The Influential of Private Investment, Public Investment on Economic Growth and Labor Absorption and Public Welfare of District/City in East Java Province

Achmad Daengs Gatot Soeherman, Djoko Mursinto and Tri Ratnawati

***Abstract*--This study aims to determine the effect of private investment, public investment on economic growth and employment as well as the livelihoods of the urban districts in East Java province. Studies conducted on the district or a city located in East Java Province. Furthermore, the whole district is located in the city of East Java Province. Exogenous constructs (X) is : Private investment variables and public investment. Among the variables (Y) is : Economic growth and labor absorption. Endogenous constructs include the public welfare. To test the seven hypotheses used path analysis is a technique to analyze the causal relationships that occur in multiple regression when the independent variables affect the dependent variable not only directly but also indirectly. Conclusion The results of this study were (1) Public investment have a significant effect on economic growth, (2) Private investment has no significant effect on economic growth, (3) Investment significant effect on the government's employment, (4) Economic growth significantly influence the energy absorption employment, (5) economic growth have a significant effect on the public welfare, (6) the absorption of labor significantly influence the public welfare.**

Keywords--private investment, public investment, economic growth, employment and livelihoods of communities

I. INTRODUCTION

Todaro (2004:62) states that the development is a multidimensional process that includes important changes in the social structure, the attitudes of the people and national institutions, as well as the acceleration of economic growth, reduction of inequality, and the eradication of absolute poverty. Djojohadikusomo (1994:4) states regarding the development in addition to quantitative changes in production and income, also includes qualitative changes in the governance structure of society as a whole. Economic development is a transformation in terms of structural changes, i.e. changes in the economic structure of society which include changes in the balances of conditions attached to the foundation and the form of the economic activity in the community.

The Indonesian government has set a target of economic policy is to improve the public welfare that is supported by an increase in employment opportunities and poverty reduction. Therefore the President in charting the work meeting of the Ministry of Trading on July 18, 2007, about eight development priorities in 2008, that are: (1) Increased investment, exports, and employment opportunities; (2) the revitalization of agriculture, fisheries, forestry and rural development; (3) acceleration of infrastructure development and management of energy; (4) improving access and quality of education and health; (5) increasing the effectiveness of poverty reduction; (6) combating corruption and acceleration of bureaucratic reforms; (7) strengthening the defense capability and stabilization of internal security; (8) disaster response to disaster risk reduction, and an increase in communicable disease control (the Secretary General of the Department of Trading Meeting's Exposure of the Ministry of Trading, Jakarta July 18, 2007).

Economic growth is one of the efforts in accelerating the engine of growth for development, due to the acceleration of economic growth will be able to push the performance of the sectors there are other more efficient and productive. High economic growth will be able to create a greater income distribution and improve the public welfare. High economic growth coupled with efficient resource allocation and effective can be a stimulus to development, especially in developing countries. In addition, the multiplier effects of greater economic growth in national development (side products). This will drive the economic sectors in the economy in the future (Todaro, 2000:132). Therefore, the economic growth will be one of the important indicators to analyze the economic development taking place in a country.

Investment growth plays an important role in economic growth, because investment expenditure component is quite large and variable, thus a large

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change in investment affect aggregate demand and ultimately also affect output and employment (Samuelson, 2004:137) .

Long-term Development Plan of East Java Province is set in Long-Term Regional Development Plan (RPJD) of East Java Province 2005-2025. Long-Term Development Plan is a planning document that contains the vision, mission and direction of long-term regional development that is an integral part of national development planning system which has its own characteristics. There are six missions of long-term development, that are : (1) developing the East Java agro-based modern economies of; (2) realize a reliable human resources, noble and cultured; (3) realize the ease of gaining access to improved quality of life; (4) optimize the resource utilization of natural and artificial; (5) develop high value-added infrastructure; (6) develop good governance.

The first mission of Long-Term Regional Development Plan is to develop the East Java agro-based modern economy looked from the total investment in the fertilizer has a value that is the largest investment of 8.8 trillion of the total value of investment in East Java during the period of January to June 2010, amounted to Rp 35.39 trillion. Value of investment in the fertilizer business reach to Rp 8.8 trillion, cement reach to Rp 4.86 trillion, basic chemistry to Rp 4.6 trillion and cigarettes reach to Rp 3.83 trillion. Although the value of investment in East Java is quite large, there are still some problems that hinder the entry of investors, including the lack of power supply of gas, poor infrastructure in some places, land acquisition is difficult and slow process of licensing in some districts/cities (East Java Investment Agency, 2010). These investments contribute the high value of growth in East Java, i.e. 6.18% above the average of national growth. While the realization of domestic investment (PMDN), East Java was including the largest and was ranked first nationally with an investment of Rp 5.1 trillion, followed by East Kalimantan, West Java and Riau. East Java's Governor H. Soekarwo promising four-ease in investing in East Java, which is the provision of land, electric power plant, rapid permitting, and democratic labor (East Java Investment Agency, 2010).

The purpose of this study was to determine the effect of Private Investment, Public investment on Economic Growth and Labor Absorption and Society Welfare of the District/City in the Province of East Java.

II. LITERATURE REVIEW

A. Economic Development

Meier in Todaro (2004:25) states the development is a process in which a country's per capita income increased over a long period of time, with a note that the number of people living below the absolute poverty line is not increasing, and increasingly unequal income distribution. Economic development is more than just economic growth. The process calls for the development of economic growth followed by a change (growth plus change) the economic structure, and institutional.

The development process is basically not just a purely economic phenomenon. Development is not only demonstrated by the achievement of economic growth achieved by the country, but more than that the development has a broad perspective. The social dimension is often overlooked in economic growth approach, just got a strategic place for the development process. In the development process, in addition to considering aspects of growth and equity, also consider the impact of economic activity on the social life of the community. Moreover, in the process of development was conducting the efforts aimed at changing the economic structure towards a better (Kuncoro. 2003:45).

Development is a multidimensional process that includes a variety of fundamental changes in the structure of social, community attitudes, and national institutions, while still pursuing economic growth acceleration, handling income inequality, and poverty alleviation. Development should reflect the total change in a society or social adjustment system as a whole, regardless of the diversity of the basic needs and desires of individuals and social groups in them to move forward to a condition of better-paced life, both materially and spiritually (Todaro, 2004:21).

Based on the various terms of development it can be concluded that, the development is a physical reality at once the determination of a society to make efforts as hard as possible through the set of process combination of social, economic, and institutional in order to achieve a better life.

B. Investment

Investment can be defined as the net addition to the existing capital stock (Nanga, 2005:123) or an investment funds acquired an industrial field or other fields both from abroad and within the country that carried out by the government to finance a project, it can also be the expansion of existing projects to meet the needs of a growing community life.

Government Regulation No. 58 Year 2005 on Regional Financial Management noted that capital expenditures are expenses incurred in the purchase/acquisition of fixed assets and other assets that have a useful life of more than 12 months to be used in government activities, such as in the form of land, equipment and machinery, building, networking, library books and animals. Furthermore, Capital Expenditure in Permendagri 13/2006 on Guidelines for Financial Management is defined as expenses incurred in order to purchase/ procurement or

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development of tangible fixed assets that have a value of more than 12 months of benefits for use in activities such as administration in the form of land, equipment and machinery, buildings, roads, and irrigation networks and other fixed assets.

According to Dornbusch (1991:268) investment is the expenditures aimed at improving or maintaining the stock of capital goods. Meanwhile, according to Samuelson (2004:137) investment growth plays an important role in economic growth, because :

1. Investment is the expenditure of quite large and variable component, thus a large change in investment affect aggregate demand and ultimately also affect output and employment.
2. Investment is collect capital accumulation, by develop a number of useful buildings and equipment, the potential output of a nation to grow and increase long-term economic growth, therefore investment is play two important roles, that are determines the amount of output and income.

According to Robinson in Rosyidi (2004:166) investment is an invest that resulted in the addition to the existing inventory. Investments shall mean the addition of new capital goods (new capital formation). According to its use, expenditure on investment is divided into three sections, that are (Rosyidi, 2004:168) : (1) Construction; (2) Rehabilitation or improvement; (3) Expansion or extension.

By its type, the investment is divided into four groups that are:

1. Autonomous investment and induce investment. Autonomous investment is an investment that is not influenced by the size of the income, but may change because of changes in factors beyond income. Otherwise the income factors that affect the level of such investment are, for example, the level of technology, government policy, and the expectations of the employers and so on. Induced investment is strongly influenced by the level of income, there is a positive relationship between the investment and level of income.
2. Public investment and private investment. Public investment is an investment that made by the government, that was not implemented by the personal parties. Private investment is carried out by private. In the private investment elements such as the benefits to be gained, future sales, and so on was play an important role in determining the volume of investment, while in determining the volume of public investment, that consideration were more intended to serve or create prosperity for the people.
3. Domestic investment and foreign investment. Domestic investment is domestic invests in the country, while foreign investment is foreign invests. A country that has a lot of natural factors of production (natural resources) and/ or human labor factors of production (human resources) but do not have the sufficient capital factor of production (capital) to process its resources, it would invite foreign capital, in order to existing resources in the country are fully utilized.
4. Gross investment and net investment. Gross investment is the total of all investments held or conducted at one time, or all kinds of investments held in a country, with no matter what are the types of investments held it. So the gross investment includes all types of investment; both autonomous and induce investment, both public and private investment, domestic and foreign investment, or even a part or all of the types. Net investment is the difference between gross investments by depreciation.

C. Economic Growth

Economists and politicians in many countries, both rich and poor countries, which adhere to the capitalist system, socialist or mixed, and all of them are eager to prioritize economic growth. For years the conventional wisdom is almost always equate development with a national growth rate of output that produced. Economic growth was explaining or measuring the achievement of the development of an economy. In the actual economic growth means economic development physically happens in a country, such as increasing the number and production of industrial goods, increase the amount of infrastructure, educational facilities, increase production of economic activities that already exist, and various other developments.

Economic growth by McConnell and L.Brue (2002:136) is the increase in real GDP (Gross Domestic Product) in the long-term, or an increase in per capita GDP in the long-term. While Samuelson and Nordhaus (2005:556) define economic growth as the potential increasing of a country's GDP or an increasing in national output.

Economic growth according to Case (2004:631) is an increase in the output of an economy or as an increase of real GDP per capita. Furthermore, Taylor (2004:397) describes An upward trend in real GDP, reflecting expansion economy over time. In other words, economic growth is an increase in total output in the economy or an increase in real GDP per capita or economic growth is an upward trend of real GDP, as a result of the development of economic activities in the long term.

Economic growth by Soubbotina and Sheram (2000:7-8) in addition to increasing the wealth of a country also has the potential to reduce poverty and address social problems. Meanwhile, according to Scott (1993) Economic growth had understanding:

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1. Growth in total output is explained by the growth of various inputs, especially labor and capital. The growth rate depends on the volume of investment, efficiency, and employment growth.
2. The growth of these inputs is needed to be explained as a change in the efficiency in production output.

According Boediono in Kuncoro (2004:129) economic growth is the increase in the per capita output in the long-term. Sukirno (1981:179) describes the economic growth is the increase in the level of per capita income in a country clan form year to year.

According to classical theory, the accumulation of capital and the amount of labor has a very important role in economic growth. According to Adam Smith, there are two main aspects of economic growth, i.e. growth of total output and population growth (Spechler, 1990:46). Smith says that there are three key elements in the production of a country, that are :

1. Available resources, that are the land.
2. Human resources, that are population.
3. Existing stock of capital goods.

Harrod–Domar's growth theory presented by two economists after Keynes, those are RF Harrod and Domar Evsey. Harrod-Domar's theory essentially trying to demonstrate a necessary condition in order that steady growth, which is defined as growth that will always create fully use the tools of capital, will always prevail in the economy (Sukimo, 2006: 450).

Neo-Classical growth theory first developed by Solow once, who obtained the Nobel Prize in 1987. Theory of Neo-Classical argues that economic growth comes from the accretion and growth factors that affect aggregate supply.

Analysis of Neo-Classical believed that the development of the factors of production and technological progress is the main factor that determines the rate of economic growth and development of a certain period of time to another time. In essence it is no different with the view of classical economists.

Neo-Classical theory is seen as a theory that is more precise and more perfect in explaining the phenomenon of long-term economic growth, when compared with the classical theory. This theory sees how each factor of production and technological developments affect economic growth. Classical theory being that is known is the relationship between population growth and economic development.

The new growth theory is basically an endogenous growth theory, providing a theoretical framework to analyze endogenous growth due regard GNP growth over the production process is determined by the system and not from outside the system. According to the endogenous growth theorists Romer (1986) in Todaro (2004: 171), explaining the factors that determine the size and rate of growth of GDP has not been described and considered exogenously determined by the equation of the Solow neoclassical growth (Solow's residual).

National income is the value of all goods and services produced by a country in a given year. The resulting national income of a country is used as a tool to measure the level of productivity, welfare, economic growth, and as an evaluation tool of economic development as a whole.

Economic growth is as a quantitative measure that describes the development of an economy in a given year compared with the previous year (Sukirno, 2006:9), or economic growth is defined (Nanga, 2005:273) as an increase in the ability of an economy to produce goods and services. Economic growth refers to the quantitative change and is usually measured by using the data of Gross Domestic Product (GDP) is the total market value of the final goods and services that produced in an economy during a given period (usually one year). Or with gross national product (GNP) or gross national product is the total market value of final goods and services produced by the residents of a country during a certain period. To calculate the rate of economic growth can be done using the following formula :

$$g = \frac{GDP_1 - GDP_0}{GDP_0} \times 100 \text{ percent}$$

Where :

g is the rate of growth (percentage)

GDP_1 (Gross Domestic Product is the real national income that is calculated at a fixed price that is achieved in a year (year 1)

GDP_0 is real national income in the previous year (year 0)

There are several terms that are known in reference to GDP that are :

1. GDP at Current Prices
   GDP at current prices is the sum of the value of production or income or expenses that are rated according to the prices prevailing during the year.
2. GDP at Constant Prices
   GDP at constant prices is the sum of the value of production or income or expenditure assessed on the basis of a fixed price (the price in the base year) that is used for one year. According to Rostow an economy divided into three growth sectors. The third sector is a growth sector of the primary, secondary or supplementary sector growth, and growth in the tertiary sector or related. Primary growth sector is the sector or economic activity that creates rapid growth and expansion of the power to create a range of other sectors in the economy or it can also be said as the sector that produces goods themselves. Secondary or supplementary growth sector is a growth sector is

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expanding rapidly as a direct result of all the activities includes manufacturing and construction industries. While the growth of the tertiary sector or related sectors or economic activities is growing in step with the increase in population income and production, include transportation, communication, commerce, government and other services.

D. Labor

Economic development in general and industry in particular requires a qualified workforce, because of the job skills will enable the achievement of efficiency and increased productivity. Without the work efficiency and improved productivity all development efforts will not reach the target, because workers who do not have the expertise and skills of the work resulted in the decline of work and wastage of funds, resources and time (Kiswantoro, 2006: 47). The abundance of natural resources in Indonesia, but in the absence of a skilled workforce to explore and manage it will be useless and less useful for the community and have an impact on the longer achieved the goal of a fair and prosperous.

Production process labor is one of the factors of production which has quite an important role. Labor expenses by the manufacturer is one of the primary input components, which include wages and salaries, allowances such as rent, interest, profits in the form of goods or money. To demonstrate the magnitude of the amount of labor needed by using the labor coefficient is a number that indicates the number of labor required to produce one unit of output. The coefficient values can be used to detect any changes in final demand. When demand increases then the end will result in increasing the amount of labor that can be absorbed.

Population of a country or region can be divided into two groups, namely labor and not labor. Those were classified as manpower is aged population in the working age limit in Indonesia the minimum 15 years, maximum age indefinitely. Manpower is sorted into two groups: the labor force and not the labor force. Labor force or workforce population is of working age who work, or have a job but for a while was not working, and looking for work. While the labor force is not including labor or the population of working age who are not working, do not have a job and were not looking for work; namely those whose activities in school, taking care of the household (not career women), receiving income but not a direct reward for service work (pensioners).

The percentage of the labor force for labor is called labor force participation rate. Important issues about workforce is unemployed, if the unemployment rate is high then wasted resources and income levels decline. The problem of unemployment is a complex problem that triggers income inequality and public welfare. Unemployed are people who are looking for work but are not having a job (Rachim, 2000: 79). Structural unemployment is unemployment that occurs because of sluggishness in the industry, such as increased costs, as well as changes in consumer tastes or technological advances. Frictional unemployment is unemployment due to job changes in a dynamic economy, while unemployment is seasonal unemployment occurs when certain seasons.

Implementation of development in Indonesia there are four policies related to employment (Soeroto, 1986: 98), that are:

1. General employment policies, aimed at giving impetus to the expansion of employment opportunities or lead to favorable conditions for the development of the business world in an effort to create and expand employment opportunities
2. Sector employment policies, carried out through both sector approach in the context of national development, the area to the village. It is primarily aimed at creating a lot of employment opportunities through the selection of products and technologies that are labor intensive.

c. Special employment policies, a program and policy measures specifically intended to expand job opportunities and employment as well as to reduce the amount of unemployment that arises from time to time as a result of the outbreak, season, pests and natural disasters.

d. Regional development policies, has a function in the expansion of employment opportunities when seen from the internal development of each area of relations between regions. Essence of development is done in an area have implications on employment policies for the region and other regions.

Theory of welfare economic is to study the conditions under which the solution of general equilibrium models can be said to be optimal. This requires, among others, the optimal allocation of production factors between the optimal allocation of commodities and commodity (i.e. the distribution of income) among consumers (Salvatore, 1994: 349). Economic well-being according to Pigou (1960: 11) is a part of public welfare that can be attributed directly or indirectly to the measurement of money. While understanding public welfare by Whithaker and Federico (1997: 361) is a national system of benefits and services to help people to acquire the social, economic, educational, health, important for the survival of the community. Someone who has the ability deficiency may have a low well-being, lack of ability can mean less able to accomplish certain functions so that less prosperous.

Welfare economics by Scitovsky (in Agarwal, 1998: 727) is part of a common form of economic

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theory associated with wisdom. Welfare economics normative economic approach, according Sudarsono (1989: 357) in addition to discussing the normative economic causal relationship of various economic variables, also incorporating elements of evaluation from the standpoint of what should or should. On the other hand, the positive economic discusses the causal relationship of economic variables is discussed as it is.

Better distribution of income is more equitably. But in the absence of economic growth, which is the equal distribution of poverty occurs. Economic growth will only result in improved income distribution if it fulfills at least two conditions, namely expand employment opportunities and improve productivity. With the expansion of employment opportunities, access to people to earn greater. If the primary tool used for improving income distribution is the market mechanism, then in order to survive in the market, workers must continue to improve its productivity. In the long-term, employment opportunities that was available are forced the people to determine specialization, which will increase productivity. Increased productivity, then the money generated for the same working hours will be greater. The money is used to improve the quality of Human Resources (HR) next generation. And so on, so that in a few generations later, the income distribution has improved and increased welfare (Papanek and Oldrich, 1986).

There are various types of economic growth affect the distribution of income. Research by the data points by cross Kuznetz (1966), is recognized as a pioneer in the comparative study of income distribution. Empirical research Kuznetz presence synthesizing inverted U curve, i.e. at the beginning when construction will begin distribution of income more unequal, but after reaching a certain level of development, the more equitable distribution of income (Todaro, 2004: 240).

It is often perceived the negative correlation between economic growth and income distribution. If a country wants more priority to promote economic growth rate, generally will result in the abandonment of the uneven distribution of income. But it is back on the policy of each country, in advanced countries like the United States, generally there are agencies that support for more equitable distribution of income earned, these institutions are still very difficult to find in developing countries. But there are developing countries that experienced the equitable distribution of income because it is cultivated in earnest by the state government concerned as the country's basic philosophy. For example, Sri Lanka is a country that uses the approach of "basic needs" as a strategy to build its economy. They assume if basic needs, such as food, clothing, shelter, education, and health are met, and then the process of economic growth will occur more easily (World Bank, 1990: 50).

E. Public Welfare

Development is always a positive or negative impact, therefore the necessary indicators as a measure of the development. In various definitions of development, tend to identify with the development with economic growth. The increase in real income per capita is only one part of the index of economic well-being. Economic welfare is containing a value judgment about the desired level of income distribution.

Development indicators can be broadly classified into : 1. Economic indicators (GNP per capita, economic growth), and; 2. Social indicators (Human Development Index, Physical Quality Life Index). United Nations Development Programme (UNDP) Human Development Report is published periodically since 1990 on the Human Development Index or the Human Development Index (HDI), analyzing the status comparative socio-economic development in a systematic and comprehensive.

Human Development Index or the Human Development Index (HDI) had ranked all the countries of the scale of 0 (lowest level of human development) to 1 (the highest level of human development). The HDI is based on three goals or end product development : the lifetime (longevity) as measured by life expectancy, knowledge (knowledge) as measured by the adult literacy are weighted (two-thirds) and the average years of schooling (one-third), and standard of living (standards of living) as measured by per capita income nil. HDI rank all the countries into three groups of levels of human development: 1. low level of human development (0.0 to 0.499), 2. medium level of human development (0.50 to 0.799), and 3. high level of human development (0.80 to 1.00).

Three components of the HDI index can be calculated by comparing the difference between the value of the indicator and determinant of the minimum value with the difference between the maximum and minimum determinant indicators (UNSFIRS, 2000):

Index X (i) = {X (i) - X (i) min} / {X (i) max - X (i) min}

Where : X(i) is the i-th indicator (i = 1,2,3)
X(max) is the maximum value of X (i)
X(i)min is the minimum value of X (i)

Based on the above procedure, HIM can be calculated by the following equation :

HDI = 1/3 {Xi + X2 + X3}

Where :
X1 is the life expectancy index
X2 is the education index

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X3 is a decent standard of living index

One advantage is the HDI, the index reveals that a country / region can do much better on a low income levels, and that a large increase in income only relatively minor role in human development. HDI also said that the development is human development that is meant in the broadest sense, not just in the form of higher incomes. Indicators of development gap and good ranking should include health and education variables in the weighted welfare measures, and not just look at any income level. HDI is a powerful tool to measure the level of welfare between countries and between regions (Todaro, 2004: 70). HDI indicators far exceed conventional growth. Economic growth is important to maintain public welfare, but the growth is not the end of human development. Growth is just one tool, which is more important is how economic growth is used to improve human capabilities and how people use these capabilities.

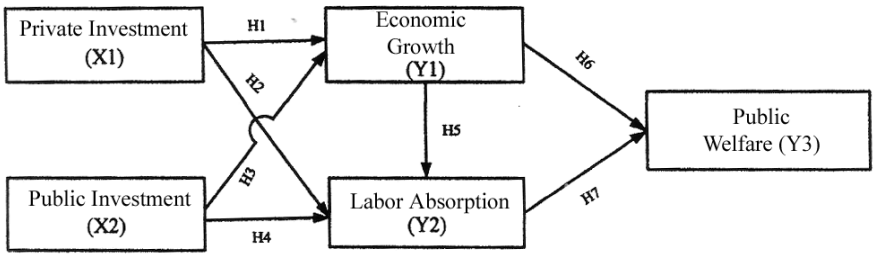

Figure 1. Conceptual Framework for Research

F. Hypothesis

Based on the background of the problem, literature review and conceptual framework that has formulated the following research hypothesis was proposed

H1 : Private investments has significant effect on economic growth in the district/city of East Java province.

H2 : Private investment has significant effect on labor absorption in the district/city of East Java province.

H3 : Public investment has significant effect on economic growth in the in district/city of East Java province.

H4 : Public investment has significant effect on labor absorption in the district/city of East Java province.

H5 : Economic growth has significant effect on labor absorption in the district/city of East Java province.

H6 : Economic growth has significant influence on public welfare in the district/city of East Java province.

H7 : The labor absorption has significant effect on public welfare in the district/city of East Java province.

III. RESEARCH METHODS

Based on the opinions expressed by Indriantoro and Supomo (2002), then in this study, the unit of analysis is the district or a city located in the province of East Java. Furthermore, the entire district town is located in the region of East Java Province is also called the population.

Furthermore, because the study population was limited and relatively small number of members of the population that is 38 district or city, then in this study using census method. Census is a study of all members of the population (Indriantoro and Supomo, 2002).

The data used in this study is a combination of secondary data in the form of time series data and cross the so-called panel data. Time series data is covering the period of 2003-2008, while data covering the entire cross district/city in East Java province.

A. Research Variables and Operational Definition of Variables

1. Research Variables

a. Exogenous variables (independent variables) consists of

1) Private investment (X1)

It is the investment that carried out by private. In the private investment, the elements such as the benefits to be gained, future sales, and so play an important role in determining the volume of investment.

2) Public investment (X2)

It is the investment that made by the government, is not executed by the parties that are personal, in determining the volume of public investment considerations were intended to serve or create prosperity for the people

b. Moderating Variable (intervening variable) consists of

1) Labor absorption

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It is the number of workers who can do the job, in order to produce goods and/or services to meet the needs both for themselves and for society.

2) Economic growth
The increase in total output in the economy or an increase in real GDP per capita or economic growth is an upward trend of real GDP, as a result of the development of economic activities in the long term

c. Endogenous variable (the dependent variable) consists of :
1) Public welfare
It is the system of a nation about the benefits and services to help people to acquire the social, economic, educational, health, important for the survival of the community.

B. *Operational Definition of Variables*

1. Private investment (X1), defined as the value of realized investment comes from domestic investment and Foreign Direct Investment (FDI) in various sectors of the economy every year and in every area of the District/City of East Java Province is sourced from Statistics Province East Java 2003-2007. Units of measurement are in the millions of dollars.
Source : East Java in Figures 2003-2008.
2. Public investment (X2), is the procurement or purchase of assets that are useful more than twelve months and then the assets are used in governmental activities are beneficial both economically, socially and or other benefits that can improve the ability of the government in order to service the community of District/City East Java Province (Million Euro). Public investment is sourced from Statistics Financial District/City published by the Central Bureau of Statistics of East Java Province consists of apparatus shopping areas, shopping areas and financing public services in 2003-2007. Units of measurement are in the thousands of dollars. Sources : Government Finance Statistics District/City of East Java 2003-2008.
3. Economic growth (Y1), is the change in Gross Domestic Product (GDP) per year during the years 2004-2008 according to constant prices expressed in units of percent. Data sourced from Statistics East Java Province. Units of measurement in millions of dollars
Growth formula as follows :
Economic growth per year =
$$\frac{PDRB_t - PDRB_{t-1}}{PDRB_{t-1}} \times 100\%$$
Source : East Java in Figures of 2004-2008
4. Labor absorption (Y2), defined as workers absorbed a number of data population 15 years and over who did the job with the intention of obtaining wages or help earn income or profit working with at least one long continuous hours in a week in each District / City East Java Province during the years 2004-2008. Data sourced from Statistics East Java Province. Units of measurement are in the millions of dollars. Source: Analysis of the preparation of macro-economic and social performance 2003-2010
5. Welfare society (Y3), defined as the social and economic needs of the people in every area of the District/City of East Java Province. Value of welfare is proxied by the value of the composite Human Development Index (HDI). Human Development Index (HDI) as an index that measures the socio-economic development of a region is based on the measurement of economic, health, and education during the years 2004-2008. Source: East Java in Figures 2003-2010.

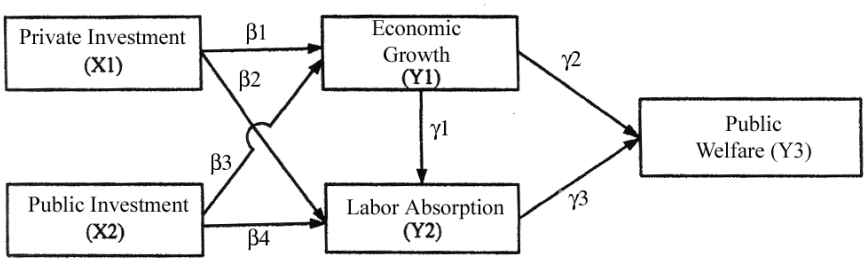

Figure 2. Framework for Path Analysis

Equation of path analysis :

$Y1 = \beta_1 X_1 + \beta_3 X_2$

$Y2 = \beta_2 X_1 + \beta_4 X_2 + \gamma_1 Y_1$

$Y3 = \gamma_2 Y_1 + \gamma_3 Y_2$

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IV. DATA ANALYSIS AND DISCUSSION

Investments are expenses for the purchase of capital goods and production equipment, in order to replace and augment especially capital goods in the economy, in turn, used to produce goods and services in the future (Sukirno, 2005).

Table 1
Description of Private Investment (domestic and foreign)
(USD Million) East Java Province on 2003-2007

	2003	2004	2005	2006	2007
N	18	21	21	27	27
Minimum	120	21	150,00	380,00	1.000,00
Maximum	380.257	1.647.478	3.460.139,00	2.040.829,00	7.926.600,00
Mean	111.117,61	198.419,52	287.501,7619	310.465,4444	650.135,2222

1. In 2003, private investment has a minimum value of 120 million in Jember city and a maximum of 380 257 million in Sidoarjo city. The average value of public investment in 2003 amounted to 111,117 million. In 2003 there were 18 districts/cities in East Java province contained private investment, while 20 districts/cities there is no private investment.
2. In 2004, private investment has a minimum value of 21 million in Kediri and a maximum value of 1,647,478 million in Pasuruan. The average value of public investment in 2004 amounted to 198,419 million. In 2004 there were 21 districts/cities in East Java province contained private investment, while 17 districts/cities there is no private investment.
3. In 2005, private investment has a minimum value of 150 million in Kediri and a maximum of 3,460,139 million in Surabaya city. The average value of public investment in 2005 amounted to 287,501 million. In 2005 there were 21 districts/cities in East Java province contained private investment, while 17 districts / cities there is no private investment.
4. In 2006 private investment has a minimum value of $ 380 million in Bojonegoro and a maximum value of 2,040,829 million in Gresik. The average value of public investment in 2006 amounted to 310 465 million. In 2006 there were 27 districts/cities in East Java province contained private investment, while 11 districts/cities there is no private investment.
5. In 2007, private investment has a minimum value of 1,000 million in Bojonegoro and maximum values of 7,926,600 million in Lamongan. The average value of public investment in 2007 amounted to 650,135 million. In 2007 there were 27 districts/cities in East Java province contained private investment, while 11 districts/cities there is no private investment.

A. Public Investment

Investment that made by the government, is not executed by the parties that are personal, but the investments made by the government that is more geared to serve or diluting public welfare at large. Public investment can also mean any beneficial asset procurement of more than 12 months and then the assets used in governmental activities are beneficial both economically, socially and or other benefits that can improve the government's ability to serve the public.

Table 2
Description of the East Java Provincial Public investment in Year of 2003-2007

Descriptive	2003	2004	2005	2006	2007
Minimum	96.485.352.432,00	123.318.923.000,00	157.615.186.000,00	193.593.013.000,00	241.209.709.000,00
Maximum	1.335.653.642.530,00	1.327.442.644.000,00	1.319.282.123.000,00	1.886.547.240.000,00	2.237.619.586.000,00
Mean	423.903.456.584,2895	417.397.445.894,7369	413.190.642.184,2106	472.438.414.421,0520	656.201.386.842,1050
Developments(%)		-1,535	-1,008	14,339	38,897

Based on the data in Table 2 can be explained as follows :

1. In 2003 the public investment has a minimum value of 96,485,352,432 in Batu city and a maximum value of 1,335,653,642,530 in Surabaya. The average value of public investment in 2003 amounted to 423,903,456,584.2895.

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2. In 2004 the public investment has a minimum value of 123,318,923,000 in Batu city and a maximum value of 1,327,442,644,000 in Surabaya. The average value of public investment in 2004 amounted to 417,397,445,894.7369
3. In 2005 the public investment has a minimum value of 157,615,186,000 in Batu city and a maximum value of 1,319,282,123,000 in Surabaya. The average value of public investment in 2005 amounted to 413,190,642,184.2106.
4. In 2006 the public investment has a minimum value of 193,593,013,000 in Batu city and a maximum value of 1,886,547,240,000 in Surabaya. The average value of public investment in 2006 amounted to 472 438 414 421
5. In 2007 the government investment has a minimum value of 241,209,709,000 in Batu city and a maximum value of 2,237,619,586,000 in Surabaya. The average value of public investment in 2007 amounted to 656,201,386,842.1050.

B. Economic Growth

Development is not only demonstrated by the achievement of economic growth achieved by the country, but more than that the construction has a broad perspective. The social dimension is often overlooked in economic growth approach, just got a strategic place for the development process. In the development process, in addition to considering aspects of growth and equity, also consider the impact of economic activity on the social life of the community. Moreover, in the process of development efforts aimed at changing the economic structure towards a better (Kuncoro. 2003: 45)

Table 3
Description of Economic Growth in East Java Province on Year of 2004-2008

Descriptive	2004	2005	2006	2007	2008
Minimum	1,48	1,69	3,82	4,17	3,51
Maximum	9,34	8,42	8,09	7,01	7,85
Means	5,89	5,11	5,44	5,77	5,61

Based on the data in Table 3 can be explained as follows :

1. Economic growth in 2004 has a minimum value of 1.48% in Kediri, that is the growth of GDP in 2003 to 18,988,533.85 19,268,902.54 in 2004 and a maximum of 9.34% in the District of Bojonegoro that is the GDP growth amounted to 4,336,881.18 in 2003 to 4,741,829.52 in 2004. The average economic growth in 2004 was 5.89%.
2. Economic growth in 2005 has a minimum value of 1.69% in Kediri that is the GDP growth amounted to 19,268,902.54 in 2004 to 19,593,919.4 in 2005 and a maximum of 8.42% in the District of Bojonegoro that is the GDP growth amounted to 4,741,829.52 in 2004 to 5,140,946.47 in 2005. The average economic growth in 2005 was 5.11%.
3. Economic growth in 2006 has a minimum value of 3.82% in Kediri, that is the growth of GDP in 2005 by 19,593,919.4 to 20,343,252.43 in 2006 and a maximum of 8.09% in the District of Bojonegoro that is the GDP growth amounted to 5,140,946.47 in 2005 to 5,556,746.71 in 2006. The average economic growth in 2006 was 5.44%.
4. Economic growth in 2007 has a minimum value of 4.17% at District of Pacitan that is the GDP growth amounted to 1,293,630 in 2006 to 1,347,694.1 in 2007 and a maximum of 7.01% in Batu City that is the growth of GDP in 2006 by 1,120,279.9 to 1,198,796.38 in 2007. The average economic growth in 2007 was 5.77%.
5. Economic growth in 2008 has a minimum value of 3.51% at District of Pacitan that is the growth of GDP in 2007 by 1,347,694.1 to 1,395,006.15 in 2008 and a maximum of 7.85% at Blitar that is the growth of GDP in 2007 by 668,501.83 to 720,980.55 in 2008. The average economic growth in 2008 was 5.61%.

C. Labor Absorption

Population of a country or region can be divided into two groups that are labor and not labor, that labor is classified as aged population in the working age limit in Indonesia, the minimum 15 years, maximum age indefinitely. Labor (manpower) was sorted into two groups: the labor force and not the labor force. Labor force or workforce population is of working age who work, or have a job but for a while was not working, and looking for work.

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Table 4
Description of Labor Absorption on East Java Province 2004-2008

Descriptive	2004	2005	2006	2007	2008
Minimum	59,37	63,17	58,46	56,65	59,40
Maximum	81,07	77,72	75,82	83,67	83,74
Means	68,89	68,64	67,18	68,85	69,09
Developments (%)	-0,534	-0,363	-2,127	2,486	0,349

Based on the data in Table 4 can be explained as follows :

1. In 2004 labor absorption has a minimum value of 59.37 in the Madiun city and a maximum value of 81.07 at Pamekasan city. The average value of labor absorption in 2004 was 68.89%.
2. In 2005 labor absorption has a minimum value of 63.17 in Gresik and a maximum value of 77.72 in Sumenep. The average value of labor absorption in 2005 was 68.64%.
3. In 2006 labor absorption has a minimum value of 58.46 in Probolinggo and a maximum value of 75.82 in Sumenep. The average value of labor absorption in 2006 was 67.18%.
4. In 2007 labor absorption has a minimum value of 56.65 in Madiun city and a maximum value of 83.67 in Pacitan. The average value of labor absorption in 2007 was 68.85%.
5. In 2008 labor absorption has a minimum value of 59.40 in the Madiun city and a maximum value of 83.74 in Pacitan. The average value of labor absorption in 2008 was 69.09%.

D. Public Welfare

Public welfare is measured using the Human Development Index (HDI) that ranked from a scale of 0 (lowest level of human development) to 1 (the highest level of human development). The HDI is based on three goals or end product development: the lifetime (longevity) as measured by life expectancy, knowledge as measured by the adult literacy are weighted (two-thirds) and the average years of schooling (one-third), and standard of living as measured by real per capita income. HDI rank all the countries into three groups of levels of human development : 1. low level of human development (0.0 to 0.499), 2. medium level of human development (0.50 to 0.799), and 3. high level of human development (0.80 to 1.00) (Todaro, 2004).

Table 5
Description of Human Development Index of East Java Province

Descriptive	2004	2005	2006	2007	2008
Minimum	48,47	50,93	50,07	49,91	51,38
Maximum	85,69	86,68	87,76	88,46	88,37
Means	71,70	73,02	73,24	74,97	75,51
Developments (%)	2,56	1,84	0,30	2,36	0,72

Based on the data in Table 5 can be explained as follows :

1. In 2004 the Human Development Index has a minimum value of 48.47 in Sampang and a maximum value of 85.69 in Madiun city. The average value of the Human Development Index in 2004 was 71.70%.
2. In 2005 the Human Development Index has a minimum value of 50.93 in Sampang and a maximum value of 86.68 in Surabaya. The average value of the Human Development Index in 2005 was 73.02%.
3. In 2006 the Human Development Index has a minimum value of 50.07 in Sampang and a maximum value of 87.76 in Malang. The average value of the Human Development Index in 2006 was 73.24%.
4. In 2007 the Human Development Index has a minimum value of 49.91 in Sampang and a maximum value of 88.46 in Madiun city. The average value of the Human Development Index in 2007 was 74.97%.
5. In 2008 the Human Development Index has a minimum value of 51.38 in Sampang and a maximum value of 88.37 in Malang. The average value of the Human Development Index in 2008 was 75.51%.

E. Path Analysis

This section will explain the results of path analysis (1) private investment (X1), public investment (X2), economic growth (Y1), labor absorption (Y2) and public welfare (Y3). The results can be seen in Figure 3

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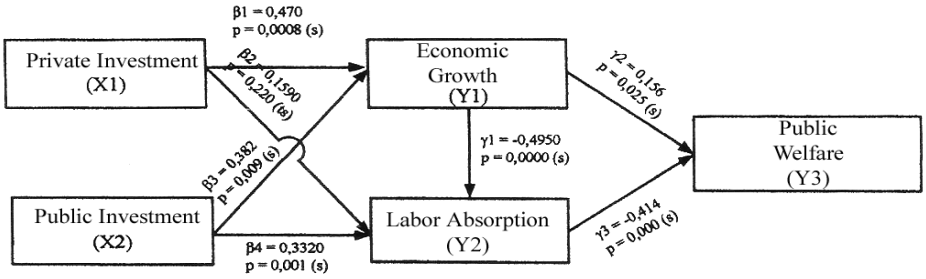

Figure 3. Results of Path Analysis

Based on Figure 3 it is obtained the following path equation:

1. Y1 = 0.470 X1 + 0.382 X2
2. Y2 = 0.159 X1 + 0.332 X2 - 0.490 Y1
3. Y3 = 0.156 Y1 – 0.414 Y2

Table 6
Path Coefficient Analysis of Direct and Indirect Effect

The results of path analysis	Path coefficients	Prob	Remarks
Private investment → economic growth	0.470	0.0008	significant
Private investment → labor absorption	0.159	0.220	not significant
Public investment → economic growth	0.382	0.009	significant
Public investment → labor absorption	0,332	0,001	significant
economic growth → labor absorption	-0.495	0.000	significant
economic growth → public welfare	0.156	0.025	significant
labor absorption → public welfare	-0.414	0.000	significant

Based on Table 6 it can be explained as follows :

1. The path coefficient for the variable of private investment on economic growth is positive, amounting to 0,470 has unidirectional influence, meaning that an increase in private investment provides increased economic growth, and vice versa decline in private investment give a reduction in economic growth in the district/city in the province of East Java.
2. The path coefficient for the variable of private investment on labor absorption is positive influence in the direction of 0.159, meaning that an increase in private investment provides increased labor absorption, and vice versa decline in private investment give a reduction in labor absorption in the district/ city in the province of East Java.
3. The path coefficient for the variable of public investment on economic growth is positive influence in the direction of 0.382, meaning that if the government increases the investment would increase economic growth, and vice versa if the government decreases the investment will reduce economic growth in the district/ city in the province of East Java .
4. The path coefficient for the variable of public investment on labor absorption is positive at 0.332, has a significant influence in the same direction, meaning that if the government increased investment will increase labor absorption, and vice versa if the government decreases the investment will decrease labor absorption in the district/city in the province of East Java.
5. The path coefficient for the variable of economic growth on labor absorption is negative at -0.495 has influence opposite direction, meaning that economic growth gives a decrease in labor absorption, and vice versa decline in economic growth gives rise in labor absorption in the district/city in the province of East Java .
6. The path coefficient for the variable of economic growth to public welfare is positive 0.156 has significant influence in the same direction, meaning that when economic growth increases, will improve the public welfare, and vice versa if the declining economic growth will lower public welfare in the District/city in Java east.
7. The path coefficient for the variable of labor absorption to public welfare is marked negative by -0.414 and has influence the opposite direction, meaning that the increase in labor absorption does not always provide an increase in the public welfare, and vice versa decline in labor absorption does not always provide a reduction in public welfare.

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F. Hypothesis Proofing

Hypothesis 1 states that private investment has effects on economic growth in the District/ City in the province of East Java. Hypothesis 1 test results can be seen in table, the value of the path coefficient of 0.470 and the probability of error of 0.0008 < significance level (α) of 0.05, indicating that the effect of private investment on economic growth is significant. **Thus the first hypothesis (H1) that states the private investment has effect on economic growth in the District/ City of East Java Province is received**.

Hypothesis 2 states that private investment has effects on labor absorption in the District/city in the province of East Java. Hypothesis 2 test results can be seen in table, the value of the path coefficient of 0.159 and the probability of error of 0.220 > significant level (α) of 0.05, indicating that the effect of private investment on labor absorption is not significant. **Thus the second hypothesis (H2) that states the private investment has effects on labor absorption in the District/city of East Java Province is rejected.**

Hypothesis 3 states that public investment has effects on economic growth in the District/city in the province of East Java. Hypothesis 3 test results can be seen in table, the value of the path coefficient value of 0.382 and an error probability of 0.009 < 0.05 of significant level, it is suggesting that the effect of public investment on economic growth was significant. **Thus the third hypothesis (H3) that states the public investment has effects on economic growth in the District/City of East Java Province is received.**

Hypothesis 4 states that public investment has effects on labor absorption in the District/city in the province of East Java. Hypothesis 4 test results can be seen in table, the value of the path coefficient value of 0.332 and an error probability of 0.009 < significance level (α) of 0.05, indicating that the effect of public investment on labor absorption is significant. **Thus the fourth hypothesis (H4) that states the public investment has effects on labor absorption in the District/city of East Java Province is received.**

Hypothesis 5 states that economic growth has effects labor absorption in the District/city in the province of East Java. Hypothesis 4 test results can be seen in Table.17, the value of the path coefficient of -0.495 and error probability value of 0.0000 < significance level (α) of 0.05, indicating that the effect of economic growth on labor absorption is significant. **Thus the fifth hypothesis (H5) that states the economic growth has effects on labor absorption in the District/city of East Java Province is received.**

Hypothesis 6 states that economic growth has effects on public welfare in the District/city in the province of East Java. Hypothesis 6 test results can be seen in table, the value of the path coefficient of 0.156 and error probability value of 0.025 < significance level (α) of 0.05, indicating that the effect of economic growth on public welfare is significant. **Thus the sixth hypothesis (H6) that states the economic growth has effects on the public welfare in the District/city of East Java Province is received.**

Hypothesis 7 states that labor absorption has effect on public welfare in the District/city in the province of East Java. Hypothesis 7 test results can be seen in Table, the value of the path coefficient value of -0.414 and error probability of 0.000 < significance level (α) of 0.05, indicating that the effect of labor absorption on the public welfare is significant. The negative sign indicates that labor absorption may reduce the public welfare. **Thus the seventh hypothesis (H7) that states the labor absorption has effects on public welfare in the District/city of East Java province is received.**

G. Discussion

1. The Effect of Private Investment on Labor Absorption

Based on the results of path analysis showed that the probability of error of 0.220 is greater of 0.05, meaning that private investment has no effect on labor absorption. The results of this study do not support the results of previous studies conducted by Ram (1986) and Buffes (1998). These results are also not consistent with the theory Arsyad (2004) that private investment can be used to create new jobs.

The increase in private investment is quite large but not followed by a rise in labor absorption is quite large as well, because it is less optimal partnerships between local governments and the private sector to create new jobs and stimulate the development of economic activity (economic growth) in the region .

Private investment has no effect on labor absorption, because of private investment capital-intensive form of investment it is caused no effect on employment. The decline in private investment as seen in appendix 10 in 2006 and 2007 in three cities of Surabaya, Malang and Pasuruan, among others, triggered by the rise of wage claims against businesses that do not cause the relocation of labor absorption even result in layoffs, many of foreign investment in finance (shares) that has no effect on labor absorption. The low quality

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of human resources also lead to low labor absorption. The results of this study do not support the research of Buffes (1998) and Ram (1986) which states that the private investment has effect on labor absorption.

The Indonesian government increasingly aware of the importance of the expansion of employment opportunities. This awareness is a consequence of the increasingly severe unemployment insistence, given the rate of population increase is still significant, the low ability of industry sector and the decline in the agricultural sector's ability to absorb the abundant labor force that continues to cause high underemployment and hidden unemployment in rural areas.

2. The Effect of Economic Growth on Public Investment

Based on the results of path analysis showed that the value of the path coefficient of 0.382 and an error probability value of 0.009 is smaller than the significance level (α) 0.05, it is meaning that the public investment has effect on economic growth.

The results of this study support the theory of Harrod-Domar that is the capital formation regarded as expenditure that will increase the ability of an economy to produce goods, as well as the expenditure that will increase the effective demand for the entire community. If the production capacity increases, the new national income will increase and if the public spending increased, then economic growth will be created. In empiric support for the theory of Harrod-Domar it can be found in appendix 10.2, that is the increase of public investment in 2006-2008 in three cities of Surabaya, Malang and Pasuruan is also followed by an increase in economic growth.

The results of this study support previous research that are Ram (1986); Desus (2000); Carroll (1987), Guha Khasnobis (2000), Rahayu (2000), Sala Martin (1997). Ram's (1986) research describes the efficiency of government spending and investment and labor growth proxied by population growth has effects on economic growth in developing countries. Carol's (1987) research results concludes that the government spending is essential to promote economic growth and financial stability if the economy has not reached full employment. Desus's (2000) research results concludes that assuming the total elasticity < 1, then the capital of public, government and human capital has significant and positive effect on the long-term economic growth.

3. The Effects of Public Investments on Labor Absorption

Based on the results of path analysis in table 5.16 showed that the path coefficient value of 0.3502 and the value of the error probability 0.0002 is smaller than the significance level (α) of 0.05, it is meaning that the public investment has effects on labor absorption. This study results was supports previous research that conducted by Esterly and Levine (2001) which states the role of productivity and public investment is essential to economic growth, further explained that the Total Factor Productivity, is the best factor to explain variations in growth.

To support the results of a study that increased public investment has effects on labor absorption, are presented in Appendix 10.3 that shows the data of public investment and economic growth in the city of Surabaya, Malang and appendix 10.3 shows the data of public investment in the three major cities of Surabaya, Malang and Pasuruan has decreased in the year 2003-2005 of 0.61%, but can absorb labor by 2%. In 2006-2007 the government has increased investment data, but can not absorb labor optimally, so that employment declined during the years 2006-2007. Public investment increased in 2007-2008 and resulted to absorb the labor.

The results of this study support the theory of economic growth which states that the endogenous growth model considers public and private investment in human capital produces external savings and increased productivity, and rejecting the tendency of diminishing returns. Endogenous growth theory was explain the presence of increasing returns to scale and long-term growth patterns between countries.

4. The Effect of Economic Growth on Labor Absorption

Based on the results of path analysis showed that the path coefficient value of 0.4743 and the value of the error probability 0.0000 is smaller than the significance level (α) of 0.05, it is meaning that public investment has effects on labor absorption. This study results was supports the results of previous research conducted by Barro (1991), Baffes Anwar (1998) and Gemmel (1996).

The increase in economic growth in years of 2006-2007 are not followed by a rise in

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labor absorption, due to the increase in economic growth is not followed by an increase in the supply of factors of production for labor, as described by the Neo-Classical growth theory first developed by Solow once that economic growth depends on the supply of factors of production (labor, capital accumulation).

Barro (1991) states that human capital plays a special role in a number of models of endogenous economic growth. Human capital is a key input for research that produces new products or ideas underlying technological advances. Thus, countries with greater human capital experience faster growth rates than countries that do not have the human capital. In a multi-country model of technological change, the spread of new ideas across the country (or company or industry) is also important. Greater human capital makes it easier for a country to absorb new products or ideas that have been found elsewhere. Therefore, the follower country with more human capital tend to grow faster because of the faster capture technology leader.

Economic growth is a negative effect on labor absorption, this case due to the declining role of the primary sector and the increasing role of the secondary sector in the Gross Domestic Product (GDP) was indicated that the economies of some cities in East Java regency has undergone a structural transformation from a traditional economy to the modern economy, thus causing reduction in labor absorption in 2006-2007 (annex 10.4). The impact of the economic crisis that began with the financial crisis has a negative impact on almost all sectors of the economy, in general industry sectors relying on import substitution and the source of financing of formal financial institutions. Similarly, opportunities to obtain decent labor absorption decreases with the strength of the social structures that discriminate against lower classes and even more difficult to rationalize the use of farm labor performed extensive rice farmers to increase their profit margins. Small industries and industry also has a lot of people hit by the expansion of large medium industries.

Economic growth will only result in improved income distribution and welfare if it fulfills at least two conditions that expand employment opportunities and improve productivity. With widespread access to employment opportunities for people earning greater. In the long term, employment opportunities available to force people to determine specialization, which will increase productivity. Increased productivity, then the money generated for the same working hours will be greater. The money is used to improve the quality of the next generation of human resources. And so on, so that in a few generations later, the income distribution has improved and welfare has increased (Papanek and Oldrich, 1986).

5. The Effect of Economic Growth on Public Welfare

Based on the results of path analysis showed that the value of the path coefficient of 0.2532 and the value of the error probability of 0.000 is smaller than the significance level (α) of 0.05, it is meaning that economic growth has effects on public welfare. The results of this study support previous research conducted by Barro (1991), Brata (2004,2005), Djoko Mursinto (2004). The results of the Brata's (2004,2005) study states that per capita spending significant effect on life expectancy. The reciprocal relationship between the economic performance of human development. Joko Mursinto's (2004) research results state that local revenue (PAD) contribution to Total Revenue Regions (TPD) up to 32.66%.

The results of this study support the pareto optimum theory expressed by Pareto Wilfledo that suggests the economic growth can be used to improve the collective public welfare consisting of individuals in society. This concept states that if at least one person for the better and none worse situation then public welfare increases.

Suparmoko (2002:434) says that economic growth as measured by the development of the production of goods and services or the national income, it is very necessary because there are two factors that determine which population growth from year to year and the increasing level of public welfare as a result of development itself. Economics has a duty to members rational principles to the business as an economic activity is not only reaching out to the individual financial needs and short-term, but provide a surplus for the well-being of many people in the country. This is supported by empirical data presented in Appendix 10.5 that in the city of Surabaya and Pasuruan showed an increase in economic growth in the city of Surabaya in 2004-2005 and 2007-2008 to contribute to the improvement of people's welfare.

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6. *The Effect of Labor Absorption on Public Welfare*

Based on the results of path analysis, it is shows that the value of the path coefficient of 0.3601 and the value of the error probability of 0.000 is smaller than the significance level (α) of 0.05, it is meaning that the labor absorption has effect on the public welfare. The results of this study do not supports the results of previous studies conducted by Kim (1997); Buffes (1998); Dessus (2000), Darussalam (2005).

Path coefficients are negative which suggests that labor absorption does not increase the public welfare but actually reduce the public welfare. It can be explained that the public welfare will be achieved if labor wages that can be used to meet both their needs and the needs of the economy are non economic needs and not just to meet the needs of worth.

Labor absorption which have not been able to improve the public welfare shows that the government has a responsibility to help improve the welfare of the citizens, among others, through various policies in the economic and social fields. The state is responsible for ensuring a minimum standard of living of each of its citizens and development focused on improving the public welfare is to give a more important role to the state in providing social services universally and comprehensively to its citizens.

The results of this study support the notion of Todaro (2004:280) that the employment opportunities for residents or people will provide revenue to meet the needs and improve well-being. In line with the results of this study also support Sumodiningrat's (2001:13) statement that the well-being characterized by prosperity that increased consumption due to increased revenue. This means that welfare will increase with income, as income increases consumption will also increase both for the fulfillment of basic needs and other needs. This is demonstrated by the increase in the employment of data that contribute to the increase in the public welfare, for example, in the city of Surabaya in 2004-2005 and 2007-2008, in Malang in 2005 and 2008 and Pasuruan in 2004-2005 and from 2007 to 2008.

H. Research Findings

The results of the study about the effect of public investment on economic growth reinforce the theory of Harrod-Domar that stated the importance of investment in the process of economic growth. Investment has two: a) create revenue; (b) increase the capacity of the economy by increasing the stock of capital. These results also reinforce the Keynesian theory which states that the greater the profit earned during the investment period, the greater the likelihood that the investment project is feasible.

The results of research on the impact of economic growth on employment reinforce the theory of economic growth and development of Kuznets and Djojohadikusomo. Kuznets stressed that the growth effect was associated with a combination of high productivity and large population. Increased labor productivity can be encouraged through education and training and health improvement.

The results of research on the impact of economic growth on the public welfare reinforce Adam Smith's theory which states that if the economy starts growing able to perform division of labor. The division of labor will increase productivity which in turn will increase revenue. Adam Smith also underscores the importance of economies of scale. With the expansion of the market, will open new innovations which in turn will encourage the expansion of the division of labor and economic growth. Then Solow claimed that advances in technology affect the level of economic output and growth rate over time. While Schumpeter stated long-term economic growth is always a central concern of economics. The main contribution of Schumpeter is to redirect attention from economists to issue long-term growth.

The effect of labor absorption on the public welfare and the effect of economic growth on the public welfare reinforces the theory about public welfare that expressed by Todaro (2004) and Salvatore (1994), the development should be viewed as a multidimensional process that includes a variety of fundamental changes over the social structure, attitudes public attitudes, and institutional, in addition to still pursue the acceleration of economic growth, reduction of inequality, and poverty eradication. Economic development in addition to raising the per capita income also increased life expectancy, literacy, health and public education.

V. CONCLUSION

1. The private investment has effect on economic growth.
   Local government to encourage the growth of private investment is to establish conditions conducive and attractive for the development of domestic industry and foreign investment.
2. The public investment has significant effect on economic growth.
   Public investment in the form of gross fixed capital formation at the community level is managed to increase the community's ability to produce goods and services, so that a positive impact on economic growth. The addition of public investment each year has a significant

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cumulative impact in increasing the production capacity of the community.

3. The public investment has significant effect on labor absorption
   Employment is one of the important aspects in the life of society, both from an economic function and social function. Development in the field of employment is an integral part of national development. Broadly speaking, the development of employment was directed in the priority of expanding and job creation, improving the quality of labor and corresponding increase in labor protection for human dignity and welfare of workers with regard to the progress of the development of the business world.
4. The economic growth has significant effect on labor absorption
   The economic growth in some of the cities in East Java over the sector dominated trade, hotels and restaurants, industry sector and the processing sector and the services sector transport and communication. If the four sectors mentioned above are constrained in their business continuity, it would likely reduce labor absorption.
5. Economic growth has significant effect on public welfare
   Increasing the production of goods and services will need workers so as to improve the public welfare. Economic growth is measured by the development of the production of goods and services or the national income, it is very necessary because there are two factors that determine which population growth from year to year and the increasing level of public welfare as a result of development itself.
6. Labor absorption has significant effect on public welfare
   One of the main objectives of development is the creation of jobs and the quality is sufficient to absorb the additional labor force entering the labor market every year. Jobs will give the income, and the income that each person and their families can meet their needs, particularly basic needs such as food, clothing, housing and health care and education all of which will certainly be able to improve the public welfare itself.

A. Suggestion

1. Investment both from private foreign investment (PMA) or the Domestic Investment (PMDN) should be directed to the non-oil sector or the agricultural sector mainly primary sector to encourage the industrial sector. It must be developed for the main agro-industry processing industry of agricultural output into semi-finished goods and finished goods for the benefit of inside and outside the province of East Java.
2. Provincial Government of East Java was has time to improve the Human Development Index (HDI) through the main indicators of the level of education from an early age. The programs such as Early Childhood Education (ECD) in each neighborhood of Regency/City in the province of East Java.
3. Development of the countries or regions in the current advance has been said, and has also been proven by the study of many economic experts in various countries and regions, the development of industrial activities play an important role for increasing employment opportunities and living standards of the local economy. Therefore the transformation of economic activities from agriculture to industry transformation that needs to occur although certainly not one hundred percent. That is, after all the community's activities in the agricultural sector are remains necessary anyway.
4. The higher of spending does not routinely lead to optimal economic development and to increase development spending can be done through spending reductions by streamlining the institutional routine in PP 41 year of 2007 on the Organization of the Region and to improve the efficiency of expenditures.
5. Government should immediately implement the infrastructure development that provide broad benefits for the people; such as roads, bridges, air and sea ports, water electricity telecommunication networks, irrigation canals, and dams. In addition to reducing unemployment and poverty, availability of infrastructure became interested in investment and at the same time to improve the capacity and operational efficiency of productive economic sectors.
6. Increased revenue (PAD) from taxes and retributions can be done by doing; registration of mandatory taxes/retributions, establish the tariffs, the way the voting and how monitoring/ supervision, in addition to determining potential sources of revenue (PAD) needs to be analyzed include : the state of the economy and social structure of an area; community's ability to pay fees set by the government; increase of expansion and intensification acceptance revenue (PAD), real per capita GDP growth, population growth, inflation rate, tariff adjustments, new construction, new sources of income, changes in regulations.

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AUTHORS' PROFILE

Dr. Achmad Daengs Gatot Soeherman is a lecturer of Major of Macro Economic, Statistic, Economic Theory, Development Economic at University of 45 Surabaya, Indonesia from 1996 until now. He is also a senate member and the vice rector (Finance and General) since 2010 of University of 45 Surabaya.

Prof. Dr. Djoko Mursinto, M.ec served as the Deputy Head of Bussiness Research Center, 1983 – 1987. From 1990 – 1996, he was the Director of Bussiness Research Center. He served from 2004-2007 as the Director of Center of Economic Development Studies. Prof. Dr. Djoko Mursinto has experiences teaching Microeconomics, (Undergraduate Level): Introduction of Microeconomics, Microeconomic Theory 1, Public Economics. Public Economics is his research specialty. He has also published a book, Djoko Mursinto dan Hussain Bumulo (2007), Mathematic for Economic and its Applications, 7th Edition, Bayu Media Publishing, Malang, Indonesia

Prof. Dr. Hj. Tri Ratnawati, MS, CA is a Lecturer S1, S2, S3 at University of Surabaya. Since 2013, she is also the Chief Doctor in Economics. From 1986-1990 and 1993 – 1997, she served as the head of the Accounting. From 1997-2000 she was the Head of Finance.

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