

**ABSTRACT****The Influence of Fiscal Decentralization on Capital Expenditure, Economic Growth, and Social Welfare of Regency/City in Central Java Province**

This research analyzed the influence of Fiscal Decentralization on Capital Expenditure, Economic Growth, and Social Welfare of Regency/City in Central Java Province based on the data of year 2004 to 2008. Those districts in Central Java Province were chosen because of the years of commencement of the implementation of regional autonomy was through 2008, Central Java Province is a province that does not have regional divisions so its originality or authenticity of the territorial integrity of the regency/city autonomy has been seen into force since January 1, 2001. The years of 2004 to 2008 were chosen as the research period, because the period was the first 5 years implementation of regional autonomy in Indonesia after 2001. The method used to analyze the hypotheses was the Partial Least Square (PLS) analysis ( $\alpha = 5\%$ ). The results showed that 1) fiscal decentralization had no significant effect on capital expenditure of regency/city in Central Java Province; 2) fiscal decentralization had significant effect on economic growth of regency/city in Central Java Province; 3) fiscal decentralization had significant effect on social welfare of regency/city in Central Java Province; 4) capital expenditure had no significant effect on economic growth of regency/city in Central Java Province; 5) capital expenditure had no significant effect on social welfare of regency/city in Central Java Province; and 6) economic growth had significant effect on social welfare of regency/city in Central Java Province.

**Keywords:** fiscal decentralization, capital expenditure, economic growth, social welfare