

## ABSTRACT

### ***The Influence of Government Capital Expenditure and Private Investment on GRDP, Labor Absorption and Social Welfare in The Regencies/Municipalities of East Java Province***

*Regional autonomy policy is expected to enhance reformation locally and create freedom on managing regional economy and utilization of regional resources for the interest of local society, in order to create new regional development pattern. By autonomy, local government have a freedom to plan and implement development according to local need and capability. The realization of autonomy in economic field is the planning and implementation of Government Regional Budget (APBD). Capital expenditure is one account in APBD, that has the influence on output and employment. Furthermore, output and employment will influence social welfare, that is the final objective of economic development.*

*The aims of this study are: 1. Examines and analyzes the influence of government capital expenditure on Gross Regional Domestic Product (GRDP); 2. Examines and analyzes the influence of government capital expenditure on labor absorption; 3. Examines and analyzes the influence of private investment on GRDP; 4. Examines and analyzes the influence of private investment on labor absorption; 5. Examines and analyzes the influence of GRDP on labor absorption; 6. Examines and analyzes the influence of GRDP on social welfare; 7. Examines and analyzes the influence of labor absorption on social welfare in regencies/municipalities of East Java Province.*

*The population in this study are 38 of regencies/municipalities in East Java Province. Technical analysis used is path analysis, performed data panel regression with OLS method. The statistical results show that all variables have a significant. There are two variables that have a negative relationship to endogenous variables. First, private investment on labor absorption with partial path coefficient. Second, labor absorption on social welfare.*

*Theoretical finding from this study is that GRDP has the significant influence on social welfare. The reason is that, there is considerable government intervention in social welfare. Many programs of social welfare were performed successfully by local government, e.g. School Operational Subsidy (BOS) for supports 9 year schooling obligation and Social Health Insurance (Jamkesmas). GRDP have the influence on social welfare supports to the Pareto, Sen and Todaro's welfare theory.*

*There are two empirical finding from this study: First, private investment has a significant partial influence on labor absorption with negative relationship. It indicates that the substitution between capital and labor occur. Second, labor absorption has the influence on social welfare with negative relationship. The reason is the excess supply of labor occur, cause more employment of labor and then lower social welfare.*

*Keywords: capital expenditure, private investment, labor absorption, welfare.*