

# Effect of Government Investment, Export and Shopping Towards Economic Growth through Absorption Labor as Intervening Variables in Province Sumatera Utara

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## ABSTRACT

Economic growth is a long-term economic problem and is influenced by various factors. This study aims to analyze the effect of investment, exports and government spending on economic growth through employment as an intervening variable in the Province of Sumatera Utara

The analytical method used is Path Analysis. For the purpose of analysis, secondary data is used in the form of time series data, 1985 - 2017, namely data on investment, exports, government spending, employment and economic growth in the Province of Sumatera Utara. The data was obtained from the finance department, BPS, Bank BI and other sources, namely journals and research results.

The results showed that simultaneous investment, export and government spending significantly influence employment and investment, exports, government spending and labor have a significant effect on economic growth in Province Sumatera Utara. Based on research partially positive and not significant investment effect on employment and exports and government spending has a significant effect on employment and investment, exports, government spending and labor have a significant effect on economic growth. Then labor cannot mediate investment and export with economic growth, meanwhile labor can mediate labor absorption relations and economic growth.

**Keywords:** Economic Growth, Investment, Exports, Government Spending, Employment

## INTRODUCTION

Economic growth means the development of activities in the economy which causes the goods and services produced in the community to increase and the prosperity of the community to increase. The problem of economic growth can be seen as a macro-economic problem in the long run. From one period to another the ability of a country to produce goods and services will increase. This increased capability is due to the factors of production will always increase in number and quality.

Economic growth is a real picture of a development policy, especially in the economic field. The growth is a growth rate that is formed from various economic sectors that do not directly reflect the level of economic change that occurs.

Broadly speaking, economic activities can be grouped into activities producing and consuming goods and services. Economic activity units produce goods and services, where the results of these production activities are income received by the factors of production that have been owned by various groups in society. And another important thing is investment, export and government spending factors that can affect employment and economic growth.

Economic growth reflects economic activities. Economic growth can be both positive and negative. If in a period the economy experiences positive growth, it means that economic activity in that period

has increased. Whereas if in a period the economy experiences negative growth, it means that economic activity in that period has decreased. Economic growth is the key to macroeconomic goals.

This is based on three reasons. First, the population is always increasing. This increase in population means that the labor force is always increasing. Economic growth will be able to provide employment for the workforce. If the economic growth that is able to be created is smaller than the growth of the labor force, this will encourage unemployment. Second, as long as wants and needs are always unlimited, the economy must always produce more goods and services to meet those wants and needs. Third, efforts to create economic equality (economic stability) through income redistribution will be more easily achieved in periods of high economic growth.

A Bank Indonesia report in 2018 explained that the economy of North Sumatra had improved. The economy accelerated to 5.18% (yoy), better than the previous year which was 5.12% (yoy), this acceleration of economic growth was supported by investment and household consumption from the sectoral side, the performance of the main sectors recorded an increase, especially in the sector trade and processing industry sector and in 2019 the economy of North Sumatra will be predicted to slow down in accordance with historical patterns at the beginning of the year, in the future the economy of North Sumatra in 2019 is projected to increase, sourced from domestic demand. The increase in the UMP 2019 is expected to increase people's purchasing power. In terms of prices, inflation in North Sumatra in 2018 recorded the lowest realization at the National level of 1.23% (yoy). The foodstuffs group contributed to the annual deflation and curbed the inflation rate in 2018. Meanwhile, air transport rates were the largest contributor to inflation. Furthermore, following the historical pattern and the assumption of legislative and presidential

election activities in 2019, North Sumatra's inflation in the first quarter of 2019 was still in the range of 3.5 + 1%.

In addition to investment, exports are also a factor that influences economic growth. Export activity is a trading activity in which domestic goods are sold by fulfilling applicable regulations. Where exports are a factor in the framework of the market balance and trade balance. According to Bank Indonesia, the balance of payments is a record of economic transactions between residents of Indonesia and other countries for a certain period. Balance of payments is said to be a surplus if there is an excess of trade and investment funds compared to the obligations paid to the country while it is said to be deficit if imports are greater than exports. The state of the balance of payments surplus or deficit affects Indonesia's economic growth.

Nonetheless, the development of major commodity prices held back further increases in exports. This happened because the tension of trade relations between the United States and China caused a decrease in trade volume and further pressured global commodity prices, especially vegetable oil prices. Realization of exports in North Sumatra shows fluctuating values, this shows that the government of Province Sumatera Utara has not been maximized in managing exports in Province Sumatera Utara.

Apart from investment and exports economic growth is also influenced by the government's role in providing funds to finance development activities both in the economic and non-economic fields. The cost of this activity is often referred to as government expenditure (government expenditure). Local government expenditure is measured by the total direct and indirect expenditure allocated in the form of regional budgets. Reveals that proportional government spending will increase economic growth.

The relationship between economic growth and government spending is an important subject to analyze. In general, the

description of public expenditure, namely physical infrastructure or human capital, can enhance growth but expenditure can also slow down the economic growth of a region. In the modern economy, the Government as an economic actor has an important role in regulating, overseeing the economy, the government is also able to carry out economic activities that cannot be carried out by other economic actors, both private and households.

For this reason, government intervention is needed in one economy and only for activities that involve the lives of many people. Government expenditure policy that can directly encourage economic growth is spending because this variable is realized by the development of economic and social infrastructure. The development of government expenditure as measured by the amount of direct expenditure and indirect expenditure. This classification of direct and indirect expenditure is used in the central and regional government budgeting system, namely since the application of PP No. 105 of 2000 concerning accountability for regional financial management and Ministry of Home Affairs No. 29 of 2002 which was later revised to PP No. 58 of 2008 concerning regional financial management and Permendagri No. 59 of 2007 as a revision of Permendagri No. 13 of 2006 concerning regional financial management guidelines.

According to Keynesian, Economic Growth in the expenditure approach is influenced by consumption, investment, government, exports and imports. Can be stated in the equation  $Y = C + I + G + X - M$ . This formula is known as the national income identity. Where Variable Y symbolizes national income while reflecting aggregate supply, Variable C symbolizes Consumption, Variable I symbolizes Investment, Variable G symbolizes government expenditure, Variable X symbolizes Export and variable M symbolizes Import. By comparing the values of C, I, G, X, M to Y and observing from time to time it can be seen how much

the contribution of consumption, investment, government spending, exports and imports to economic growth (Sukirno. 2004: 436).

High economic growth and sustainable processes are the main conditions for the continuity of regional economic development. Because the population has increased and also means that economic needs will also increase. This can only be obtained through an increase in aggregate output (goods and services) or often called GRDP at constant annual prices. So in a macroeconomic sense, economic growth is the addition of GRDP at constant prices. With the existence of an investment mechanism is the first step in a country's production activities. Likewise, investment is the first step in economic development activities. In an effort to grow the economy, every country is always trying to create a climate that can stimulate investment. The target is not only the public or the private sector in the country, but also foreign investment. Revenue from domestic investment and foreign investment is one of the state revenue posts that has a potential contribution in terms of financing the state budget and expenditure.

Labor is a factor that influences the economic growth of a region. A large workforce will be formed from a large population, but it is feared that population growth will have an adverse effect on economic growth.

According to Todaro (2000: 42), rapid population growth drives the problem of underdevelopment and makes development prospects even more remote. Furthermore it is said that the population problems arising not because of the large number of family members, but because they are concentrated in urban areas alone as a result of the rapid rate of migration.

However, a sufficient population with a high level of education and skills will be able to drive the pace of economic growth. From a large population of productive age, they will be able to increase the number of available labor force and will

eventually be able to increase production output in a region.

According to Rustiono (2008) in his thesis on the Analysis of the Effects of Investment, Labor and Government Spending on Economic Growth in Central Java Province. Factors influencing economic growth in Central Java Province (Y) during the 1985-2006 observation year were: the realization of the value of Foreign Investment (PMA), the realization of Domestic Investment (PMDN), Labor Force (AK) and Local Government Expenditure (EXPD). The results of the analysis of the influence of PMA, PMDN, Labor Force and regional government expenditure on economic growth in Central Awa Province showed a significant positive relationship, different from Rustiono's research.

According to Sari (2017) in her thesis on the Effects of Government and Labor Expenditures on Economic Growth in Central Lampung Regency. Explaining based on the results of the study found that direct expenditure has a positive but not significant effect on economic growth, based on the results of the study also obtained indirect expenditure has a positive and significant effect on economic growth and labor has a positive and significant effect on economic growth in Central Lampung Regency, as well as with Sulistiawati's research in her thesis.

According to Sulistiawati (2012) in her Research on the Effects of Investment on Economic Growth and Absorption of Labor and Community Welfare in Provinces in Indonesia explained that Investment has no significant effect and has a negative relationship on economic growth in the Indonesian Province, Investment has a significant effect and has a positive relationship on absorption Provincial labor in Indonesia, economic growth has insignificant effect and has a positive relationship with labor in the Province of Indonesia, economic growth has insignificant effect and has a positive relationship on community welfare, labor

absorption has insignificant effect and has a positive relationship on community welfare.

In another study according to Hellen, Mintarti and Fitriadi (2017) in his journal on the Effects of Investment and Labor and Government Expenditures on Economic Growth and Employment Opportunities in Malinau District Explained based on the results of the study it was found that direct investment does not significantly influence the economic growth of Malinau Regency, employment directly has a positive effect on economic growth in Malinau Regency, Government Expenditure directly has no significant effect on the economic growth of Malinau Regency, whereas according to Pratiwi (2015), investments that have a multiplier effect have an impact on improving welfare, as measured by an increase in income. This means that if income increases, the amount of goods and services consumed will increase as well. If the demand for goods and services increases, it will increase employment opportunities. This will reduce the unemployment rate caused by the absorption of the labor force in investment projects.

### **Hypothesis**

Based on the concepts presented, the research hypothesis is formulated as follows:

1. The investment variable has a positive effect on the employment variable.
2. The export variable has a positive effect on the employment absorption variable.
3. The government expenditure variable has a positive effect on the employment absorption variable.
4. Investment variables have a positive effect on economic growth variables.
5. Export variables have a positive effect on economic growth variables.
6. The variable government expenditure has a positive effect on the variable of economic growth.
7. Labor variables have a positive effect on economic growth variables.

8. Investment variables have a positive effect on economic growth through the employment absorption variable
9. Export variables have a positive effect on economic growth through the employment absorption variable.
10. The variable government spending has a positive effect on economic growth through employment absorption variables.

## **MATERIAL AND METHODS**

This type of research is quantitative research, namely research that uses scientific methods that have criteria based on facts, use the principles of analysis, use hypotheses, use objective measures and use quantitative data. In collecting data and information needed for research, the data used are secondary data from Province Sumatera Utara in 1985-2017.

Quantitative research tests the comparative causal relationships of measured research variables (parametric). Comparative causal research is research that compares the causal relationship between two or more variables in different periods of time. This study aims to analyze the direct influence of the dependent variable through intermediate variables with the path analysis approach.

Quantitative data presentation and analysis techniques are performed using the Statistical Test, data collected from internet downloads and related agencies are presented in the table because the table is a collection of numbers based on certain categories. A table usually contains table headings, column headings, row headings containing numbers, and the source from which the data was obtained. This research data will use ordinary tables (unidirectional). Data analysis method used is path analysis and multiple linear regression with the data of this study processed using the SPSS program.

## **RESULTS AND DISCUSSION**

### **The Effects of Investment, Exports and Government Expenditures on Labor Simultaneously and Partially**

The results of the multiple regression analysis of investment, export and government expenditure variables on labor simultaneously concluded that there was an influence of investment, export and government expenditure variables on labor in Province Sumatera Utara as evidenced by simultaneous testing with a significance value of  $0,000 < 0.05$  and there is a simultaneous influence of investment, exports and government spending on economic growth with labor as an intervening variable with a significance value of  $0,000 < 0.05$ .

The results of testing the investment variable on the workforce showed no significance value of  $0.501 > 0.05$ , with a coefficient value of 0.068, meaning that the investment had a positive and not significant effect on the workforce. It can be concluded that investment is not a factor to increase labor in the Province in Province Sumatera Utara, this is due to the low amount of investment in the Province of Sumatera Utara which causes a decrease in the number of workers. This is a reality that inviting investors to invest in Province Sumatera Utara can increase the workforce.

If managed well, by making it easy for investors to invest in Province Sumatera Utara will be a strength and will contribute to the development process in this case economic growth will increase. In line with the classical economist's theory, Adam Smith (1976) that the increase in investment in accompanied by an increase in technology will have a positive effect on the economy. The more investment there is in the Province of Sumatera Utara, the more job vacancies are available.

The results of testing export variables have a positive and significant effect on labor, evidenced by the significance value of  $0.012 < 0.05$ , with a coefficient value of 0.527. The test results of government expenditure variables have a positive and significant effect on labor with a significant value of  $0.022 < 0.05$  with a coefficient value of 0.341.

### **Effects of Investment, Exports, Government Spending, and Labor on Economic Growth**

Testing the investment variable on economic growth with a significance value of  $0.047 < 0.05$ , with a coefficient value of 0.195, meaning that investment has a significant positive effect on Economic Growth. This research is in line with the Classical theory which states that investment is an expenditure that is intended to increase the ability of the community to increase production. So investment is an expenditure that will increase the number of means of production in society which will ultimately increase income so that the Gross Regional Domestic Product will increase (Zhang and Cui in Wijayanti, 2015). Investment is also a means and motivation in implementing economic development. The fact is with increased investment, economic growth will also increase, because with increased investment, employment and labor will increase, with an increase in labor, the income of each per capita will increase, which will increase economic growth. Then the role of investment in production capacity is widened, because investment is an economic driver, both to increase production factors and in the form of improving the quality of production factors, this investment will increase public spending through increasing public income by means of a multiplier effect in Province Sumatera Utara in accordance with what should.

Exports based on the results of the study indicate that a significance value of  $0,000 < 0.05$  with a direct coefficient value of 0.812, means that exports have a positive and significant effect on economic growth in the Province of Sumatera Utara, whereas when looking at the effect of exports on economic growth through labor has a significance value of  $0,000 < 0.05$ , meaning that if through employment, exports have a significant effect on economic growth as well, with an indirect coefficient of 0.161 and a total positive effect of 0.973. This is consistent with the results of Novegya

Ratih's research on the effect of export values on Indonesia's economic growth that the export sector has a positive effect on Indonesia's economic growth.

Furthermore, similar studies from Ateng Piater Sinaga and Elvis Purba (2014) on the effect of exports on the increase in gross regional domestic product of Medan City in Sumatra Province have a positive and significant impact on the gross regional domestic product of Medan City in Sumatra Province. In another study Mulianta Ginting (2017) on the analysis of the effect of exports on Indonesia's economic growth suggested that exports affect Indonesia's growth in the long or short term.

Government expenditure based on the results of the study shows that a significance value of  $0.021 < 0.05$  with a direct coefficient value of 0.122, meaning that government spending has a positive and significant effect on economic growth in Province Sumatera Utara, whereas if you look at the effect of government spending on economic growth through labor has a value significance of  $0,000 < 0.05$ , meaning that through employment, exports have a significant effect on economic growth as well, with an indirect coefficient of 0.104 and a total positive effect of 0.226.

This study is in line with the research of Merri Anitasari and Ahmad Sholeh (2015) on the effect of government spending on economic growth in Bengkulu Province showing that government spending has an effect on the economic growth of Bengkulu Province by 51.4%.

Government expenditure aims to ensure that the implementation of public services provided by the government and development can proceed as planned. Government expenditure for development aims to ensure that the wheels of the economy can develop with the increasing development of facilities and infrastructure carried out by the government. The existence of the construction of facilities and infrastructure by the government can directly affect the economy of a region and provide a multiplier effect.

According to Wijaya (2013) that government spending has a multiplier effect and stimulates an increase in national income that is greater than payments in the same amount. Government spending will increase income and production in a double manner as long as the economy has not reached the level of full employment because it increases aggregate demand based on the assumption that government spending is not on projects that hinder private sector investment. Because the implementation of development by the government actually aims to make it easier for investors to make investments.

Therefore investment development undertaken by the government is different from investment made by the private sector. The development carried out by the government does not directly affect the improvement of the community's economy through income and employment opportunities, but provides facilities and infrastructure for the smooth running of private investment. This private investment directly impacts the economy of the community because it will provide jobs and income long enough to the community.

Labor based on the results of the study showed that the significance value of  $0,000 < 0,05$  with a direct coefficient value of 0.306, meaning that the workforce had a positive and significant effect on economic growth in Province Sumatera Utara. The results of this study are in line with the findings of Zuhri (2010) in Central Java, that labor influences economic growth in Central Java in the long run. The significant influence of labor on growth is mainly due to the position of labor as one of the factors of production which is also a source of regional income from the tax sector and is a consumer.

### **Effect of Investment, Exports, Government Expenditures, on Economic Growth with Labor as Intervening Variables**

Based on the results of the path analysis, the labor variable as an intervening

variable can be proven by the Variance Account For (VAF) test. Labor variables can mediate government consumption variables to economic growth by 46% and the labor variable does not mediate the investment variables to economic growth ie only 9, 3% ... while the labor variable does not mediate the export variable to economic growth, which is only 16.5%.

Finally it can be concluded that the workforce variable can be used as an intervening variable. Therefore, if a regional workforce can increase economic growth in the Province of Sumatera Utara.

In other studies on the effect of investment and labor and government spending on economic growth and employment opportunities in Malinau District, direct investment has no significant effect on economic growth in Malinau District, labor directly has a positive effect on economic growth in Malinau District, Government Expenditure directly no significant effect on economic growth in Malinau Regency.

The high economic growth in an area certainly cannot be separated from the economic conditions of a region. This can be seen from the increase in the workforce every year. In a traditional free-market economy, its main characteristics include the prominence of consumer sovereignty, utility or individual satisfaction and the principle of profit maximization, perfect competition and economic efficiency with atomistic producers and consumers, producers and consumers without any producers or consumers which has the influence or power large enough to dictate the prices of input and output production. The rate of absorption of labor and its price (the level of wages), is determined simultaneously or at the same time by all output prices and factors of production (excluding labor) in an economy that operates through the balance of forces of demand and supply (Todaro, 2000: 132).

## CONCLUSIONS AND RECOMMENDATIONS

### CONCLUSIONS

The conclusions in this study are:

1. The investment variable has a positive and not significant effect on the variable of employment in the Province of Sumatera Utara.
2. The export variable has a positive and significant effect on the employment absorption variable in North Sumatra Province.
3. The government expenditure variable has a positive and significant effect on the employment absorption variable in North Sumatra Province.
4. Investment variables have a positive and significant effect on economic growth variables in the Province of Sumatera Utara.
5. Export variables have a positive and significant effect on economic growth variables in North Sumatra Province.
6. Government expenditure variable has a positive and significant effect on the variable of economic growth in North Sumatra Province.
7. Labor variable has a positive and significant effect on economic growth variables in North Sumatra Province.
8. Investment variable has a positive and not significant effect on the variable of economic growth through employment in the Province of Sumatera Utara.
9. The export variable has a positive and not significant effect on the variable of economic growth through employment in the Province of Sumatera Utara.
10. Government expenditure variables have a positive and significant effect on economic growth variables through employment in the Province of Sumatera Utara

### Recommendations

The suggestions in this study are:

1. Investments in Sumatera Utara have not provided maximum results on employment in the Province of North Sumatra, therefore it is recommended

that the government of Province Sumatera Utara provide a sense of security to investors who want to invest in Province Sumatera Utara .

2. The government can continue to increase the value of investment and export volumes from year to year, especially investments that can attract labor while increasing economic growth in Province Sumatera Utara.
3. Adding Research Variables, such as population, inflation and imports as well as labor variables as intervening variables.

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How to cite this article: Desky TR, Ruslan D, Irsad. Effect of government investment, export and shopping towards economic growth through absorption labor as intervening variables in province Sumatera Utara. *International Journal of Research and Review*. 2020; 7(1): 114-123.

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