

ABSTRACT

This study aims to examine the effects of relationship between regional independency and local government expenditure for public service to affect economic growth in undevelopment regions. The Independent of variable used in this study are local revenues, local taxes, levies, capital expenditure for public service and economic growth.

The method used of this paper is to used associative casual research design samples in 125 districts and cities in Indonesia there are classified into undevelopmet regions, This research was conducted for time periode of 2007-2009. The types of data used are secondary data. and was obtained trough the site Statistical Indonesia (www.bps.go.id) and Directorate of Financing and Regional Capacity (www.djpkpd.go.id). In a collected the data of research has used a documentation technique, namely by collect materials and data that correlate with research problems was taken from books, article, journal, news and other source that add insight researchers.

The final results of these research showed that regionals independency has a positive effect on capital expenditure for public service to against the economic growth of undevelopment regions, as well as known positive relationship between the variables of capital expenditure in the public services to regional economic growth. In this research also note that Special Alocation Fund (DAK) as a variable has not moderated positive effect between .regional indenpedency and economic growth.

Key Words :*Local Government Finance, local tax income, levies, capital expenditure for public services, Economic Growth, ,*