PAPER NAME

c.5.a.2. The Effect of Local Taxes, Huma n Development Index, And Investment on Labor Absorption on E

AUTHOR

Amri Gunasti

WORD COUNT

11674 Words

CHARACTER COUNT

66843 Characters

PAGE COUNT

22 Pages

FILE SIZE

601.3KB

SUBMISSION DATE

Nov 25, 2023 8:02 PM GMT+7

REPORT DATE

Nov 25, 2023 8:04 PM GMT+7

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ISSN : 2549-5992, P-ISSN : 2088-0944
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The Effect of Local Taxes, Human Development Index, And Investment on Labor Absorption on Economic Growth

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ARTICLE INFO

Date of entry:
02 August 2023
Revision Date:
18 September 2023
Date Received:
29 September 2023

ABSTRACT

The study seeks to examine how local taxes, the human development index, and investments in labor absorption affect economic growth. Utilizing Smart PLS 3.0 for testing and statistical analysis, the research approaches include SEM analysis tools. The study's findings demonstrate that a variety of elements, including regional taxes, the Community Development Index, and investments, have a favorable and considerable impact on the region's ability to absorb workers. This demonstrates how raising local tax income, raising the community development index, and raising investment may all contribute to more job prospects in the area. The research also demonstrates that the same elements—local taxes, the Community Development Index, and investments—have a favorable and considerable influence on regional economic growth. This suggests that more investment, improved community development, and higher local tax revenues can all have a favorable impact on the area's economic growth. Last but not least. Furthermore, this study shows that employment has a positive and substantial impact on economic growth, indicating that a rise in the employment rate might help the region's economy expand as a whole.

Keywords: Economic Growth, Human Development Index, Investment, Labor Absorption, Local Tax.

Cite this as: Satoto, E. B. (2023). The Effect of Local Taxes, Human Development Index, And Investment on Labor Absorption on Economic Growth. *Wiga : Jurnal Penelitian Ilmu Ekonomi*, *13*(2), 168–189. https://doi.org/10.30741/wiga.v13i2.1080

INTRODUCTION

The objectives of economic development in developing nations today are to increase economic growth rates, expand employment possibilities, equalize income, lessen income disparities across regions, and create a balanced economic structure. The situation in emerging nations throughout this decade demonstrates that economic development is unable to produce job possibilities at a rate that is greater than the rate of growth in output. Consequently, the issue of unemployment is becoming more and more serious on an annual basis (Suryanto & Wulandari, 2020).
Economic growth as a result of a country's national income is the main goal in economic development efforts (Wahyuningrum & Juliprijanto, 2022). It is based on real GDP which can be found in quarterly or yearly time intervals. According to Wardani (2021) GDP refers to the sum of the final products and services produced by all economic entities or the total added value created

by all business entities. Another indicator of a nation's development is economic growth (D. Rahmawati, 2019).

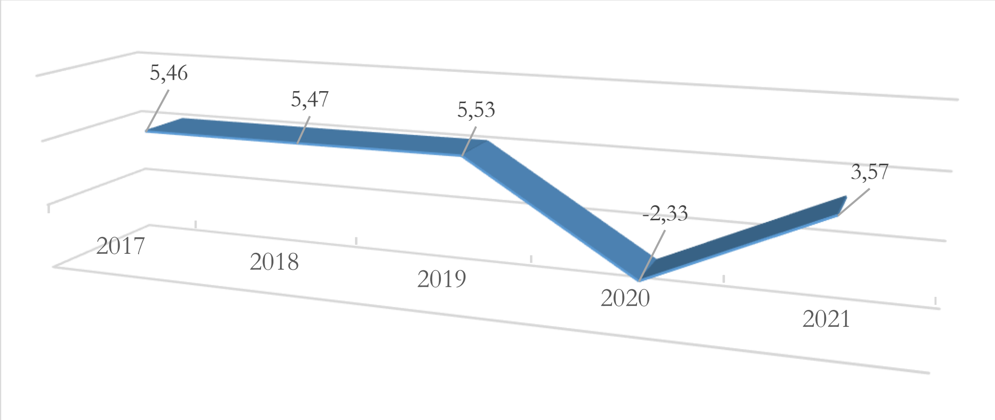

Figure 1. economic growth data in East Java Province
Source: BPS, 2021

Data on East Java Province's economic growth show that a number of its Regencies and Cities have had varying levels of economic growth. Information about East Java's economic development during a five-year period, from 2017 to 2021. It was 5.46 percent in 2017, grew to 5.47 percent in 2018, 5.53 percent in 2019, and then declined by -2.33 percent in 2020. In 2021, it increased to 3.57 percent, compared to 5.46 percent the year before.

In the meanwhile, according to information from the East Java Province's Office of Communication and Information, there were 22.87 million people employed in East Java in August 2022, a rise of 549.87 thousand persons from August 2021. The number of persons in the labor force increased by 575,54 thousand from August 2021 to 21.61 million. 342.87 thousand additional workers, or the greatest increase, were employed in Sector Trade. The number of workers in the agricultural industry, which saw a growth of 102.46 thousand, came next. 7.81 million persons, or 36.14 percent of the population, engaged in formal employment, according to the chairman of the East Java BPS. In comparison to August 2021, this number fell by 1.23 percentage points. In addition, Covid-19 impacted 624.91 thousand persons, or 1.95 percent of the population of working age. consists of the number of individuals who experienced a decrease in hours worked due to Covid-19 (523.87 persons), the number of people who were not in the labor force (BAK) due to Covid-19 (44.76 thousand), the number of people who were not working due to Covid-19 (22.71 thousand), and the number of people who were not working due to Covid-19 (33.57 thousand) (Kominfo Jawa Timur, 2022).

One method of boosting economic growth is investment, which involves planning annual capital expenditures (Fitri, 2022). It is reasonable to infer that the more money invested, the quicker the rate of economic growth since investment is an economic development activity that is strongly tied to economic growth. This is because investment has an effect on economic expansion (Pardiansyah, 2017).

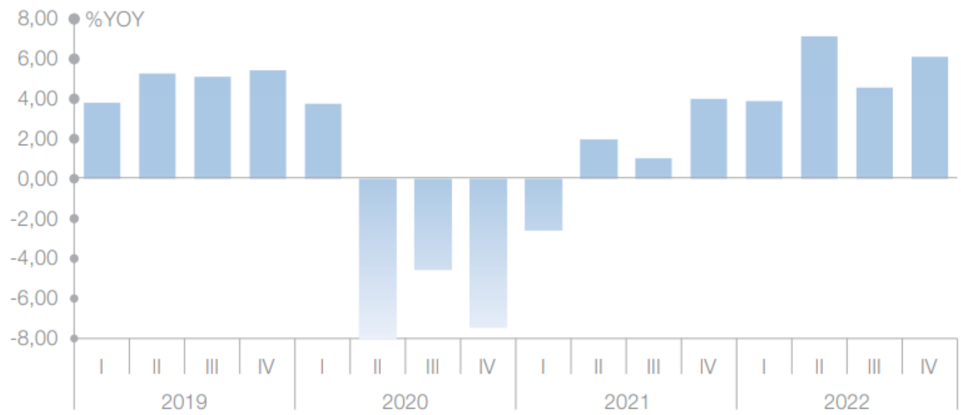

Figure 2. Investment Growth in East Java
Source: (Bank Indonesia, 2023)

In the fourth quarter of 2022, East Java's investment performance showed a YoY growth of 6.10%, surpassing the 4.57% YoY growth observed in the third quarter of the same year (refer to Figure 1). Throughout 2022, East Java's overall investment performance increased by 5.41% YoY, exceeding the growth rate recorded in 2021, which stood at 1.08% YoY. This improvement was primarily attributed to several factors. Firstly, the region achieved better control over Covid-19 cases and expedited the vaccination process, including second doses and booster shots. Additionally, government incentives continued to stimulate economic expansion in 2022. These measures collectively encouraged growth in productive economic sectors, leading to increased domestic demand within East Java and subsequently driving investments in these sectors. Moreover, East Java benefited from strong external demand, particularly for commodities such as gold/jewelry and animal/vegetable fats and oils. This robust external demand bolstered the region's foreign exports in 2022, contributing to positive investment growth. Furthermore, ongoing developments in Public Service Networks (PSN), the implementation of Presidential Regulation No. 80/2019 projects, and strategic private initiatives played a significant role in boosting investment growth, especially in the field of construction investments, across East Java in 2022 (Bank Indonesia, 2023).

East Java (Jatim)'s investment realization in 2022 was Rp110.3 trillion, an astounding 38.8% rise from the previous year. This shows that both local (domestic investment) and foreign (foreign investment) investors are finding Jatim to be a more desirable location (Jawa Timur, 2023). This rise even outpaced the 34% growth rate of national investment, highlighting the considerable contribution East Java makes to overall investment. A stunning 66.7% rise in foreign investment (PMA) was also noted, highlighting the keen interest that international investors have in East Java. Strong infrastructure, a skilled workforce, and the province's enormous market potential may all have an impact on this desire (Jawa Timur, 2023). On the other hand, domestic investment (PMDN) also had a sizable rise of 24.5%, showing that local business sectors continue to prosper and get support from local government initiatives. The province's crucial role in national investment growth, which may promote regional and national economic progress, is further supported by East Java's highest investment realization in the previous five years. Additionally, the significant investment growth in Jatim may be a sign of the province's strong economic growth, which might have a good effect on the economy generally by generating more jobs and boosting output (Jawa Timur, 2023).

According to Sari et al. (2016) and Wahana (2020) They argued that because of better investment services and expanded infrastructure, investment has a favorable and considerable impact on economic growth. Meanwhile in Rahmawati (2019) and Wahana (2020), highlighted that

disparities in the allocation of capital across various industries explain why investment has little impact on economic development.
The human development index (IPM), in addition to investments in economic growth-boosting techniques, can be used. The advancement of the economy today necessitates the utilization of highly qualified and competent human resources. This is demonstrated by the rapid technological advancements, population expansion, and labor skill and knowledge levels, all of which are crucial for generating economic growth. A country's status as developing, developed, or not developing is determined by the Human Development Index (IPM). A country's HDI score demonstrates its level of human development. HDI implies that there is a direct and very strong relationship between health and education on the one hand, and economic growth on the other (Saputro & Rosyadi, 2021).

According to Fajar & Azhar (2019), Fitriyani (2020) Saputro & Rosyadi (2021), They outlined how the human development index influences economic growth in a favorable and important way. In other words, when the HDI rises or increases, so does economic growth. While in research by Muqorrobin (2017) shows that the HDI has a negative and significant effect on economic growth. This is due to HDI's continued concentration in a select few industries, which fuels inequality, and HDI's still insufficient or negligible contribution to economic development.

Taxes are one of several elements in the economy that influence the rate of economic growth. The majority of the state's funding comes from taxes, which are also used to pay for state administration (Yunita & Sentosa, 2019). The state can be restrained since there is money available from public tax receipts. The act of collecting taxes is a reflection of the commitment and active involvement of the people who collectively fulfill the tax duties necessary for state funding and national growth. In this context, the tax, which helps pay for state administration, also highlights the community's involvement in growth as a payer.

Increased tax revenues are a sign of tax reform success in different regions, and these revenues will ultimately contribute to higher economic growth (Saragih, 2018). This is in accordance with the results of research conducted by Gebregziabher (2018) that tax revenues have a positive impact on economic growth. However, based on the results of research conducted by Sarah (2018), it has discovered that a rise in tax revenue doesn't always translate into increased economic growth due to the possibility of those revenues being allocated to non-productive expenditures. However, when tax revenue is directed towards productive ventures, it can positively influence a region or country's economic growth. A robust tax revenue capacity empowers governments to plan for future development, and in today's highly competitive global landscape, taxes remain a vital tool for establishing strategic advantages, funding administrative, military, and developmental initiatives. With this context in mind, this study aims to assess how local taxes, the Human Development Index, and investment impact labor absorption and, consequently, economic growth.

LITERATURE REVIEW

The Neo-Classical growth theory, which was formulated by TW Swan and Solow, posits that output growth is determined by a combination of three key factors: the quality of the workforce (influenced by factors such as education and population growth), an increase in quantity (population and labor force), and advancements in technology and the addition of capital. To gauge the progress in both the quantity and quality of the workforce, the Human Development Index serves as a valuable metric. This theory can be seen as an extension of classical economic thought, aimed at assessing the state of the economy in alignment with the ideal market, with the aspiration of achieving optimal economic growth. Neo-classical economists tend to be more optimistic compared to their counterparts, as they have faith in humanity's potential to overcome the challenges and constraints associated with development (Wardani, 2021).

Tax revenue is one of the domestic sources of income that the government receives from the required community contributions made in connection with specific activities (Hyman, 2014). As a

result, taxes have the effect of narrowing the gap between citizens, which in turn necessitates significant government spending for state finance, one of which comes from tax income.
A good and qualified workforce will provide high levels of output; hence, a high HDI will boost employment and have an effect on economic expansion. The second element, which is connected to the investment variable, is the increase of capital or investment. Due to increased investment, more fast investment will accelerate economic growth.

Local tax
Local taxes are required payments paid by people or organizations to the region without any immediate benefits. They can be imposed in accordance with existing rules and regulations, and the money they generate is used to fund regional development and local government operations (Subagiyo, 2018). Local taxes come in many different forms, including the property and building tax (PBB), the motor vehicle tax, the parking tax, and others (Kencana et al., 2022; Subagiyo, 2018). One of the key sources of local revenue (PAD) is local taxes, which may be used to fund a range of regional development initiatives and public services (Kencana et al., 2022).

Human Development Index
According to Mahroji & Nurkhasanah (2019) said that the development that focuses on the development of human resources in accordance with economic progress is what is meant by "human development." The physical and mental development of human resources has several implications. Increased human resources will expand participation opportunities in the sustainable development process. An indication of how well human development has progressed in a region is the HDI.

Investment
According to economic theory, this investment is seen as the acquisition of capital goods that will be employed for future output but are not consumed now. It's feasible that with this investment, a region's economy will eventually create more products and services. The act of allocating resources, often money, with the hope of making money is referred to as investing (Mustafakulov, 2017). In the context of economic development, investment can denote the allocation of resources to build capacity, enabling economic actors—whether individuals, firms, or communities—to realize their potential (Feldman et al., 2016). Investment can also encompass the allocation of resources for innovation, including technological innovation, which plays a crucial role in sustaining high-growth innovative firms (Wang, 2022). In the microfinance context, investment can pertain to impact investment, where funds are deployed with the aim of generating social and environmental impacts in addition to financial returns (La Torre & Chiappini, 2016). The socioeconomic potential of a place, the use of investment flow techniques in the production process, and the direction of successful investment toward the growth of economic reproduction may all be taken into account when determining a territory's investment attractiveness (Mustafakulov, 2017).

Labor Absorption
The amount of jobs that have been filled, as shown by the big workforce, is known as labor absorption. The working population is absorbed and dispersed over different economic sectors. The need for labor drives the absorption of the working population (Kuncoro, 2010). Wages, the quantity of industrial businesses, Gross Regional Domestic Product (GRDP), investment value, technology, education, and the minimum wage are some variables that affect labor absorption in Indonesia (Rahmawati, 2019).

Economic growth
A continuous improvement in a nation's economic circumstances is known as economic growth. Economic growth is a long-term improvement in a nation's or region's capacity to offer its people

an increasing number of economic products; this capacity increases in accordance with technology advancements and the required institutional and ideological changes.(Jhingan, 2007). GDP/GNP is calculated regardless of whether the growth rate is higher or lower than the rate of population growth or whether or not there are changes to the economic structure. If a new economy's per capita income exhibits a sustained upward tendency, it may be deemed to be in a developing state.

The Effect of Local Taxes on Labor Absorption

Increased local tax revenues, which will then be used for production activities to produce output in the form of goods and services, will increase economic growth. This will happen as a result of people paying more local taxes and the local government being more active in collecting local taxes.

Effect of Human Development Index on Labor Absorption

The new growth theory underscores the pivotal role of government, particularly in enhancing human capital development and promoting research for heightened human productivity. This is substantiated by the evidence that investments in education have the capacity to enhance the quality of the workforce, leading to an augmentation of knowledge and skills. As an individual's educational attainment rises, their knowledge and skills also expand, thereby stimulating increased work productivity. Companies benefit from employing highly productive workers, prompting them to offer more competitive salaries. In sectors like agriculture, where the informal workforce is prevalent, the enhancement of skills and labor expertise can significantly boost agricultural output, as skilled labor operates with greater efficiency. Ultimately, individuals with heightened productivity experience improved welfare, reflected in increased income and consumption. Consequently, a high Human Development Index contributes to enhanced employment prospects.

Effect of Investment on Labor Absorption

According to the Solow-Swan theory, the Capital production Ratio (COR) is dynamic, implying that a well-balanced mix of capital and labor is needed to create a given level of production. Conversely, if the use of capital is low, the use of labor will be high, and vice versa if the use of capital is high. According to Sulistiawati (2012), investment has a large impact on labor absorption, the economic growth variable has no discernible impact on investment's impact on economic growth.

The Effect of Local Taxes on Economic Growth

Local taxes are obtained from the community as taxpayers. Sunarto & Sunyoto (2016) indicated that local governments are attempting to develop their regional economy as a result of high regional taxes and levies increasing the amount of money that enters the regional treasury. Local taxes have a favorable and considerable impact on economic growth, according to the research they conducted. This is due to the fact that tax money is utilized to pay for local expenses, such as those that stimulate regional economic growth. It is anticipated that the rise in local taxes would promote regional economic growth. Each area will be able to expand the sectors associated to economic growth if it can handle tax revenues as effectively as possible. It might be claimed that local taxes are necessary for supporting regional economic progress.

Effect of Human Development Index on Economic Growth

A dual causal link exists between economic growth and human development, whereby economic expansion promotes human development while, conversely, promoting human development also facilitates economic growth (Ranis et al., 2000). Costantini & Monni (2008) argues that high human development growth indirectly has a positive effect on economic growth.

The direction of economic progress is significantly influenced by human development. Prioritizing human development is necessary to accomplish rapid economic growth and prepare for the next step. Therefore, prioritizing human development above economic growth is essential. However, this was denied by Ranis et al. (2006) which states that economic growth and human development must go hand in hand simultaneously.

Effect of Investment on Economic Growth

According to Todaro (2003), Because economic growth and investment are interdependent and dependent upon one another, growth is a function of investment. The growth rate attained increases with more investment. On the other side, an investment function of economic growth shows that the larger the rate of economic growth, the bigger the income that may be saved and invested. There will be more employment possibilities as a result of increasing investment in different places. More labor is absorbed into the work market since there are more employment options. If both labor and capital are fully used, this arrangement can boost output. Increased output leads to more income, which in turn promotes economic growth as indicated by the GRDP score.

Effect of Labor Absorption on Economic Growth

The workforce in a region is one factor that may either help or hinder economic development. This is consistent with the Solow hypothesis, which holds that an area's labor increase has an impact on economic growth. The area's present market is undoubtedly being significantly expanded by the rise in the personnel available, allowing the region to enhance output. Because of the region's increased productivity, the economy will flourish there.

The Effect of Labor Absorption mediates Regional Taxes on Economic Growth

growing tax collections, which will ultimately have an influence on growing economic growth, may be used to gauge the success of tax reform. Gebregziabher (2018) claims that tax money has a favorable effect on economic expansion. According to the Neo-Classical Economic Growth Theory, the advancement of the factors of production, specifically labor, determines economic growth (as measured by regional GDP growth) (Sukirno, 2011). The level of output will rise with more workers, which may have an impact on tax collections.

The Effect of Labor Absorption mediates the Human Development Index on Economic Growth

According to neo-classical theory, education allows individuals to raise the standard of human resources, and competence raises job output. High productivity will result in a workforce of high caliber and boost production, and as a result of this rise in output, businesses or government organizations will provide new employment possibilities for the local population. So it will lower unemployment and raise income. Economic growth will rise as a result of these circumstances. According to Dinarjito's research from 2021, HDI has a strong favorable impact on labor-based economic growth.

The Effect of Labor Absorption mediates Investment on Economic Growth

Neo-classical theory claimed that investment may have an impact on employment since more investment in a region would be followed by more employees. The more money invested in a business or government organization, the more jobs that organization will provide for the neighborhood. As a result, unemployment will decline, incomes will rise, and more people will be employed, which will help businesses boost output. Thus, economic growth will be boosted as a result of this condition. Investment has a major influence on economic growth through employment, according to Fajariyah's (2018) research.

Hypothesis

H1: Local Taxes have a positive and Significant effect on Labor Absorption
H2: Human Development Index has a positive and Significant effect on Labor Absorption
H3: Investment has a positive and significant effect on Labor Absorption
H4: Local Taxes have a positive and Significant Effect on Economic Growth
H5: Human Development Index has a positive and significant effect on Economic Growth
H6: Investment has a positive and significant effect on Economic Growth
H7: Labor Absorption has a positive and Significant effect on Economic Growth

H8: Labor Absorption mediates Local Taxes on Economic Growth
H9: Labor Absorption mediates the Human Development Index on Economic Growth
H10: Labor Absorption mediates Investment on Economic Growth

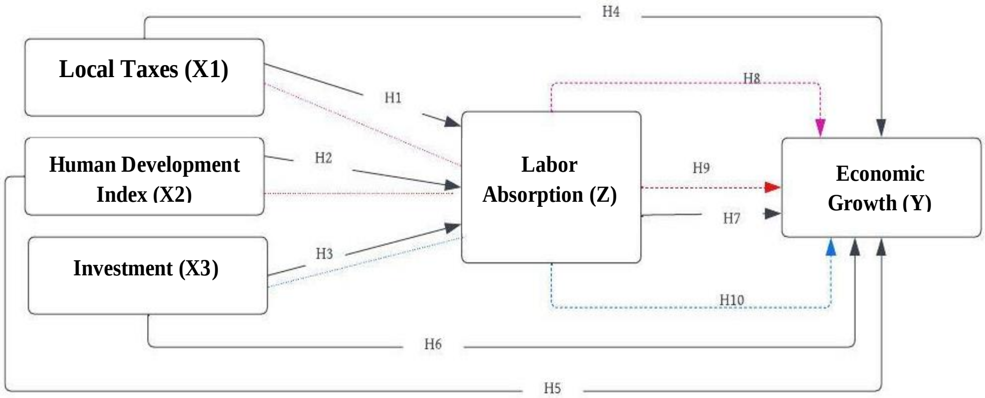

Figure 2. Research Framework
Source: Data processed by the author, 2023

METHODS

Secondary data from the Central Bureau of Statistics (BPS) was used in this study. In East Java, it tries to ascertain if the independent factors (Regional Taxes, Human Development Index, and Investment) have an impact on the dependent variable (Economic Growth) through intermediary variables (Labor Absorption) in the years 2017 through 2021. It combines non-probability sampling with purposeful sampling when choosing the sample for the purpose. Due to the fact that the sample is chosen after taking into account which sample is the most beneficial and tailored for the goal (Retnawati, 2017). from the population of 38 regencies and cities in the province of East Java between 2017 and 2021.

The statistical computations are carried out using SmartPLS version 3.0 software, and the analytical methodology makes use of the SEM (Structural Equation Model) and PLS (Partial Least Square) approach. According to Ghozali & Hengky (2015), PLS is a powerful analytical method that is not based on many assumptions. PLS is a type of multivariate analysis in the social sciences. The purpose of multivariate analysis, namely confirmation and exploration (Hair et al., 2013). PLS analysis is a type of structural equation modeling (SEM) that concurrently tests the structural model and the measurement model. The outer model and inner model of the PLS model are assessed. The inner model is a structural model to predict the causality link between latent variables, whereas the outer model is a measurement model to forecast the relationship between estimated indicators or parameters and their latent variables.

Independent Variables:
Local Tax
Tax data is annual data from 2017 to 2021. The unit of tax data used is billion rupiah.
Human Development Index
The Central Statistics Agency (BPS) provided data in percent units for the East Java Province's regencies and cities from 2017 to 2021 that were utilized to calculate the human development index used in this study.

Investment

E-ISSN : 2549-5992, P-ISSN : 2088-0944
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Investment is the phrase for capital expenditures made with the purpose of enhancing future capacity for the production of products and services with added value.

Dependent Variable:
Economic Growth
GRDP (Gross Regional Domestic Product) at constant prices can be used to measure regional economic growth. A region's overall output of goods and services at a given moment is known as its GRDP. GRDP outlines a region's economic activity.

Intervening Variable
Intervening variables are factors that, in theory, influence the connection between the independent and dependent variables in a way that cannot be quantified or seen. This variable acts as a mediator between the independent and dependent variables, ensuring that the former has no direct bearing on the latter's occurrence or change.

Labor Absorption
The data on labor absorption in this study uses data on people who work in districts / cities in East Java Province in 2017-2021 sourced from data from the Central Statistics Agency (BPS) in soul units.

RESULTS AND DISCUSSION

Validity and Reliability Test
A collection of indicators must reflect both the underlying latent variable and one latent variable in order to have convergent validity. Outer loading values or loading factors can be applied to assess convergent validity. A signal is acknowledged as meeting convergent validity.

The composite dependability of the indicator block that measures the construct can be used to assess the reliability of a construct or variable. If the composite reliability rating is more than 0.70, the construct is acknowledged as reliable. Cornbach alpha is also used to examine dependability.. Tsai & Lydia Wen (2005) states that cornbach alpha in PLS is said to be good if it is ≥ 0.5, and it is said to be sufficient if it is ≥ 0.3. If a construct meets these criteria, it can be said that the construct is reliable.

Table 1. Validity and Reliability Test Result

Indicator	Cronbach's Alpha	Composite Reliability	AVE
Investment	0.894	0.872	0.758
Labor Absorption	0.845	0.848	0.764
Economic growth	0.903	0.940	0.774
Human Development Index	0.850	0.909	0.687
Local tax	0893	0911	0.703

Source: Data Processed, 2023

Table 2, has an AVE value > 0.5, for that all latent variables are said to be valid, Cronbach's Alpha value > 0.7, for that all latent variables are said to be reliable, so they can be used for further research and analysis.

Coefficient of determination (R-Square)

Table 2. The coefficient of determination (R-Square)

	R Square
Labor Absorption	0.645

E-ISSN : 2549-5992, P-ISSN : 2088-0944
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Economic growth	0.705

Source: Data Processed, 2023

R2 demonstrates that local taxes, the human development index, and investment have a 64.5% effect on labor absorption; the remaining 35.5% is influenced by additional factors not accounted for in the model. While local taxes, the human development index, investment, and labor absorption account for 70.5% of the factors influencing economic growth, the remaining 29.5% is impacted by additional variables not taken into account by the model.

Q-square Predictive Relevance

To evaluate how effectively the observed values are created by the model and the parameter estimations, analysis of Q2 predictive relevance findings is employed. If Q2 > 0 then the model is predictively relevant, and if Q2 0 then the model is not predictively relevant.

Q2 = 1-(1-R1) x (1-R2)
= 1 - (1 – 0.416) (1 – 00.497)
= 1 - (0.584) (0.503)
= 0.2937

Economic Growth is influenced by Regional Taxes, Human Development Index, Investment and Labor Absorption of 29.37% meaning that the observed values have been well reconstructed with predictive relevance.

T test (T-Statistics)

The inner model value indicates a significant level of hypothesis testing in a study. The influence of the structure between variables is said to be significant if the p value or t statistic > t table (Ghozali, 2014).

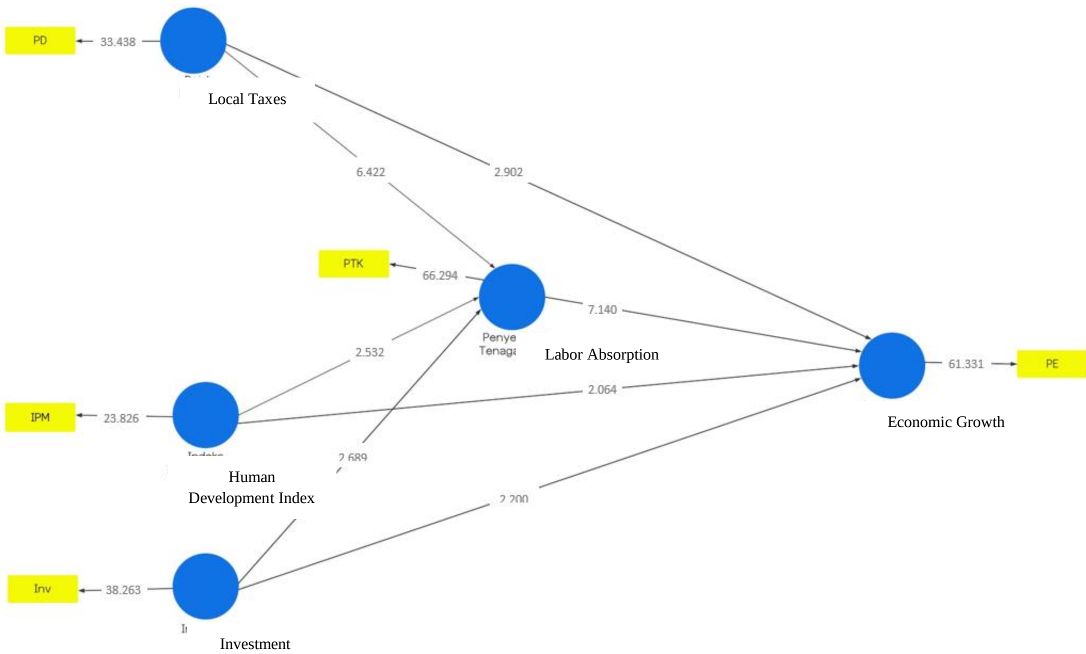

Figure 3. Path Analysis Results
Source: Data Processed, 2023

Table 3 Path coefficient values

	Original	Sample	Standard	Q	P	Conclusion

	Sample (O)	Mean (M)	deviation (STDE V)	Statistics (|O/STD EV|)	Value	
Local Tax ->Labor Absorption	0.496	0.495	0.082	6,422	0.000	Accepted
Human Development Index ->Labor Absorption	0.209	0.215	0.081	2,532	0.010	Accepted
Investment ->Labor Absorption	0.167	0.164	0.066	2,686	0.011	Accepted
Regional Tax -> Economic Growth	0.431	0.437	0.073	2,902	0.000	Accepted
Human Development Index -> Economic Growth	0.151	0.145	0.075	2064	0.044	Accepted
Investment ->Labor Absorption	0.136	0.136	0.064	2,200	0.035	Accepted
Labor Absorption -> Economic Growth	0.420	0.419	0.065	7.140	0.000	Accepted

Source: Data Processed, 2023

The T-statistic is 6.422> 1.96 and the P-value is 0.000 0.05, which indicates that local taxes have a positive and substantial impact on labor absorption based on the route analysis table. The Absorption of Labor in East Java is therefore positively and significantly impacted by the Regional Tax. According to this, Ha has been accepted.

Because the T-statistic is 2.532 > 1.96 and the P-value is = 0.010 0.05, the Human Development Index significantly and positively affects labor absorption. Therefore, East Java's labor absorption is positively and significantly impacted by the Human Development Index. According to this, Ha has been accepted.
Because of the T-statistic's value of 2.686 > 1.96 and the P-value of = 0.011 0.05, investment has a positive and substantial impact on labor absorption. Therefore, investment has a favorable impact on East Java's labor absorption. According to this, Ha has been accepted.

Because the P-value is 0.000 and the T-statistic is 2.902 > 1.96, regional taxes have a positive and significant impact on economic growth. As a result, East Java's economic growth is benefited by the regional tax. According to this, Ha has been accepted.

Because the P-value is equal to 0.044 and the T-statistic is 2.064 > 1.96, the Human Development Index has a positive and substantial impact on economic growthTherefore, the Human Development Index has a favorable impact on East Java's economic development. According to this, Ha is accepted and H0 has been rejected.

The T-statistic is 2.200 > 1.96 and the P-value is = 0.035 0.05, indicating that investment has a positive and substantial impact on economic growth. Thus, investment has a favorable impact on East Java's interest in economic progress. As a result, Ha has been accepted.

The T-statistic is 7.140 > 1.96 and the P-value is = 0.000 0.05, indicating that labor absorption has a positive and substantial impact on economic growth. As a result, the Absorption of Labor contributes to East Java's Economic Growth. This declares that Ha has been believed.

Table 4 Indirect Effects

	Specific Indirect Effects	Q Statistics (|O/STD EV|)	P Values	Conclusion
Local Tax ->Labor Absorption ->	0.208	4,705	0.000	Accepted

Economic Growth				
Human Development Index ->Labor Absorption -> Economic Growth	0.070	2,278	0.023	Accepted
Investment ->Labor Absorption -> Economic Growth	0.088	2,304	0.022	Accepted

Source: Data Processed, 2023

Regional taxes exert a favorable and substantial impact on economic growth via Labor Absorption, evidenced by a T-statistic of 4.705, surpassing the threshold of 1.96, and a P-value of 0.000, which is lower than 0.05. Consequently, it is established that Regional Taxes positively influence Economic Growth through Labor Absorption in East Java, confirming the acceptance of Ha.

Similarly, the Human Development Index exhibits a beneficial and significant influence on Economic Growth through a chain of effects: Human Development Index -> Labor Absorption -> Economic Growth (with coefficients of 0.088 and 2.304, respectively), where Labor Absorption stands out with a T-statistic of 2.278, exceeding the critical value of 1.96, and a P-value of 0.023, which is less than 0.05. Consequently, it can be concluded that the Human Development Index fosters Economic Growth through Labor Absorption in East Java, affirming the acceptance of Ha.

Furthermore, Investment demonstrates a constructive and noteworthy impact on economic growth through Labor Absorption, as indicated by a T-statistic of 2.304, surpassing 1.96, and a P-value of 0.022, below 0.05. Hence, it is established that Investment positively contributes to Economic Growth through Labor Absorption in East Java, affirming the acceptance of Ha.

Discussion

The Effect of Local Taxes on Labor Absorption

This demonstrates a one-way link between municipal taxes and labor in East Java; this can act as a catalyst and provide job chances for those in need of work, increasing overall revenue. Because regional taxes are levied by the region itself to fund regional development, they reflect the degree of autonomy a region possesses. Increased local tax revenues will then be used to fund production activities that will generate output in the form of goods and services, which will spur economic growth. This will happen as a result of people paying more local taxes and the local government being more active in collecting local taxes. This study supports the Solow-Swan Theory, according to which economic development depends on the availability of means of production, one of which is capital accumulation, in this case, municipal taxes (Mutiara, 2015). Based on this theory, it is understood that input factors, particularly local taxes, play a significant role since they affect the volume of output generated. This is so that development may be carried out using local taxes as capital, which will spur economic activity and generate output in the form of products and services, which will eventually spur economic growth.

This study is in line with the results of the study by JK Dewi & Budhi (2018); Handayani & Hasmarini (2015) and Yunita & Sentosa (2019) which states that local taxes have a positive and significant effect on Labor Absorption.

Effect of Human Development Index on Labor Absorption

The human development index (HDI) is the most significant factor in creating labor productivity and a tool for measuring the degree of human performance. greater output of products and services results from greater work productivity. From these conditions, a business will provide employment prospects for the neighborhood.

This research is in line with previous research (Hafiz & Haryatiningsih, 2021; Nurhardiansyah & Istiyani, 2019; Yuliathinerda, 2019) which states that there is a positive influence between the human development index on employment. According to Makna (2016)Human resources or human capital is one of the factors that are owned to obtain employment opportunities. Because in the world of work what is needed is the skills and qualities of a person, so that in achieving quality human resources there are components such as education and health. Good education and adequate health are expected to be able to create quality human resources. Human resources are also a key factor in economic reform, by creating quality human resources with various skills so they can compete in global competition. For companies, human resources are an important asset because human resources will determine whether the organization or company is progressing or not, the higher the quality of human resources will advance the company so as to increase output and benefit the company so as to create new branches for the company which will absorb labor.

The conclusions of this study, however, do not match those of earlier studies that were supported by previous research conducted by Bella (2018) and R. N. Sari & Nurhayati (2019) It claims that Indonesia's job absorption is unaffected by the human development index. Syolikhah (2021) demonstrates that the HDI has little to no positive impact on employment. And in research by Prawoto (2018) shows that the HDI has no significant negative effect on employment.

Effect of Investment on Labor Absorption

This entails demonstrating that investment in and of itself has a direct impact on employment generation. with the creation of several employment options for the neighborhood, resulting in a low unemployment rate. Investment is East Java's main economic resource from the perspective of expenditures, and investment is essential for economic progress (Perdana, 2018). One of the primary determinants of economic development is investment. Investment is a reflection of both effective demand and supply's capacity to increase productive efficiency for future output. Due to infrastructure development, which makes investments feel the advantages of economic growth, there is a relationship between investment and economic growth.

The results of this study are in line with research conducted by Hafiz & Haryatiningsih (2021) and Renaldi (2022) It has the consequence that the investment variable concurrently and partially has a strong beneficial impact on labor absorption. According to Harrord Domar's thesis, increasing production and job prospects may be accomplished through the accumulation of capital through investment and savings (Boianovsky, 2018). The production factors in developed nations are capital-intensive, thus the techniques they create or use in their own countries—which also tend to be capital-intensive—are applied to investments made in emerging countries. Because capital-intensive procedures with high technology often have superior productivity and efficiency, producing the same huge output simply takes less work, the degree of foreign investment tends to lower the quantity of labor. This is not in accordance with research Wasilaputri (2016) which states that investment is not significant and has a negative effect on labor absorption.

The results of this study are not in line with research by Liana et al. (2020) and Wasilaputri (2016) who explains that investment has no significant effect on labor. But contrary to research by Putri & Soelistyo (2018) which shows the results that investment has a positive and significant effect on economic growth.

The Effect of Local Taxes on Economic Growth

Research findings demonstrating that regional taxes have a positive and substantial impact on regional economic growth support the notion that local taxes have a positive and significant impact. This implies that when local taxes are raised, the area economy will likewise rise. On the other hand, regional economic expansion would slow down if local taxes rise.

The results of this study are supported by previous research conducted (J. K. Dewi & Budhi, 2018; Syamsiyah et al., n.d.) that taxes significantly and favorably impact local economic growth. Research by Ojong et al. (2016) that The influence of higher tax collections has a big impact on

Nigeria's economic development. Sunarto & Sunyoto (2016) showed that local tax resources are used to pay for government spending, especially to promote local economic growth.

Regional autonomy uses taxation to guarantee steady economic growth. Economic activity follows the government and its citizens in enforcing tax laws, and both the people's payment of local taxes as well as economic activity itself have boosted regional economic growth. The government's use of local tax revenues to build public infrastructure and facilities that the community can use to support businesses that produce goods and services is what accounts for the positive impact of local taxes on regional economic growth. Economic growth is shown by the economic activities. Consequently, economic growth will be larger the higher the municipal tax used.

Effect of Human Development Index on Economic Growth

These findings support the idea that claims there is a correlation between the human development index and economic growth. In other words, economic growth will increase if the human development index rises. However, the study's findings reveal a negative correlation, indicating that as the HDI rises, economic growth declines. In order to optimize the factors of production, excellent human development is necessary. This is why the human development index plays such an important role for economic growth. A population of high caliber will be creative and develop current manufacturing elements. In addition, a high population is a result of high human progress, which raises consumption. This will make encouraging economic growth simpler (Sukirno, 2016). It is time for development to no longer be placed on the strength of natural resources (natural resouces based), but rather (based on human resources) on the strength of human resources. The key is to give human development a high priority since it will result in rapid economic growth (Ginting et al., 2008).

The results of this study are in line with the results of the study by (Izzah, 2015; Siregar & Tanjung, 2020; Susanto, 2013) which claims that economic growth is positively and significantly influenced by the human development index. However, the findings of this investigation do not agree with those of the previous study by Rorong (2022) which shows that the human development index has a negative effect on economic growth. In line with this the results of this study are inversely proportional to the research (Dongoran, 2017) demonstrates that the impact of the HDI on economic growth is not favorable or significant.

Effect of Investment on Economic Growth

Investment or investment is crucial in promoting economic growth in regional development. Investment activities provide a community the ability to constantly enhance its economic activity, job possibilities, and degree of community development. An increase in investment will boost aggregate demand and national income in the macroeconomy (Anwar, 2014). An economy's production capacity will rise as a result of this rise in aggregate demand, which will also raise the need for labor in the production process and, consequently, the number of job possibilities.

Employment in small industries will rise as a result of the significant investment. The government's ability to generate high investment and a substantial and high-quality labor absorption is the reason why the investment variable in this study has a considerable positive sign. High employment and investment levels will also be able to benefit society as a whole. Investment will promote employment growth as well. Creating more jobs will lower the unemployment rate. Poverty will decline when unemployment declines. And addressing other issues like starvation, illiteracy, crime, and others will be impacted by lowering poverty.

This investment or those investments have an impact on economic expansion, as research conducted by (Bimantoro, 2016) which shows that investment, in this case foreign investment, has a positive effect on economic growth. The results of this study are in line with research conducted by Arifin (2017) and Astuti (2018) It asserts that investment has a big and favorable impact on economic growth.

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E-ISSN : 2549-5992, P-ISSN : 2088-0944
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However, certain research findings run counter to the research from Fitriadi et al. (2014), it demonstrates that there is no discernible impact on economic growth from this investment. Additional research backs up this. conducted by Sulistiawati (2012) who came to the conclusion that investment had a negligible impact on economic growth and a negative link with it.

Effect of Labor Absorption on Economic Growth

This is compatible with Adam Smith's thesis, which sees laborers as one of the manufacturing process' inputs. According to the neo-classical theory of economic growth, the development of the three main production factors—capital, labor, and technology—determines economic growth, which is gauged by regional GDP growth. Human characteristics and their interactions with other production elements have a significant impact on economic growth. using population as a productivity factor. Rapid increase in the workforce, especially among young employees, is a result of high population growth. Growth in the labor force (AK) and population have long been seen as important drivers of economic expansion (Todaro & Smith, 2009).

Even yet, it is still debatable whether or not the rapid pace of population expansion will truly have an influence on economic growth for the better or worse. It is also claimed that the capacity of the local economic system to absorb and effectively employ the additional workers determines whether population expansion has good or negative consequences. This capacity is affected by the degree and kind of capital accumulation, the accessibility of inputs, and auxiliary elements like management and administrative abilities.

These findings are in accordance with Larasati's (2018) research, which demonstrates that employment has a favorable and considerable impact on economic growth. However, the findings of this study differ with those of studies by Ilham et al. (2021) and Wihda & Poerwono (2014), which came to the conclusion that labor had little impact on economic growth. Labor, on the other hand, has an impact on economic growth, according to study by Astuti (2018).

The Effect of Labor Absorption mediates Regional Taxes on Economic Growth

The boost in local tax revenues will lead to an increase in funds available for productive endeavors, resulting in the creation of goods and services. This, in turn, will drive economic growth. The rise in local taxes is facilitated by the active engagement of individuals contributing to regional tax payments and the diligent efforts of the local government in tax collection. This research is in line with the Solow-Swan Theory (Acemoglu, 2009), In scenarios where economic growth hinges on the provision of various factors of production, including capital accumulation represented by local taxes, it is evident that input variables, particularly local taxes, play a pivotal role in shaping the quantity of output generated. This is because local taxes function as the capital necessary for carrying out developmental initiatives, thereby stimulating economic activities and yielding output in the form of goods and services, ultimately culminating in an augmentation of economic growth. The presence of regional revenues, notably derived from the local tax sector, ensures the smooth operation of the economy and development within a region. This, in turn, fosters an environment conducive to private sector and household resource allocation, consequently driving an upswing in Economic Growth.

The results of this study contradict the results of research by J. K. Dewi & Budhi (2018) It claims that the indirect impact of local taxes on economic growth through labor is ineffective in mediating the impact of local taxes on growth.

The Effect of Labor Absorption mediates the Human Development Index on Economic Growth

It is reasonable to expect that educated people may improve the caliber of human resources. An rise in education has a significant influence on expertise, resulting in higher job productivity and the development of a skilled workforce. Increased productivity results in more substantial output

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outcomes, which encourages businesses or agencies to provide jobs for the local population. As a result, economic growth is promoted as working population income increases.

These findings align with research conducted by Prasetyo & Dinarjito (2021), proving that economic growth through employment is positively and significantly influenced by the Human Development Index (HDI). However, this contrasts with research by Millah (2020), It suggests an antagonistic connection. According to the second research, HDI has a detrimental and small effect on economic growth through employment.

The Effect of Labor Absorption mediates Investment on Economic Growth
The study's findings reveal that Labor Absorption plays a significant role as an intermediary variable in the connection between Investment (PMA) and Economic Growth. In a direct analysis, Investment (PMA) has the capacity to directly impact Economic Growth. However, when Labor Absorption is introduced as an intervening factor, the influence of Investment (PMA) on Economic Growth undergoes modifications.

The pathway through which investment contributes to economic growth via labor absorption is facilitated by the propensity of business proprietors to allocate their investments towards the procurement of capital machinery, typically in the form of machines, aimed at bolstering the company's production processes. This strategic approach serves the purpose of enhancing production quality and amplifying the efficiency and effectiveness of goods and services, thereby necessitating fewer labor inputs. Nevertheless, it's crucial to underscore that human capital remains a paramount determinant of productivity. The assessment of a country's economic growth entails the computation of the aggregate income earned by residents through their participation in economic activities, juxtaposed with the total costs incurred in the production of goods and services. Excessive reliance on labor can potentially hinder the production of goods and services, thereby acting as a deterrent to fostering robust economic growth.

As postulated by Adam Smith, the growth process operates concurrently and interdependently. Improvement in one sector not only catalyzes capital investment but also propels technological advancements, fosters specialization, and expands market opportunities, collectively reinforcing a mutually beneficial relationship among these facets. In turn, this will encourage faster economic growth (Ucak, 2015).

These findings diverge from the research by Millah (2020), which indicates a positive yet insignificant impact of investment on economic growth through employment. However, they are in concordance with the research conducted by F. Dewi (2018), that shows a highly favorable impact of investment on labor-driven economic development.

DISCUSSION
The results of research data analysis that have been carried out show that transformational leadership has a positive and significant effect on normative organizational commitment. The results of this identification indicate that low normative organizational commitment can be influenced by transformational leadership. The better transformational leadership is carried out, the better the organizational commitment. This shows that indicators in transformational leadership which include influence, power, authority, mutual response and acceptance zones in the organization can improve employee engagement.

In maintaining organizational commitment, the role of a leader is very necessary, and effective leadership is the main requirement. Leaders who are effective in applying a certain style in their leadership must first understand who the subordinates they lead are, understand the strengths and weaknesses of their subordinates, and understand how to utilize the strengths of their subordinates to compensate for the weaknesses they have. Kampkötter et al., (2021)tested the influence of relationship- and task-oriented leadership behavior on organizational commitment. The findings show that relationship-oriented leadership behaviors that include building trust, providing inspiration, vision, encouraging creativity and emphasizing development have a positive effect on employees' affective commitment. Meanwhile, task-oriented leadership behavior also influences employee affective commitment, although the level of influence is lower

In an organization or company, humans play an active role in every company activity, because humans are planners, actors and help realize the organization that has been planned and planned and determined by the company. The benchmark is how leadership can be developed and then implemented and understood by employees. In maintaining organizational commitment, the role of a leader is very necessary, and effective leadership is the main requirement. Leaders who are effective in applying a certain style in their leadership must first understand who the subordinates they lead are, understand the strengths and weaknesses of their subordinates, and understand how to utilize the strengths of their subordinates to cover their weaknesses. (Li et al., 2021)

Organizations also need to pay attention to work environment factors because they have the possibility of influencing employees at both lower and middle levels and upper levels in their decisions to leave or continue working for the organization. Organizations need to pay attention to things such as structuring work environment factors that make employees feel comfortable and safe in their workplace. The results of the research state that the work environment has a positive effect on organizational commitment. If someone is not comfortable with their work environment, they will quickly leave the organization (Katou et al., 2021).

Transformational leadership also has a positive and significant effect on employee engagement. These results identify that the level of employee engagement can be influenced by this transformational leadership. The better transformational leadership is carried out, the better the organizational commitment. This shows that indicators in transformational leadership which include influence, power, authority, reciprocal response and acceptance zones that exist in the organization can improve employee engagement.

Transformational leadership is leadership that inspires employees, which can make employees more enthusiastic in carrying out their duties and make employees prioritize the interests of the organization rather than their own interests. Employee engagement is a deep feeling that employees feel about their work. If employees have enthusiasm in carrying out their work, employees will enjoy their work, making it difficult for employees to separate themselves from their work.

A good work environment will have a direct impact on employee engagement. Every company must always strive to create and maintain a good work environment so that employees can work and be comfortable, peaceful and stable as expected so that it is possible to improve good work engagement and produce good products (Nabawi, 2020; Sofyan, 2013). A satisfying work environment for the employees of the company concerned will be able to increase work enthusiasm in the company concerned. Vice versa, an unsatisfactory work environment will reduce employee morale and reduce the level of work productivity of employees who work in the company concerned. The relationship between a good work environment and high levels of employee productivity in a company cannot be doubted. (Ahyari, 2009).

High or low employee engagement can be influenced by the normative organizational commitment. The better the normative organizational commitment is carried out, the better the employee's engagement. This shows that indicators in organizational commitment which include loyalty, policies and beliefs that exist in the organization can improve employee engagement.

Organizational commitment is a situation where an employee sided with a particular organization and the goals and desire to maintain membership in the organization. So high job involvement means siding with an individual's particular job according to Shaleh & Firman (2018).

Organizational commitment in the form of belief, trust and strong acceptance of high organizational goals and values will have a good impact on the company in the form of better engagement due to employee awareness of the organization's goals.

CONCLUSION

Local taxes, the Community Development Index, and Investment each wield a positive and substantial influence on Labor Absorption. Furthermore, Local Taxes and the Community Development Index significantly contribute to Economic Growth, as does Investment. Labor Absorption, in itself, also has a favorable and noteworthy effect on economic growth. Concerning the economic growth variable, it is imperative for Regency/City governments to actively promote the growth of smaller sectors that currently make limited contributions to the overall Gross Regional Domestic Product (GRDP) of East Java Regency/City. In their capacity as rational planning bodies, governments should explore novel revenue sources within the regional revenue sub-sector. This exploration aims to bolster the development budget effectively, efficiently, and economically, ultimately enhancing the welfare of the community

To foster economic growth, local governments must endeavor to increase both routine and development expenditures while ensuring their judicious and targeted allocation. This approach aligns with the objectives of promoting equitable development and empowerment programs, particularly benefiting productive individuals with lower incomes, thereby elevating the overall welfare of the community.

Regarding the Human Development Index, enterprises require a skilled workforce to attain optimal productivity, and the quality of this workforce hinges on factors such as education and health. The government should actively facilitate the development of skills among workers, enabling them to contribute more innovatively to the labor market. Investments geared toward bolstering labor absorption should prioritize the expansion of labor-intensive projects. To achieve this, the government should underscore the importance of worker training, ensuring that investment strategies do not solely center on capital-intensive endeavors.

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E-ISSN : 2549-5992, P-ISSN : 2088-0944
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