THE IMPACT OF PRIVATE INVESTMENT IN THE IMPROVEMENT OF SOCIAL WELFARE THROUGH ECONOMIC GROWTH AND LABOR ABSORPTION

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Abstract

Purpose of the study: This research aims to analyze the impact of private investment toward social welfare through economic growth and labor absorption in East Java Province of the 2010-2017 periods.

Methodology: The type of research used is Explanatory by using the approach of a quantitative method. Data collection used research instruments. Data analysis is quantitative/ statistical with the aim to test the determined hypothesis.

Main Findings: The results of the study show that: (1) Private investment is not significantly influential toward economic growth; (2) Private investment is significantly influential toward labor absorption; (3) Economic growth is significantly influential toward labor absorption; (4) Economic growth is not significantly influential toward social welfare; (5) Labor absorption is not significantly influential toward social welfare.

Applications of this study: Private Investment unit, Economic Growth, Absorption of Labor and Social welfare is obtained through the Statistics Agency within the period of 2010-2017.

Novelty/Originality of this study: The Effect of Economic Growth on Labor Absorption had a significant effect on labor absorption in East Java. It was proven by the t value of 3.800 which means that it was higher than 1.96. Thus, it could be explained that the high labor absorption could be increased through the existence of economic growth in East Java.

Keywords: Private Investment, Economic Growth, Labor Absorption, Social Welfare, East Java Province.

INTRODUCTION

Economic growth becomes the criteria of how far the economic activities in a country will generate additional income for the community in a particular period. Economic growth for a country is an improvement process of gross domestic product (GDP) value from time to time. While for an area, economic growth is a real description of the impact of economic development policy on which growth rate can be shown by Gross Regional Domestic Product (GRDP). Economic growth is an indication of economic development success to improve society’s life quality and welfare (Eisele, 1991; Haq & Zia, 2013; Thomas & Reinders, 2010).

High economic growth will be able to create a greater income distribution and improve social welfare. A high economic growth along with efficient and effective resource allocation can be a stimulus in development, particularly in developing countries such as Indonesia. It actuates the economic sector in the future economy (Todaro & Smith, 2011).

In order to achieve that high economic growth, the government’s role is required which is by conducting government outcome and investment (Hamzah, 2019). It is in line with Laksmana, Afit, Lapian, Joyce, & Tumewu (2015) state that the success of GRDP, is related to the improvement of government outcome and investment of the private sector as well. The improvement of production capacity also causes output improvement which can be obtained through the private investment usually called Domestic Direct Investment (DDI) and foreign investment usually called Foreign Direct Investment (FDI).

Without investment, it will be hard to perform business expansion. Thus, foreign direct investment (FDI) and domestic direct investment (DDI) are the solutions to fulfill the needs of investors. Foreign Direct Investment (FDI) is still required to support the development in several activities not being able to be fully carried out through DDI, particularly those producing capital goods, raw goods and components as import substitution, finished goods, and semi-finished goods in order to create business and employment opportunities (Sukirno, 2008).

Another important development capital besides local finance and investment in human resources. Active participation from the whole community will make local development faster because of the greater sense of belonging toward the area. The result achieved in development will also be felt faster for their own area so that later on it can stimulate community awareness in developing their own local areas. In order to support the implementation of the development, qualified human resources are required besides the fulfillment of labor demand quantity. Due to the great number of productive-aged residents, the number of the labor force available will also be increased and finally, it will be able to
improve the output produced in an area (Senewe, 2016).

LITERARY REVIEW

Private investment

According to Sukirno (2008), the investigation can be defined as the outcome or purchase of capital investors or companies to purchase capital goods and equipment to improve the ability to produce goods and services available in the economy. According to Todaro (2011), investment plays an important role in acting as a nation's economic life, because capital formation improves the production capacity and national income. It also creates new employment, in this case, employment opportunities.

According to Suketi (2011), investment involves the investors' fund spending in the present time to obtain a greater return in the future, even though the return from an investment is not always in the form of profit. Furthermore, Mankiw (2003) states that technology innovation is one of the factors that are able to improve investment demand. Investments are those having income, used not for consumption but investment. Investment, in everyday meaning, is investing money in the present to get profit in the future. In other words, investment is the start of business activity (Belk, 2007; Glesne, 2016).

Private investment is an investment done by a private party prioritizing in benefit gain from the capital spent (Saragih & Khadafi, 2003). Private investment is an investment done by the community, particularly businessmen or investors, with the aim of gaining benefit in the form of profit. This kind of investment is also called an investment with a profit motive. Investments with such characteristics can be done by an individual or company both domestic and foreign ones, including DII (Domestic Indirect Investment), FII (Foreign Indirect Investment), DDI (Domestic Direct Investment), and FDI (Foreign Direct Investment) (Merican, Yusop, Noor, & Hook, 2007).

The findings in this study prove that Private Investment does not play any significant role in increasing economic growth in East Java. The results in this study are in line with the results of research conducted by Parasan (2016) conducted in North Sulawesi Province and showing that private investment does not have any significant effect on economic growth. This result also is also in line with the findings of a study conducted by (Hukubun, Rotinsulu, & Niode, 2015) proving that private investment has no influence on economic growth.

Economic Growth

Economic growth is an effort to improve production capacity to achieve output increment, measured by using Gross Domestic Product (GDP) or Gross Regional Domestic Product (GRDP) in an area (Adisasmita, 2013). According to Boediono (2001), economic growth is the process of output improvement per capita in the long term. Economic growth is a process, not an economic description in a moment. The dynamic aspect of an economy is seen here, which is how an economy develops or changes from time to time. The emphasis is on the change or development itself.

In the actual economic activities, economic growth can be defined as fiscal economic growth occurring in a country such as (1) improvement of the number and production of industrial goods; (2) infrastructure development; and (3) improvement of outcome production from the economic activities taking place in one certain period, for instance, a year (Dumairy, 1997). According to Sukirno (2008), economic growth is a quantitative measurement describing the development of an economy in a certain year if it is compared to the previous year. An economy is stated as developing if there is a per capita output improvement in the long term. Economic growth as a quantitative measurement describing the development of an economy in a certain year if it is compared to the previous year (Sukirno, 2008).

Labor Absorption

According to Zakiati (2016) labor absorption is the acceptance of workforces to perform their duty as it is or a condition describing the availability of employment to be filled with the job seekers. Labor absorption can be related to the interaction balance between labor demand and labor offer, in which the labor demand market and labor offer market simultaneously set a balanced fee rate and balanced labor utilization. Meanwhile, Todaro & Smith (2011) explain that labor absorption is the acceptance of the workforces to perform their duty as it is or a condition describing the availability of employment to be filled with the job seekers.

Social welfare

According to the Law No.11 of 2009 (Nomor, 2009), concerning Social welfare, social welfare is the condition of fulfilled material, spiritual, and social needs of the citizens so that they can live decently and be able to develop themselves, in order to be able to carry out their social function. Welfare has several dimensions; they can be seen from the material and non-material dimension. From the material side, it can be measured with the income and consumption approach. Meyer and Sullivan (2006) state that conceptually and economically, consumption data is more appropriate to be used to measure welfare than income data because consumption data is a more direct measurement from welfare. Todaro (2011) suggested that the welfare of underprivileged society can be represented by the standard living of people. The standard living of society is characterized by the abatement of poverty, better health level, higher level of education.
and productivity level of community. The development attempts to grow the aspirations and demands of society to create a better life in order to improve the welfare of society. The development can not only be seen from the aspect of growth. One result of a development that only applies the growth paradigm is the emergence of inequalities between rich people and poor people, and unemployment is everywhere. The growth is always associated with an increase in gross national products.

Previous research results about private investment are research conducted by Parasan (2016) conducted in North Sulawesi Province and showing that private investment does not have any significant effect on economic growth. This result also is also in line with the findings of a study conducted by (Hukubun et al., 2015) proving that private investment has no influence on economic growth. The findings in this study prove that Private Investment does not play any significant role in increasing economic growth in East Java.

**Conceptual Framework**

![Conceptual Framework](image)

**Hypothesis**

H1: Private Investment has a significant effect on Economic Growth.

H2: Private Investment has a significant effect on the Absorption of Labor.

H3: Economic Growth has a significant effect on the Absorption of Labor.

H4: Economic Growth has a significant effect on Social welfare.

H5: Absorption of Labor has a significant effect on Social welfare.

**METHOD**

**Types of research**

The type of research used is explanatory research. Explanatory research is used with the aim of analyzing the relationships among variables through hypothesis testing (Hedström, 2004; Noor, 2008). The approach used is a quantitative method. According to Sugiyono (2013), the quantitative method is data in the form of numbers or ranked/scoring qualitative data. Quantitative methods can be interpreted as research methods based on the positivist philosophy which is used to examine a population or a particular sample. Data collection used research instruments. Data analysis is quantitative/statistical with the aim to test the determined hypothesis (Sugiyono, 2013).

**Variables Identification**

1. **Exogenous Variable**

According to Sugiyono (2016), an exogenous variable is often referred to as the stimulus variable, predictor, and antecedent. An exogenous variable is often called an independent variable which is a variable influencing or becoming the causes of changes or emerging the dependent variable. The exogenous variable in this research is Private Investment (X).

2. **Intervening variables**

According to Sugiyono (2016), the intervening variable theoretically influences the relationship between independent and dependent variables. This variable is a variable occurred between independent and dependent variables. The intervening variables in this research are Economic Growth (Z1) and Absorption of Labor (Z2).

3. **Endogenous Variables**

According to Sugiyono (2016), the endogenous variable is often referred to as an output variable, criteria, consequent, or dependent variable. The dependent variable is a variable that affects or becomes a result because of the existence of independent variables. The endogenous variable in this research is Social welfare (Y).
Operational Definition of Variables

An operational definition is a definition provided to a variable or constructs by giving meaning, specifying an activity, or providing an operation needed to measure these constructs or variables (Nazir, 2014). The operational definitions of each research variable will describe as follows:

1. **Private Investment (X)**

Private investment is an investment carried out by the private sector that prioritizes the acquisition of capital that has been spent. Private investment is defined as the amount of realized investment’s value from Domestic Investment (PMDN) and Foreign Investment (PMA) in various economic sectors every year and in each Regency/ City region of East Java sourced from the Statistics Agency of East Java Province. The measurement unit is in millions of rupiah obtained through Statistics Agency within the period of 2010-2017.

2. **Economic Growth (Z1)**

Economic growth is the activity development in the economy which causes the growth of goods and services produced in society and the increase of prosperity in society. Economic growth in this research was observed through the GRDP (Gross Regional Domestic Product) rate of East Java province within the period of 2010-2017 obtained from the Statistics Agency of City in East Java.

3. **Absorption of Labor (Z2)**

Absorption of labor is the condition of the total labors who have been absorbed in the jobs. The absorption of labor in this research was examined through the data of total labor working in East Java Province within the period of 2010-2017.

4. **Social welfare (Y)**

Social welfare is the fulfillment of economic and social needs by the people in each regency/city of East Java Province. The welfare value is a composite value proxied by the human development index (HDI). Human Development Index as an index that measures the socio-economic development of a region based on economic, health, and education measurements reviewed from Statistics Agency data in the period of 2010-2017.

Data collection technique

The data collection technique in this research was carried out by library research, namely the data collection collected from the literature or readings in the form of secondary data related to the problem to be discussed. The data collected is tabulated for further process and analysis. Data collection used research instruments. Data analysis is quantitative/statistical with the aim to test the determined hypothesis.

Data Analysis Technique

The analysis technique chosen to analyze the data and test the hypothesis in this research was the Structural Equation Model (SEM). Partial Least Square (PLS) was used to answer the hypothesis. According to Ghozali (2012), the calculation is conducted using Smart Partial Least Square (PLS) tool because it is in the form of a multi-lane, and the model used is in the form of reflective. The calculation model was carried out by using the Smart PLS tool because this research has a formative and reflective multi-lane relationship.

RESULT AND DISCUSSION

Inner Model Evaluation

The inner model which is sometimes referred to as inner relation, structural model and substantive theory, specifies the influence among research variables (structural models).

Inner Model Test or Structural Model Test

The analysis result of the level of conformity of the structural model that is built shows that the overall model has been "relevant" to explain the variables studied and their effect on each variable. For endogenous latent variables in a structural model that has an R2 value of 0.67 indicates the "good" model, R2 of 0.33 indicates the "moderate" model, and R2 of 0.19 indicates that the model is "weak" (Ghozali, 2011). The PLS output is explained below:

<table>
<thead>
<tr>
<th>Table 1: R-Square Value</th>
</tr>
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<tbody>
<tr>
<td>Economic growth (Z1)</td>
</tr>
<tr>
<td>Labor absorption (Z2)</td>
</tr>
<tr>
<td>Social welfare (Y)</td>
</tr>
</tbody>
</table>
The results in the table above show that the Private Investment variable that affects Economic Growth in the structural model has an R2 of 0.099 which indicates that the model is "Weak". Then, the Private Investment and Economic Growth variables that affect Labor Absorption have an R2 of 0.680 which means the "Good" model. Whereas the variable Public Welfare formed by Economic Growth and Labor Absorption in the structural model has an R2 value of 0.203 which means the model is "Weak". Suitability of structural models can be seen from Q2, as follows:

\[ Q2 = 1 - [(1 - R1) \times (1 - R2) \times (1 - R3)] \]

\[ = 1 - [(1 - 0.099) \times (1 - 0.680) \times (1 - 0.203)] \]

\[ = 1 - [(0.901) \times (0.320) \times (0.797)] \]

\[ = 1 - 0.230 \]

\[ = 0.770 \]

The calculation of Q2 value produces a value of 0.770 or has exceeded the critical limit of 0.5, so the structural model has been stated as suitable and appropriate.

Figure 2: Inner PLS model

There are exogenous variables in the inner model studied, namely Private Investment, then the endogenous variable in the inner model studied is Community Welfare while the intervening variable in the inner model studied is Economic Growth and Labor Absorption. The inner weight values in Figure 1 above show that the Economic Growth variable is influenced by Private Investment, while the Labor Absorption variable is influenced by Private Investment and Economic Growth, and the variables of Community Welfare are influenced by Private Investment, Economic Growth, and Power Absorption shown in the following equation:

\[ Z_1 = 0.315 X \]

\[ Z_2 = 0.421 X + 0.589 Z_1 \]

\[ Y = 0.027 Z_1 + 0.431 Z_2 \]

Hypothesis Testing Results

Hypothesis Test 1 (H1)

The first hypothesis in the study is not proven to be true, it is known from the t value of 1.424 which means smaller than 1.96, it means that private investment does not have any significant effect on economic growth. The direction of the relationship between the two variables is positive, which means that the higher the private investment is, the more it will increase economic growth by having a large influence of 0.315.

Hypothesis 2 (H2)

The second hypothesis in the study proved to be true, this is known from the t value of 2.356 which means greater than 1.96, and it means that private investment has a significant effect on employment. The direction of the relationship between the two variables is positive, which means that there is a unidirectional relationship so that it can be interpreted that the higher the private investment is, the abler it is to increase employment by increasing the influence of 0.421.

Hypothesis 3 (H3)

The third hypothesis in the study proved to be true, this is known from the t value of 3.800 which means greater than 1.96, and it means economic growth has a significant effect on employment. The relationship between the two variables is positive which means that there is a unidirectional relationship so that better economic growth will also have an impact on increasing employment by having a large influence of 0.589.
Hypothesis 4 (H4)

The fourth hypothesis in the study is not proven to be true, this is known from the t value of 0.059 which means it is smaller than 1.96, so it can be said that economic growth has no significant effect on social welfare. The direction of the relationship between the two variables is positive, which means that better economic growth will be more able to improve people's welfare by having a large influence of 0.027.

Hypothesis 5 (H5)

The fifth hypothesis in the study is not proven to be true, this is known from the t value of 1.055 which means it is smaller than 1.96, so it can be said that labor absorption has no significant effect on social welfare. The direction of the relationship between the two variables is positive, which means that the higher the absorption of labor will be the more able to improve the welfare of the community by having a large influence of 0.431.

DISCUSSION

The Effect of Private Investment on Economic Growth

The results of the data analysis show that Private Investment does not have any significant influence on Economic Growth in East Java province which is evident from the t value of 1.424 which means it is smaller than 1.96, so it can be explained that the increase in economic growth in East Java cannot be increased through development of high private investment. The effect of private investment on economic growth is positive, indicating that the increasing private investment will increase economic growth in East Java, but the increase is not significant. Thus, the first hypothesis in this study stating "Private Investment has a significant effect on Economic Growth" cannot be accepted.

The findings in this study prove that Private Investment does not play any significant role in increasing economic growth in East Java. The results in this study are in line with the results of research conducted by Parasani (2016) conducted in North Sulawesi Province and showing that private investment does not have any significant effect on economic growth. This result also is also in line with the findings of a study conducted by Hukubun et al (2015) proving that private investment has no influence on economic growth.

The Effect of Private Investment on Labor Absorption

Data analysis results that were done showed that private investment had a significant effect on labor absorption in East Java. It was proved by 't' value of 2.356 which meant that it was bigger than 1.96. Accordingly, it could be explained that labor absorption in East Java could be formed through the existence of high private investment development. The effect of private investment toward labor absorption was positive which showed that the higher private investment, the more labor absorption in East Java would be. Thus, it could be stated that the second hypothesis in this research stated “Private investment was influenced significantly toward labor absorption”, was accepted.

The finding in this research proved that private investment could have an important role in increasing labor absorption in East Java. In other words, labor absorption in East Java could be increased through the existence of private investment. Therefore, if the East Java government wanted to increase labor absorption, it required to pay attention to how big private investment which was had. This result was in accordance with the research finding which was done by Suharto & Dharmala (2016) which observed in Banten and the result proved that private investment showed the existence of positive and significant relation toward the labor absorption variable.

The Effect of Economic Growth on Labor Absorption

Data analysis result which was done showed that economic growth had a significant effect on labor absorption in East Java. It was proven by the t value of 3.800 which means that it was higher than 1.96. Thus, it could be explained that the high labor absorption could be increased through the existence of economic growth in East Java. The effect of economic growth on labor absorption was positive. Thus, it could be stated that the third hypothesis in this research stated “Economic growth had significant effect toward labor absorption”, was accepted.

This research was in accordance with the research finding result which was done by Adi (2018) who observed in Kalimantan Island, and the result proves that economic growth had a positive and significant effect on labor absorption. The result in this research supported the research result which was carried out by Rusnati, Sudarti, & Agustin (2018) who found that economic growth had a positive and significant effect on labor absorption in Malang Regency. It was also in accordance with Tahiri (2018) which proves the existence of the significant and positive effect of economic growth toward labor absorption in South Sulawesi.

The Effect of Economic Growth toward Public Welfare

Data analysis result which was done shows that economic growth does not have a significant effect on public welfare in East Java. It was proven from the t value in the amount of 2.0.059 which means that it was smaller than 1.96. So, it can be explained that public welfare in East Java is not necessarily going to increase by the existence of economic growth raising. The effect of economic growth toward public welfare is positive which shows that the higher economic growth then it will increase public welfare in East Java but it is significant. Thus, it can be stated that the fourth hypothesis in
this research that sounds “Economic growth has a significant effect on Public Welfare,” is not accepted. The result in this research is in accordance with the research finding which was done by Sholihah & Kustanto (2015) in Sidoarjo Regency which proves that economic growth also has a positive effect but it is significant toward public welfare.

The Effect of Labor Absorption on Public Welfare

The data analysis result which was performed showed that labor absorption did not have any significant effect on public welfare in East Java. It was proven from the t value of 1.055 which meant that it was smaller than 1.96. Hence, it could be explained that public welfare in East Java could not necessarily be formed through the existence of high labor absorption. The effect of labor absorption on public welfare was positive which showed that the higher labor absorption led to the public welfare in East Java, but it was not significant. Thus, it could be concluded that the fifth hypothesis in this research stated “Labor absorption had significant effect toward public welfare,” was not accepted.

CONCLUSION

1. Private investment does not have a significant effect on economic growth in East Java in the period 2010-2017. Thus, it is stated that the truth of the first hypothesis that states “Private investment has a significant effect on economic growth” is not proven.
2. Private investment has a significant effect on labor absorption in East Java in the period 2010-2017. Thus, it is stated that the truth of the second hypothesis that stated “Private investment has significant effect toward labor absorption,” is proven.
3. Economic growth has a significant effect on labor absorption in East Java in the period 2010-2017. Thus, it is stated that the truth of the third hypothesis that states “Economic growth has a significant effect toward labor absorption”, is proven.
4. Economic growth does not have a significant effect on Public Welfare in East Java in the period 2010-2017. Thus, it is stated that the truth of the fourth hypothesis that states “Economic growth has significant effect toward Public Welfare”, is not proven.
5. Labor absorption does not have a significant effect on Public Welfare in East Java in the period 2010-2017. Thus, it is stated that the truth of the fifth hypothesis that states “Labor absorption has significant effect toward Public Welfare,” is not proven.

SUGGESTION

In order to support the implementation of the development, qualified human resources are required besides the fulfillment of labor demand quantity. Due to the great number of productive-aged residents, the number of the labor force available will also be increased and finally, it will be able to improve the output produced in an area.

LIMITATIONS AND STUDY FORWARD

There are several limitations of this study is the East Java Province of the 2010-2017 period. Due to the great number of productive-aged residents, the number of the labor force available will also be increased and finally, it will be able to improve the output produced in an area. Their results of this study can be beneficial for researchers and stakeholders. Further research is needed on social welfare through economic growth and labor absorption.

IMPLICATION

The Effect of Economic Growth on Labor Absorption had a significant effect on labor absorption in East Java. It was proven by the t value of 3.800 which means that it was higher than 1.96. Thus, it could be explained that the high labor absorption could be increased through the existence of economic growth in East Java.

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