement of a nation's economic development. Private investment acts as one component of national income, gross domestic product. When investors, entrepreneurs, or individuals make investments, there will be a certain amount of capital invested, there are a number of goods that are not consumed but used for production, so that they produce goods and services in the future. In simple terms, the influence of private investment on the economy of a country is reflected in the country's national income and therefore private investment is positively correlated with gross domestic product. In general, it can be said that if private investment rises, gross domestic product will rise and this will improve the economy. This increase in output illustrates economic growth. In the context of development, economic growth itself is not the ultimate goal of investment. Welfare is the ultimate goal of economic development instead. A growing economy can reduce unemployment, improve health and education services, and improve people's lives. A growing economy causes an increasing welfare of the society. In other words, through economic growth, investment can improve the welfare of the community.

In addition to the above arguments, the impact of investment on economy and public welfare is also contained in the regulations on investment. The main regulations related to investment in Indonesia are regulated in law number 25 of 2007 concerning investment. The law states that investment is all forms of investment activities, both by domestic investors and foreign investors to do business in the territory of the Republic of Indonesia. Explicitly stated, the investment objectives, as stipulated in the law, are to create jobs, increase technology capacity and capability, encourage the development of people's economy, process potential economies into real economic power, increase the ability of business competitiveness, increase economic growth, enhance sustainable economic development, and improve community welfare. It is clearly stated in the law that investment objectives are, among others, to improve the economy and people's welfare. It can be said that investment is thought to affect the economy and also the welfare of society. In addition to directly influencing the welfare of the community, investment, through economic growth, also affects the welfare of the community. Based on the above argument, it is possible to formulate the following hypotheses:

H1a: Private investment positively affects the economic growth
H1b: Private investment positively affects the community welfare
H1c: Economic growth mediates the relationship between private investment and community welfare

The long-term development direction is outlined in law number 17 of 2007 on national long-term development plan. The law states that the ultimate goal of development is to protect the entire nation, promote public welfare, educate the nation, and participate in carrying out world order based on...
independence, eternal peace and social justice. It is clear in the law that the government declares a vision of development, one element of which is the welfare of the community.

To ensure the vision of development, namely the welfare of the community, is achieved, there needs to be harmony in development planning both between the central government and regional governments and between ministries and work units in the regional government. An integrated development planning system is formed. The central government develops long-term development plans, medium-term development plans, annual work plans, and budgets. Ministries within the central government shall refer to the central government planning documents in preparing their long-term and medium-term development plans, annual work plans, and their respective budgets.

Local governments are also required to develop long-term development plans, medium-term development plans, annual work plans, and budgets. These regional government development planning documents shall refer to the development planning document determined by the central government. In addition, work units in the regional governments shall refer to the regional government planning documents in preparing their respective long-term, medium-term plans, annual work plans, and budgets. If there is harmony in development planning, both between the central government and the ministries, between the regional government and the work units - the work unit, as well as between the central government and regional government, then the direction of development that is determined can be implemented so that the ultimate goal of development, namely community welfare can be achieved.

Every year the interior ministry assesses whether regional government development planning is aligned with national development planning. There are various items that are assessed and two of which are budget priorities and budget allocations. Regarding budget priorities, the Ministry of Home Affairs assesses the consistency of development priorities, synchronizes planning documents, synchronizes budget documents with planning and implementation of budget priorities in budget implementation documents. Regarding budget allocation, the Ministry of Home Affairs assesses the extent to which the proportion of the budget is made by the regional government for functions that are considered productive and functions that are less productive in economic development. Even the minimum provisions are regulated in relation to education, health and capital expenditure. The implementation value of the local government is issued by the interior ministry as a basis for providing incentives and also evaluating the improvement of planning and budgeting the following year.

As stated above, the central government, through the Ministry of Home Affairs, ensures that there is alignment in development. An important aspect that is confirmed to be aligned is capital expenditure in the context of economic growth. The importance of public investment for economic growth is recognized by the central government. The central government, through the ministry of home affairs, makes guidelines for the preparation of local budgets every year. Even in certain years the central government determines the minimum amount of public investment as stipulated in the regulation of the Minister of Home Affairs number 27 of 2013. Although there is no minimum public investment in the given year, the central government emphasizes that local governments allocate public investments in accordance with development priorities as stated in the regulation of the Ministry of Home Affairs number 37 of 2014. Determination of minimal public investment in local government budgets shows government awareness that public investment is a driver of economic growth. The central government expects that local governments budget adequate public investment and reduce unproductive expenditures to encourage regional economic activities to ultimately improve the welfare of the community.

Studies conducted by Muthui et al. (2013) and Nurmainah (2013) concluded that the allocation of government spending on infrastructure has a positive and significant impact on economic growth. These findings are also supported by (Maryaningsih, Hermansyah, & Savitri, 2014) study which reinforces that the availability of adequate infrastructure becomes an important factor to achieve sustainable economic growth. Other studies that find a positive impact of government capital spending on economic growth are Munnell (1992), de Walle (1998), Kandenge (2005), Dwiningwarni (2009), Phetsavong & Hiroshima (2012), Haque (2013), Ramli & Andriani (2013), Muthui, Kosimbei, Maingi, & Thuku (2013), Panggabean (2014), Maharani & Isnowati (2014), Sumanto & Efendie (2015) and Sabir, Yustika, Susilo, & Maskie (2015). However, some empirical evidences reveal the contrary result in that government public investments negatively affect economic growth as found in studies conducted by Ighodaro & Oriakhi (2010), Devarajan, Swaroop, & Zou (1996), and Iheanacho (2016) showing that government public investment negatively affects economic growth. In addition, there are also statements that government public investment has no impact on economic growth as found in the research findings Setiawati & Hamzah (2007), and Herdarmin (2012).
It is argued that the government should be able to affect economic growth directly or indirectly. This can be done through various instruments, one of which is expenditure such as public investment. But the fact is that government spending and economic growth do not always go hand in hand. According to Barro (1990), the impact of government spending on economic growth depends on the productivity of the expenditure. Productive spending will be positively correlated with economic growth; while unproductive spending will be negatively correlated. Regardless of expenditure productivity, government is the main actor of community development. This investment activity will drive the optimum level of production and contribute to the increase of output. Government investment activities are reflected in the availability of infrastructure funded by government public investments such as roads, electricity, telecommunications and irrigation. Public investment provides employment opportunities and reduces poverty. Public investment also fosters an economy that ultimately benefits the people. Likewise, as expected by the government in the Law No. 25 of 2007 concerning investment, investment does not only affect economic growth but also the welfare of the community directly. Based on the above argument, it is possible to formulate the following hypotheses:

H2a: Public investment positively affects the economic growth.
H2b: Public investment positively affects the community welfare
H2c: Economic growth mediates the relationship between public investment and people's welfare

The public investment is a means to increase the economic growth. The economic growth itself is not the ultimate goal of economic development. The community welfare is the ultimate goal of any economic development. It is expected that the economy that grows through public investment has a positive impact on improving public welfare. Communities are prosperous if their needs such as housing, clothing, and food, health, and education, are fulfilled. The Human Development Index (IPM) provides a broader perspective for assessing human welfare. IPM describes human welfare in three dimensions, namely education, health and purchasing power. Per capita economic growth indicates individual purchasing power. If the individual purchasing power increases, the ability of individuals to meet the needs of their standard of living will also increase. So the best way to improve people's welfare is to maximize economic growth. Based on the above argument, it is possible to formulate the following hypothesis:

H3: Economic growth positively affects the community welfare

METHODOLOGY

The research unit analysis is the local government, namely the district and the city. By 2016, there were 415 districts and 93 cities spreading over 34 provinces in Indonesia. During the five-year observation period, 2012 to 2016, there were 2,540 observations. However, since the data of some districts and cities are incomplete, the total number of observations ultimately processed is 1,524 from 508 districts and cities in Indonesia.

The first endogenous variable in this study is private investment. In accordance with Law number 25 of 2007 concerning investment, the definition of investment is any form of investing activity by both domestic and foreign investors to do business in the territory of Indonesia. Private investments includes domestic and foreign investments. A domestic investment means any investing activity to do business that is carried out by a domestic investor by use of domestic capital. Meanwhile a foreign investment means any investing activity to do business that is conducted by a foreign investor both by use of all of foreign capital and by engagement in a joint venture with a domestic investor. Capital is obtained by carrying out various investment expenses. Investment expenses include all expenses incurred by investors up until the capitals or assets that are built are ready to be used to earn income such as research and development costs, equipment and machinery purchases, construction of factories and other buildings, and other capital expenditures. Capital expenditure does not include administrative and marketing expenses. I obtain data in accordance with the definition of investment according to the government (Investment Coordinating Board) in the form of investment accumulation and I do not have the opportunity to identify the elements that make up the investment.

The second exogenous variable is public investment. A public investment is a capital expenditure budgeted by each district and city government in Indonesia. Public investment data is derived from the Central Bureau of Statistics. Other variables are economic growth and community welfare. Economic growth is indicated by gross regional domestic product. This study uses gross regional domestic product based on constant prices. While the human development index shows the level of community welfare. Both the gross regional domestic product data and the human development index were derived from the Central Bureau of Statistics.
Figure 1 shows the research model. The research equation is an equation that shows the relationship of mediation. Exogenous variables are private investment (PRI) and public investment (PUI). Private sector investment is measured by natural logarithm of domestic and foreign investment realization. Same with private investment, public investments are also measured by the natural logarithm of realization of regional government. In this study investment is an exogenous variable on economic growth. However, it is possible that economic growth affects investment. If investors see that economic growth is good then he can increase investment to anticipate demand for goods and services in the future. Conversely, if an investor sees that economic growth is declining, he can reduce or withdraw his investment. This issue was not examined in this study.

The mediation variable is economic growth (ECG) as measured by the natural logarithm of gross regional domestic product (GRDP). Meanwhile, the endogenous variable is community welfare (CWF). The community welfare is a latent variable with an indicator of human development index. Data and hypotheses are analyzed using partial least square package. There are two reasons for using PLS. First, I conducted a simultaneous test by estimating the effect of investment on community welfare through mediating economic growth variables. Second, the variables in this study have only one indicator each. PLS is suitable for various types of measurements and one indicator variable. Analyzing is carried out both for direct and indirect testing. Direct testing is run between private investment as an exogenous variable with economic growth and community welfare. Direct testing is also carried out between public investment and economic growth and community welfare. While indirect testing is executed between private and public investment as exogenous variables on people’s welfare as endogenous variables through economic growth as a mediating variable.

RESULTS

Table 1 presents descriptive statistics including minimum, average, maximum, and standard deviation values for each variable. Descriptive statistics outlined for research variables include private investment, public investment, economic growth, and human development index. Table 1 describes each variable in terms of minimum, mean, maximum, and standard deviation. As many as 74% of districts and cities have private investment below the national average of private investment. This can be seen from the minimum value that is far below the investment average of private investment. This means that the value of private investment is less spread evenly among districts and cities. Generally investment with a large value is invested in large cities on the island of Java. The local government with the highest private investment is Bekasi District. The region with the lowest private investment is Padang Lawas District. Meanwhile, the value of public investment ranges from Rp68.2 billion to Rp2,856.0 billion with an average value of Rp349.6 billion. With figures above it can be said that generally the value of public investment in districts and cities is below average. The highest public investment is at South Tangerang District and the lowest public investment is in Ogan Ilir District. Other variables, namely gross regional domestic product and human development index, each has an average value of Rp19,247.3 billion and 66.8. The highest gross regional domestic product is in Surabaya City and the lowest is in Arfak Mountain District. The highest index of human development is in Yogyakarta City, while the lowest index of human development is in Tolikara District.
Table 1
Descriptive Statistics

<table>
<thead>
<tr>
<th>Variables</th>
<th>Minimum</th>
<th>Average</th>
<th>Maximum</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRI (Rp billion)</td>
<td>5.9</td>
<td>11,549.7</td>
<td>37,231.4</td>
<td>4,168.1</td>
</tr>
<tr>
<td>PUI (Rp billion)</td>
<td>68.2</td>
<td>349.6</td>
<td>2,856.0</td>
<td>305.8</td>
</tr>
<tr>
<td>ECG (Rp billion)</td>
<td>512.4</td>
<td>19,247.3</td>
<td>363,135.5</td>
<td>22,476.9</td>
</tr>
<tr>
<td>CWF</td>
<td>54.1</td>
<td>66.8</td>
<td>85.6</td>
<td>5.2</td>
</tr>
</tbody>
</table>

In this research, I tested both outer and inner model tests. The indicator in the outer model test is having an outer loading of more than 0.5 for the convergence validity to be eligible, cross loading of a variable with indicators greater than cross loading the variable with other variable indicators to meet discriminant validity, and possessing composite reliability of more than 0.7 to meet reliability requirement. All three test outer models are eligible. The determination coefficient (R²), predictive relevance (Q²), and goodness of fit index (GoF) are checked for inner model test. The determination coefficient for economic growth and social welfare are 67.1% and 42.8% respectively, while predictive relevance figure is 81.2%. From those figures, it is possible to conclude that the model is fit for hypothesis testing.

The coefficient of determination in the regression between investment and economic growth is 67.1%. This figure shows the relative influence or contribution of the effect of investment variables on economic growth. Every rupiah economic growth is affected by 0.671 rupiah in investment. Furthermore, the coefficient of determination between economic growth and community welfare is 42.8%. This indicates that one figure of community welfare is affected by 0.428 economic growth.

Table 2 shows the test results of the hypotheses testing. The hypotheses related to the influence of private investment on economic growth and community welfare are as follows: (H1a) private investment positively affects the economic growth, (H1b) private investment positively affects the community welfare, and (H1c) economic growth mediates the relationship between private investment and community welfare. All these hypotheses are proved to be in accordance with predictions.

Hypotheses about the positive effects of private investment on economic growth and community welfare are supported. Private investment directly affects economic growth and community welfare indirectly affect the welfare of the people through economic growth. This findings are in line with previous findings such as those in Kandenge (2005), Dwiningwarini (2009), Phetsavong & Hiroshima (2012), Haque (2013), Ramli & Andriani (2013), Nurmainah (2013), Rizky et al. (2016), Maharani & Isnowati (2014), and Sumanto & Efendi (2015).

Private investment contributes to the amount of output generated in an economy. As theory prediction suggest that the accumulation of capital used for the procurement of new production factors or for improving the quality of existing production factors can affect economic growth. Private investment activities affect economic activity through employment opportunities, thus increasing revenues that ultimately improve people’s welfare. It is proven that the private sector plays an important role in development. The private sector is a development agent as well as the government. Local governments are required to encourage the private sector to grow through the provision of various assistance and encouragement such as the ease of licensing, the provision of taxes that are not too burdensome, and easier business land requisition.

Table 2
Results of Hypotheses Testing

<table>
<thead>
<tr>
<th>Hypotheses</th>
<th>Var. Relationship</th>
<th>Coeff.</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1a</td>
<td>PRI → ECG</td>
<td>0.314</td>
<td>0.000</td>
</tr>
<tr>
<td>H1b</td>
<td>PRI → CWF</td>
<td>0.156</td>
<td>0.001</td>
</tr>
<tr>
<td>H1c</td>
<td>PRI → ECG → CWF</td>
<td>0.113</td>
<td>0.018</td>
</tr>
<tr>
<td>H2a</td>
<td>PUI → ECG</td>
<td>0.523</td>
<td>0.000</td>
</tr>
<tr>
<td>H2b</td>
<td>PUI → CWF</td>
<td>0.217</td>
<td>0.005</td>
</tr>
<tr>
<td>H2c</td>
<td>PUI → ECG → CWF</td>
<td>0.202</td>
<td>0.006</td>
</tr>
<tr>
<td>H3</td>
<td>ECG → CWF</td>
<td>0.639</td>
<td>0.000</td>
</tr>
</tbody>
</table>

The statements of hypotheses about public investment, economic growth, and public welfare are as follows: (H2a) public investment positively affects the economic growth, (H2b) public investment positively affects the community welfare, and (H2c) economic growth mediates the relationship between public
investment and people’s welfare. The results of data analysis as shown in table 2 show those hypotheses are supported according to the predictions. The results clearly show that public investments have good impact on economic growth. Public investment directly affects economic growth and community welfare. Public investment also indirectly affects the welfare of the people through economic growth. This findings are consistent with previous findings such as Kandenge (2005), Dwiningwarni (2009), Phetsavong & Hiroshima (2012), Haque (2013), Ramli & Andriani (2013), Muthui et al. (2013), Panggabean (2014), Maharani & Isnowati (2014), Sumanto & Efendi (2015), and Sabir et al. (2015).

If there is an increase in the amount of government public investment then this results in an increase in the regional economy. Public investments, for example infrastructure development, financed by the government budget encourage the economic activities of the people, thereby increasing the output of goods and services. It is evident that public investment is a stimulus for economic growth. Directives from the central government to determine the minimum allocation of public investment in local budget can be justified by this finding. Local governments should not hesitate to allocate budgets for public investments for a better economy. However, capital spending should not be made for unproductive expenditure. Despite the existing public investments, if done for unproductive activities, for example for military expenditures, it does not have a good impact on the economy (Iheanacho, 2016). This can be understood because the motive for capital expenditure for the military is routine in the context of security and defense. The public investment from the government budget can also have an adverse effect on the economy if corruption is rampant (Okoro, 2013). The use of capital budget must be really targeted to support the creation of community economy.

The finding related to the third hypothesis that economic growth positively has impacts on social welfare is certainly not surprising. The social welfare is shown by the level of human development index. The greater the level of the economy the greater the human development index. The positive effects of economic growth found in this study are consistent with those found in the (Algifari, 2011) study. Economic growth is the intermediate goal. Development programs by the government and the private sector is not intended solely to improve the economy. The ultimate goal of economic development is the social welfare. Economic development boosts economic growth by boosting economic activity, opening up employment opportunities and this has an impact on increasing people’s incomes. If the income of the community increases, the community can improve their quality of life by fulfilling basic needs such as education and health. So if the income of the community increases, the level of community welfare also increases.

CONCLUSIONS

This study has explored how government capital spending and private sector investment affect economic growth and further affect community welfare. Based on the results of data analysis, it is possible to draw some conclusions. First, public investment has a positive impact on economic growth of local government. Greater public investment spent by the government leads to greater economic growth of the community. It is evident that the growth of government public investment is really an important driver in promoting the economic growth of the community. The decision to increase capital spending has a positive impact on society. Local governments need not hesitate to increase public investment. The central government’s demands on minimum public investments that have been difficult to meet should be implemented without hesitation.

Second, local economic growth is driven not only by government public investment but also by private sector investment. Empirical evidence suggests that the increase of private investment is followed by the increase of economic growth. The greater the private capital spending, the more driven the economic growth. The local government should not work alone to improve the economy of the local community. Local governments need to invite the private sector to jointly invest in order to improve the economy of the community. Factors inhibiting private investment should be avoided. Various incentive schemes need to be provided by the government to the private sector. Furthermore, the Indonesian government needs to make the licensing process easy, fast, and inexpensive to grow investment. It seems that investment licensing will be one of the focuses of the Indonesian government as can be seen from the speech of president-elect Joko Widodo on July 2019 stating that government would simplify licensing, beat licensing extortion, remove low performance officials, and restructuring of government institutions to make investment licensing easier, cheaper, and faster.

Third, economic growth is good for social welfare. This is evident from the positive impact of economic growth on community welfare. Economic growth is not an end in economic development. A growing economy is not enough if not followed by improving the welfare of the community. The ultimate goal of
development is to improve people's well-being. Given the positive impact of economic growth on the welfare of the people, the government’s efforts through public investment and private sector contribution in economic development are not in vain. The important implication of this research is that the government really needs to pay attention to public investment as it contributes positively to the economic development and ultimately on improving people's welfare. Indirect spending and routine expenditures need to be made more efficiently in order to allow available large allocations for public investments. The private sector should also be encouraged to do the development by providing various incentives and conveniences to attract investment.

However, his study has some limitations. The research data used in this study is the realization of public investment either by local government or private sector. The phenomenon of ineffective and inefficient public investment, particularly in the government sector, has not been addressed in this study. In addition, public investment has not yet been classified based on the exposure of the spending to the economy. Public investments for the construction of roads, bridges, ports, electricity, and irrigation can be said to be directly related to the people's economy. However, public investments for the purchase of office equipment and the construction of government offices may not be directly related to the economic development of the community. The public investment groupings as described above need to be examined in subsequent research.

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Here is the link to the article: http://dx.doi.org/10.21511/imfi.16(3).2019.19

It is also posted in LinkedIn and Twitter:
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Thank you also for the advice, I will follow up on your suggestion

May God Bless You Olga Vorozhko

Again, thank you

Best regards
Baldric Siregar

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I wish you much success in your further research.

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Olga Vorozhko