

ABSTRACT**Influence of State Owned Enterprise (SOE) Productivity on Economic Growth, Employment Absorption and Public Welfare in Indonesia**

Indonesian national economy is supported by three pillars, which are state-owned enterprise (SOE), private and co-operative society. SOE is expected to drive the national economy by running economic enterprises that manage resources fundamental for the many, and by pioneering businesses that have not been run by private and co-operative actors. The impact of the existence of SOE on the national economy will only be maximized if the state itself is able to operate productively. More productive operation of SOEs is expected to encourage economic growth and national employment to improve the welfare of Indonesian people. This study aims to predict causality state productivity, economic growth, employment and public welfare with variable positioning of economic growth and employment as an intervening variable.

This study used a quantitative approach and it was based on study of theory and previous studies of the proposed five hypotheses, namely 1. The Productivity of SOE significantly influences economic growth in Indonesia, 2. The productivity of SOE has a significant influence on employment in Indonesia, 3. The significant economic growth on employment in Indonesia, 4. Economic growth significantly influences public welfare in Indonesia, and 5. The absorption of labour significantly influences public welfare in Indonesia. In this study, SOEs' productivity was measured using Total Factor Productivity (TFP) on SOE's aggregate during the period from 2002 to 2008. The value sought by a SOE TFP growth accounting approach. Economic growth was measured using the national GDP growth rate. Labour absorption was measured using the total national workforce. Public Welfare was measured using the Human Development Index (HDI). The observations in this study were done in seven years from 2002-2008 and to prove the hypothesis, the Partial Least Square (PLS) technique was used.

The test results using PLS model showed that all lines had a positive coefficient. But, of the five hypotheses tested, there was only one that was not significant. SOEs' productivity did not significantly influence economic growth in Indonesia. The four other hypotheses proved. SOE productivity and economic growth were proved to have a significant influence on employment absorption. Furthermore, economic growth and labour absorption proved to have a significant influence on public welfare. These findings suggested that state productivity influenced public welfare and it consistently occurred through the absorption of the national workforce, rather than through economic growth.

Keywords: TFP of SOEs, economic growth, employment, public welfare.