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Influence of Capital Expenditure to the Economic Growth and Manpower Absorption and People Welfare in Regencies/Cities in South Sulawesi

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Abstract
Capital expenditure, economic growth and manpower absorption are very important for the achievement of people welfare in regencies/cities in South Sulawesi which is still in the growing stage of development. Capital expenditure as a proxy of government investment is one of the basic components of development expected to be able to provide infrastructures and facilities in order to achieve the quality improvement in education and health in the scheme of improving the people productivity leading towards the prosperous community with the increasing economic growth and high manpower absorption.
Keywords: Capital expenditure, economic growth, manpower absorption and people welfare.

INTRODUCTION

In economic development, there are three macro indicators to measure the progress of development. Those indicators are the *growth rate*, the *level of work opportunity* (employment) establishment, and the price *stability* (Mankiw, 2004). Thus, in most countries, especially in the developing countries, the various policies such as fiscal, monetary, and trade policies, either domestic or international trade policies are carried out to push the planned growth, to create job opportunities and to maintain the price stability.

South Sulawesi as one of the sufficiently large agricultural regions and so far has lots of potential natural resources is certainly known as a region relying very much on agricultural sector for its development, and it is for this sector that South Sulawesi is as fanmous as Kalimanatan and Java. This is also the thing that makes the Government consider of always maintaining the food sustainability in South sulawesi.

Apart from the decentralization policy of the Government, the demand to advance and to maintain the regional economic stability also requires the Government to look for formula to guarantee the establishment of the sustainable economic growth in order to achieve the better development in economy.

At present, majority of the regional government administrations have sufficient financial resources in order to change the living condition of their people. However, such sufficiently big surplus is frequently distributed to improper place, so that the World Bank recommends that the decentralization fund poured out from the central government is better used to build the infrastructure and expenditure for public services, such as for education and health.

THEORETICAL BASE

Allocation for regional expenditure, particularly for the capital expenditure allocation as investment in public sector is very urgently needed. Public sector investment as the materialization of capital expenditure, according to Keynes in Pressman (2000), apart from giving a direct effect to the increase of people income through the implementation of labor intensive programs, it also indirectly gives effect through the development of economic business activities and the availability of infrastructure at the regions that push the growth of private investment, so that it will open the job opportunities which, in the end will stimulate the increase of welfare of the regional people concerned.

Supporting such a thought, the capital expenditure is very important as an investment in public sector, since it takes the role in increasing the ability of regional government in serving the people. This is supported by Halim (2008) stating that capital expenditure is defined as the expenditure / cost / expense giving the benefit for more than one year, and each procurement / purchase is useful for more than 12 months and then such assets are used in the government activities useful economically and socially, and also useful to improve the public services by government. These are all the capital expenditure.

Allocation of capital expenditure will motivate the investment increase, so that the production capacity will increase. Such production capacity increase will increase the goods production and services in various people economic activities, then will push the increase of Gross Regional Domestic Product, so that it will give impact to the growth of the regional economy concerned. At the same time, the increase in production capacity will motivate the opening of the numbers of job opportunities resulting the increase in manpower absorption. In addition, the increase in regional economic growth is motivated by the increase in goods production and services from the economic sectors run by community and this will give effect to the manpower absorption. Further, such manpower absorption depends very much on the economic activities being run, whether it is *labor intensive* or *capital intensive*. The economic growth under the labor intensive will give positive influence to the manpower absorption. On the contrary, when it is under *capital intensive*, it will give the impact on the decrease in manpower absorption.

Through the allocation of capital expenditure optimally synergized with the other expenditure allocation, the objective of regional macro economy, especially those related to economic growth and manpower absorption are expected to be able to be increased. Such correlation is shown by Keynes in Mankiw (2007), that the capital expenditure (public sector investment) will motivate economic growth and job opportunities through the multiplier effects.

Regional economy grows and pushes the opening of the economic opportunity of community. Performance of the economic growth in South Sulawesi is expected able to give positive impact to the improvement on the level of people welfare at the region concerned, either directly or through the opening of job opportunity and undertaking opportunities for the people, either partially or simultaneously. The increase in economic growth and in achievement of manpower absorption is expected to be able to give positive impact and is in line with the increase of people welfare at the region concerned.

Development is a *multidimensional process* covering various fundamental changes on social structure, people attitudes, and national institutions. In addition, development remains chasing for acceleration in economic growth, in handling the income gaps, and in abolishing the poverty. Development must reflect a total change of community or adjustment of social system as a whole, without neglecting various kinds of basic needs and individual desire or that of social groups available inside, in order to move forwards towards better living condition, either materially or spiritually (Todaro, 2004:21).

According to Meier in Todaro (2004:25), development is a process in which *the income per capita* of a certain country increases for a long period of time, under a note that the number of population living under an absolute poverty do not increase, and distribution of income is not getting more and more unbalanced or unstable.

The economic development is more than just merely an economic growth, because the process of economic development requires to have the economic growth followed by the change in the economic structure. Good economic structure with the clean government condition will provide the actual contribution as expected by the development process.

The economic development is not merely indicated by the achievement of economic growth reached by a certain country, but more than this, that the development has very large perspective. The social dimension is frequently ignored at the approach of economic growth, and on the contrary it even gets a strategic place for the development process. At the development process, besides considering the aspects of growth and even distribution, it also considers the impacts of economic activities to social life of the people. Further, in development process an undertaking is carried out with the aim to change the economic structure towards a betterment (Kuncoro, 2004).

Region has the main objective to increase the amount and the types of job opportunities for the regional communities. At the efforts to achieve the said objectives, the regional government and its people shall jointly take the initiatives for the regional development. Therefore, the regional government together with its communities by using the available resources shall be capable in assessing the resource potential required to design and develop the regional economy.

In regional development, the government investment at the initial stage of development is very much needed. This is due to the demand for the provision of public facility for the people's interest. Capital establishment is not only done by the private businessmen but also the Government, because in development, the establishment of social capital (namely the development of infrastructure and facilities) and capital establishment in activities producing the goods for the people need to be carried out jointly together. Establishment of social capital is usually carried out by the Government and the capital establishment at the productive sectors are generally performed by the private sectors (Sukirno, 2006).

Capital expenditure is the expense made in the scheme of capital establishment with the nature to add the fixed assets / inventory that provide benefit more than one accounting period, including as well the internal expense for maintenance cost for sustaining or extending the period of use, increasing capacity and quality of the assets.

RESEARCH METHODOLOGY

This research tries to analyze the influence of capital expenditure of the government as the implication of ***Acts of*** *Regional Autonomy* to the growth of regional economy, regional manpower absorption and people welfare at the region. This research has been performed for five years from the year 2006 to 2010. Its data are time series. On its implementation level, the aforesaid Acts of Regional Autonomy has been evaluated many times for the sake of its advantages and disadvantages and at the same time the proposals for its improvement. Therefore, this research tries to answer and study about the influence or contribution of Government's capital expenditure towards the economic growth, manpower absorption and people welfare at the Regencies / cities in South Sulawesi Province.

Definition Of The Operational Variables

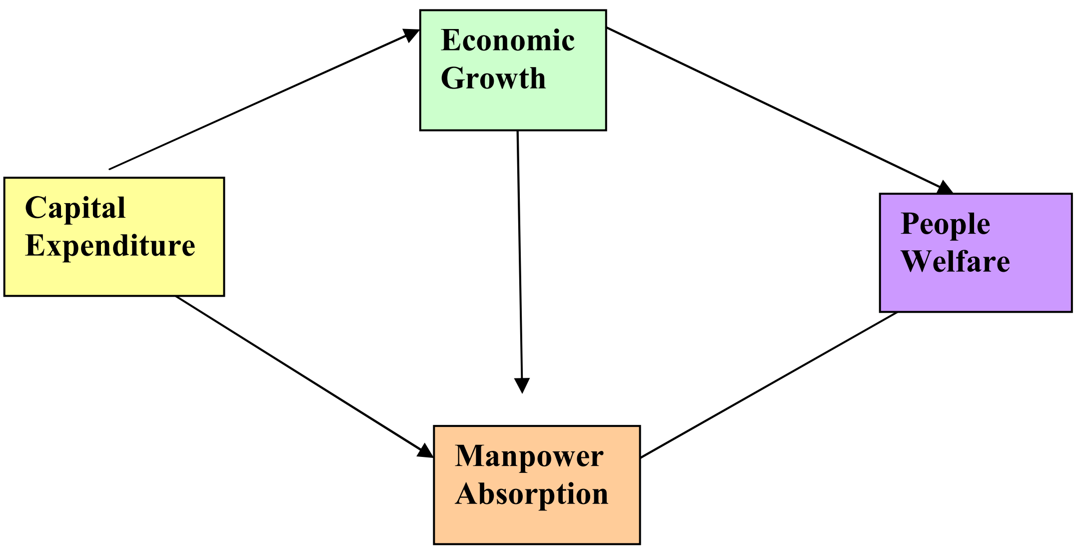
1. *Capital Expenditure (X)* as stated at the Government Regulation No. 58/2005 defines that the capital expenditure is the expense made in the scheme of purchasing or procuring the fixed assets and other assets having the benefit period for more than 12 months in order to be used at the government activities, such as in the form of land, equipment and machines, building and construction, network, library books and animals.
2. *Economic Growth (Y_1),* the Change in Gross Regional Domestic Product per Region / City per annum in South Sulawesi Province, for the period of five years, namely from the year 2006 to 2010, stated in *Rupiah Unit* based on the constant price. Calculation on this constant price eliminate the influence of the price change (inflation), so that it can show its real value.
3. *Manpower absorption (Y_2)* is the rate of manpower absorption per regency / City per annum in South Sulawesi Province for the period of five years, namely from the year 2006 to 2010, stated in *percentage.*
4. *People Welfare (Y_3)* is the feasible living condition of community indicated by the economic and social condition of the people covering: (a) income per capita, (b) education and (c) health. Income per capita is the proportion of Gross Regional Domestic Product of the total population in each regency / city in South Sulawesi Province during the period of research from 2006 to 2010. This research is conducted in 23 Regencies / Cities in South Sulawesi Province, namely: Selayar*, Bulukumba, Bantaeng, Jeneponto, Takalar, Gowa, Sinjai, Maros, Pangkep, Bone, Soppeng, Wajo, Sidrap, Pinrang, Enrekang, Luwu, Tator, Luwu Utara, Luwu Timur, Makassar, Pare-Pare* and *Palopo.*

The analytical technique applied in this research is the *Path Analysis* assisted by the software of SPSS (Statistical Package for Social Science), using the secondary data in the form of panel data (poled data) combining the time series data of five years from 2006 to 2010, except for the capital expenditure from the year 2005 and the cross sectional data.

Model of Path Diagram can be stated in equation, so that it forms an equation system. Such equation system is called **'The Simultaneous Equation System'** or also frequently called as **"Structural Model".**

1) $\mathbf{Y_1 = \alpha_{11} X_1 + \zeta_1}$ ………………………… (Structural model 1)
2) $\mathbf{Y_2 = \alpha_{21} X_1 + \beta_{32} Y_1 + \zeta_2}$ ……..……….. (Structural model 2)
3) $\mathbf{Y_3 = \beta_{31} Y_1 + \beta_{33} Y_2 + \zeta_3}$ ……………………..… (Structural model 3)

Relationship among variables using the theoretical base and the empirical study. The theoretical and empirical bases for the relationship among variables are described as follows:



TESTING ON EACH PATH

Influence among Variables	Path Coefficient (ß)	T-Progression	Probability (P-Value)	Remarks
BM (X) → PE (Y_1)	0.115	1.240	0.218	Not Significant
BM (X) → PTK (Y_2)	-0.052	-0.972	0.332	Not Significant
PE (Y^1) → PTK (Y_2)	0.832	15.658	0.000	Significant
PE (Y_1) → KM (Y_3)	0.852	6.012	0.000	Significant
PTK (Y_2) → KM (Y_3)	-0.485	-3.423	0.001	Significant

The Capital expenditure of regencies / cities in South Sulawesi Province has a very small influence to the economic growth. It means that the capital expenditure has not yet been able to add the amount to the Gross Regional Domestic Products of Regencies / Cities in South Sulawesi Province significantly, so that the existing production increase is relatively very small.
Therefore, the economic growth does not undergo the increase. The bigger the capital expenditure is, the bigger as well the economic growth is. This means that the portion of Regional Revenue and Expenditure Budget for the Capital Expenditure is processed productively. The capital expenditure is allocated for the long term investment, and there is no deviation in budgeting. Although its amount is relatively small, the capital expenditure is properly and evenly distributed, so that it is able to fulfill the public needs. Thus altogether, it supports the achievement of economic growth at the Regencies / cities in South Sulawesi Province.
The capital expenditure provided by the Government is not able to fulfill the public needs which are getting bigger and bigger in their amount, meanwhile the available amount of capital expenditure is very small, so that the capital expenditure has not yet been able to improve the production capacity and productivity as expected, since the use of investment for capital expenditure is not maximum and not as supposed to be.
The increase in economic growth followed by the enlargement of job opportunities in various economic sectors, either primary, secondary or tertiary sectors will increase the manpower absorption. The increase in economic growth will widely open the opportunities for people to improve their living standard in various aspects pursuant to their productivity in achieving their welfare in regencies / cities in South Sulawesi Province.
The increase in capital expenditure will give impact to the increase in economic growth in Regencies / Cities in South Sulawesi Province.
Based on the result of study that the capital expenditure allocated for each regency / city gives very small influence to the economic growth. This is due to the various economic characteristics of each regency / city. At a region having high economic growth, the capital expenditure is no longer responsive to the economic growth, whereas at the region having low economic growth, the capital expenditure is responsive to the economic growth itself.
The capital expenditure whose amount is relatively small reaching only around 0.30% from the year 2006 to 2010 is used by regencies / cities in South Sulawesi to build the infrastructures and facilities. Distribution of capital expenditure in Regencies / Cities in South Sulawesi Provinces for communities has not yet been able to be carried out maximally and evenly, so that it really hampers the people to perform their activities freely. The Road Improvement Program for example, intended to meet the needs for infrastructure undergoes the improvement, but not in balanced with the increasing amount of population and the increasing needs for activities.
The increase in economic growth will give impact to the increase of people welfare at the Regencies / Cities in South Sulawesi Province. In this way, based on the hypothetical testing stating that the economic growth has significant influence to the people welfare in Regencies / Cities in South Sulawesi Province is proven and supported by the facts, because in this study it is stated that the relationship between the economic growth and the people welfare is significant. Theoretically, Van den Berg (2001) explains that economically the *indicators of success of development* are always connected to national and regional incomes, the increase in income per capita, and the *purchasing power party*, the enlargement of job opportunity and the decrease of poverty economically.
The increase in manpower absorption in each regency / city in South Sulawesi Province and the period of increase in manpower absorption are not always followed by the increase in people welfare. It means, the more manpower are absorbed in certain field of works has not yet been able to increase the income able to be allocated for education and health. The people income will conceptually give opportunity to community to improve their living quality through the fulfillment of their basic needs and the other supporting needs.

CONCLUSION

1. That the Government expenses in the form of capital expenditure allocation spent to facilitate the public needs in Regencies /Cities in South Sulawesi Province have a very small influence, since they have not

yet been established maximally and not yet been evenly distributed. The increase in capital expenditure is very important. Its key is on the realization of Government budget absorption, which so far is still very low.

2. The economic growth, manpower absorption and the people welfare are able to give contribution and others, so that the government of Regencies / Cities in South Sulawesi Province gives more emphasis on the government expenses for the fund expenditure, including the capital expenditure pursuant to the needs and priorities of each region. In this way, the proper distribution will be able to build the infrastructure for the regions respectively which later on will enlarge and smoothen activities of the people in improving their work productivity. In the end, it will be able to achieve the better economic growth and automatically will be able to achieve the people welfare in Regencies / Cities in South Sulawesi Province.

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