

ABSTRACT

In order to implement regional development, the central government imposed a system of fiscal decentralization. Where local governments can regulate and allocate regional income independently. Fiscal decentralization policy have been implemented in 2001 which serves to increase regional income and develop all economic potentials that exist, so it can spur an increase in output and increase economic activity, and finally will impact on improve social welfare. During 5 years of fiscal decentralization in the province of Central Java is known that the period 2005-2009, economic growth of 35 districts/cities in Central Java province increased every year, but the increases are not occurring at the same time reducing the gap in each region. From the data obtained in mind the average amount of GDP based on constant 2000 prices in the largest there are only three regions, consisting of Semarang City, Cilacap District, and Kudus District.

This research aims to find out the influence of variable original local income (PAD), balance fund, private investment, labour on economic growth district or city in Central Java in 2005-2009 fiscal decentralization. The data of this research is panel data using secondary time series data and secondary cross section data. Data collected were analyzed with panel data with eviews 6 program. The method used in this research is the OLS (Ordinary Least Square) with a fixed effect model or LSDV (Least Square Dummy Variable).

From the research revealed that there is a positive influence among original local income (PAD), balance fund, private investment, and labour. However, balance fund and private investment does not significantly affect economic growth. Unlike the case with original local income and labour have significant impact on economic growth.

Keywords: fiscal decentralization, economic growth, original local income (PAD), balance fund, private investment, labour