

THE EFFECTS OF FISCAL DECENTRALITATION AND INVESTMENT GROWTH ON ECONOMIC GROWTH IN EAST JAVA

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ABSTRACT

This research is conducted to : (1) identify fiscal decentralitation which have been done by the East Java Government, (2) identify economic growth in East Java Province, (3) identify investment growth in East Java Province, and (4) analyze the effect of fiscal decentralitation and investment growth on economic growth on East Java Province. The result of this analyst shows that fiscal decentralitation and investment growth has significant influence upon the economical growth of East Java Province.

Keywords : Fiscal Decentralitation, Investment Growth, Economic Growth.

INTRODUCTION

After Indonesia's Government applied UU number 22 Year 1999 about Regional Government and UU number 25 Year 1999 about Financial Balance Between Central Government and Regional Government, revised into UU number 32 Year 2004 about Regional Government and UU number 33 Year 2004 about Financial Balance Between Central Government and Regional Government, then Regency / City in Indonesia have been executing regional autonomy policies.

As consequences of a broad autonomy jurisdiction, regional government has obliged to increase community services and wellfares democrately, fair, evently and simultaneously. This obligation can be fullfilled if regional government is able to manage their local potentials which are natural resources potentials, human resources and financial resources optimally. As it is, regional government is given autonomy rights to determine their own Regional Income and Spending Budget (APBD) due to their local needs and potentials. Regional Income and Spending Budget (APBD) is written as regional government financial policies which are one of several triggers of regional economic growths.

Basically there are three variants of fiscal decentralitation which are linked to the grade of independency in acquiring regional policy. (1) Releasing responsibilty from central government circle into regional government instancy vertically (2) Connecting with a situation which the regional government is conducted as government representation to execute certain functions on behalf of the government. (3) devolution as connecting to a spesific situation but also authority to decide what have to be done locally.

It is interesting to see that if a country is decentralizing larger spending responsibility than the available resources, then the level of services will be decreasing or regional government will pressure central government to give additional fund. And if there are more fund than spend which are decentralizing, then regional fund mobilization can be decreased and imbalancing of macro economy could occur.

If the goodness of decentralization is followed by increasing resources mobility and decrease of central financial, increasing accountability, and increasing common performance and responsibility then decentralization is something valuable.

With fiscal decentralization, regional government is urged to increase their economy strength, so that they can compete with other regional government through gaining regional government capital into investment needs. So it is necessary to make a study about fiscal decentralization effect on economic growth and investment in East Java.

Based on the descriptions above, it can be formed several researches' issues which are : (1) How is the implementation of fiscal decentralization in East Java Province? (2) How are the economic growth of East Java Province? (3) How is the investment growth on East Java Province? And (4) What is the effects of fiscal decentralization on economic and investment growth on East Java Province ?

THEORETICAL FRAMEWORK

FISCAL DECENTRALIZATION

Fiscal Decentralization is granting authority to regional government to dig up income resources, rights to achieve transfer from higher rank of governments, and decide routine spending and investments. In short term regional government is given opportunity to decide the regulation of budgeting.

Regional autonomy and fiscal decentralization, in formally legal, is written in Laws (UU) number 32 Year 2004 about Regional Government and Laws (UU) number 33 Year 2004 about Financial Balance Between Central Government and Regional Government. Both laws are regulating basics of hand over authority into regional government and funding over implementation of that authority. Beside that, there is also Laws number 28 Year 2009 about Regional Tax and Redistribution which are regulating basics about Regional Government's authority to conduct funds collecting to the regional society in order to earn income resource for regional development. Both basic laws and laws about regional tax and redistributions mentioned above, basically are linked in one basic principal that is commonly named as *money follows function*. In this principal, functions which are given to regional by Laws number 32 Year 2004 is followed by funding to accommodate those functions.

In order to implementation of fiscal decentralization, main instrument which is used is giving authority to the regional government to collect taxes (*taxing power*) and transfer into regionals. Although regional government authority to collect regional taxes is very limited, nevertheless year by year there is increasing role of regional income (PAD) upon Regional Income and Spend Budget (APBD).

ECONOMY GROWTH

According to Sadono Sukirno (1996:33), economic growth is process of accelerating output per capita which is continuously in long term. The economic growth is one of the indicator of development's success. Higher the economic growth usually is followed by higher society welfare, although there are other indicator which is income distribution. Adam Smith's *Teory of Growth* (1723-1790) mentioned there are two aspects of economic growth which are (1) total output growth, measured by *Gross Domestic Products* (GDP) or *Gross National Products* (GNP); (2) Population Growth. Benefits of Economic Growth among others as follows : speed of growth is to measure economic progress as the result of national developments, income per capita is used to measure level prosperity of the population, as the higher income per capita with constant work means higher level prosperity of the populations and their productivity.

INVESTMENT GROWTH

Investment can be define as nett addition to existing capital stock (Nanga,2005:123) or investment is a relief fund acquired by an industrial field or others which is come from overseas or domestic, conducted by the government to financing a project, or expanding existing projects to fulfilled increasing needs of life of the population.

According to Dornbusch (1991:268) investment is spendings to increase or maintaining capital stocks. While according to Samuelson (2004:137) investment growth has incredibly major role in economic growth, because : (1) investment is a quite large and dinamic spending components, thus major change in investment very influences agregat's demand and eventually also influences output and work opportunity (2) Investment collects accumulations of capital, by develop a number of buildings and usefull tools, potentials output of a nation increases and so will the long term economic growth too. Therefor investment is playing two major roles which are determines number of output and incomes.

RESEARCH METHOD

This research is a quantity descriptive research, which is a study to explain in detail about certain phenomena and supported by data and quantitative analyze.

TYPE AND DATA SOURCE

Type and Data Source used in this study is secondary data. Secondary data is panel data which is time series data from year 2005-2011 and cross section from 38 regencies or cities in East Java Province.

RESEARCH PROCEDURE

This study has several main steps as follows : (a) Preparation and Making of Study Instruments, (b) Implemantation of Data Collecting based from the instruments, (c) Editing and Data Analysis, and (d) Making tje report.

RESEARCH VARIABLE

Table 1 Research Variable

Construct Variable	Notation	Manifestation Variable (Indicator)
1. Fiscal Desentralitation	X	1.1. PAD / Total Regional Income 1. 2. Balance Fund / Total Regional Income 1. 3. BalanceFund / Total Regional Income 1. 4. Public Allocation Fund / Total Regional Income
		. 5. Specific Allocation Fund / Total Regional Income
2. Investment Growth	X ₂	2.1 Growth PMA(X _{2.1}) 2.2 Growth PMDN (X _{2..2})
2. Economic Growth	Y ₁	2.1 Regional Domestic Product Growth Bruto upon constant basic price (Y)

CONCEPTUAL FRAMES :

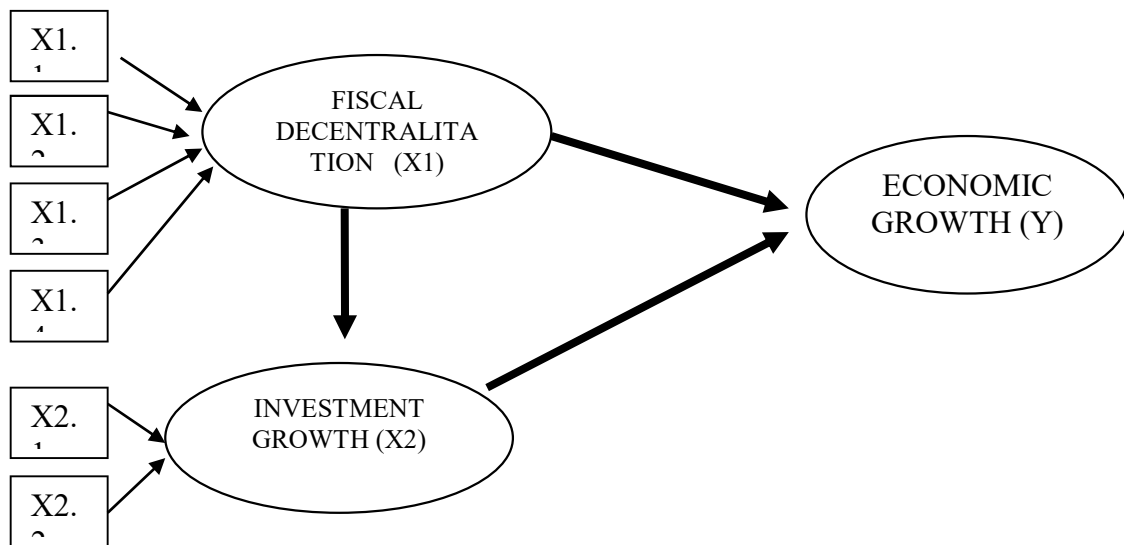


Figure of Conceptual framework

ANALYSIS DATA AND DISCUSSION

Administratively, East Java are consisted of 29 regencies and 9 cities, making it the province with largest amount of regencies/cities in Indonesia, consist of 30 regencies and 8 cities.

ECONOMIC GROWTH

Economic data growth of East Java, while is compared with national economic growth, shows that it is always higher than the national economic growth. It is showing that East Java Province has strategic economical role in national scale. East Java Province is having a significant economic growth compared with other regional economic growth.

The significant economic growth that East Java has, is marked with sectoral growth which East Java has 3 leading sectors, that have become main thrust of economic growth. Those sectors in successively as follows trading, hotels and restaurants is 29,47%; processing industries is 27,49% and farming is 15,75%.

Regional that have economic growth rate above the average East Java economic growth rate (5,9) are Tulung Agung Regency (6,43); Bojonegoro Regency (7,81); Tuban Regency (6,01); Gresik Regency (6,87); Blitar City (6,58); Malang City (6,15); Pasuruan City (6,42); Mojokerto City (6,63); Madiun City (6,02); Surabaya City (6,86); and Batu City (7,13); while others which have the lowest economic growth rate is Pacitan Regency (4,41).

From data that is showing in year 2002, 2006 and 2009 approximately 50% of regencies and cities in East Java showed economic growth rate higher than East Java economic growth. There are four factors that are influencing economic growth which are human resources, natural resources, capital gain and technology.

Table 1 Numbers of Regencies/Cities which Have Higher Economic Growth Than East Java Economic Growth

Year	Number of Regency/City	procentage
2001	12	32 %
2002	18	47%
2003	11	29%
2004	8	21%
2005	10	26%
2006	24	63%
2007	13	34%
2008	12	32%
2009	22	58%
2010	9	24%
2011	8	21%

Source : BPS Jawa Timur,edited

FISCAL DECENTRALITATION

Region which has Regional Income by Total Regional Income Rate higher than Regional Income by East Java Income Rate are Sidoarjo Regency (18,8%); Jombang Regency (11,4%); Tuban Regency (11,6%); Kediri City (12,5%); Malang City (12%) and Surabaya City (31%) while the lowest ones is Pacitan Regency (4,2%).

Regional Income (PAD) of East Java Regency contribution are only around 10% of total regional income for the last ten years. While Surabaya City is placed in highest rank because its income reaches 45% of total regional income. Then regional income of

Sidoarjo reaches 21% of its total regional income in 2011. Based on Relationship Pattern of Regional Ability, most regencies and cities in East Java are still instructive exclude Surabaya City which has consultative relationship.

From the financial side of the country, implementation of fiscal decentralitation policy have brought consequences upon changing fiscal management maps substantially. But, up until now, source of regional development funds in Indonesia is reflecting dependency upon endowment and aid from central government.

For ten years, it is showed that contribution of balance funds rate in East Java Province upon East Java Total Income is 89,3%. Regions which have less contribution of balance funds rate than contribution balance funds rate of East Java are Kediri Regency (85%); Sidoarjo Regency (79%); Gresik Regency (82,8%); Tuban Regency (88,9%); Kediri City (88,4%); Blitar City (85,9%); Probolinggo City (86,2%); Surabaya City (61,4%); Batu City (76,9%)

Balance fund of East Java Province for ten years showed that contribution balance funds rate of East Java by Total Income of East Javais 89,3%. While regions which have lower contribution balance funds rate than contribution balance funds rate of East Java are Kediri Regency (85%); Sidoarjo Regency (79%); Gresik Regency (82,8%); Tuban Regency (88,9%); Kediri City (88,4%); Blitar City (85,9%); Probolinggo City (86,2%); Surabaya City (61,4%); Batu City (76,9%)

Balance funds from 2001 to 2011 tendenciously decreasing. As proved, East Java Province in 2001 has balance funds of 88% from its total regional income. And it is decreasing into 71% in 2011. It is also happening in regencies / cities, it is decreasing significantly. It is showing that fiscal decentralitation will be implemented well. Significant decreasing happens on Surabaya City. In 2001 its balance funds is 67% of total regional income, becoming 34% in 2011. There have been 33% decreasing.

INVESTMENT GROWTH IN EAST JAVA

Based on data from Capital Investment Agency (BPM), business fields on East Java are divided into three groups which are primary sector, secondary sector and tertiary sector. In further studies in secondary sector, sub sector that is in large demands by domestic investor are chemistry industry, foods industry, non metal mineral industry, metal industry and textile industry. It is showed by the large amounts of companies proposing for business expansion on that sub sector mentioned.

DATA ANALYSIS

As follows are processed data SPSS using all collected datas, blank datas is assumed have zero value and included in calculation.

EFFECTS OF FISCAL DECENTRALITATION UPON ECONOMIC GROWTH

Calculation result with SPSS software shows that *Adjusted R Square value* is 0,203. It means that 20,3% PE variant can be explained by variation of fourth independent variables DAK, DP, PAD and DAU. While the rest (100% - 20,3% = 79,7%) is explained by causes beside the models. While probability value (Sig.) is 0,000. This value is lower than 0,05 (5%), then the fourth independent variables DAK, DP, PAD and DAU all together influences significantly upon PE.

Partial test result shows that from fourth independent variables DAK, DP, PAD and DAU, individually PAD and DAU variables influences significantly upon PE because probability value (Sig.) below 0,05 (5%). While DP and DAK individually does not have any significant influences upon PE.

EFFECTS OF FISCAL DECENTRALITATION UPON INVESTMENT GROWTH (PMDN)

Calculation result with SPSS software shows that *Adjusted R Square value* is 0,038. It means that 3,8% PMDN variant can be explained by variation of fourth independent variables DAK, DP, PAD and DAU. While the rest ($100\% - 3,8\% = 96,2\%$) is explained by causes beside the models. While probability value (Sig.) is 0,002. This value is lower than 0,05 (5%), then the fourth independent variables DAK, DP, PAD and DAU all together influences significantly upon PMDN.

Partial test result shows that from fourth independent variables DAK, DP, PAD and DAU, individually PAD and DAU variables influences significantly upon PMDN because probability value (Sig.) below 0,05 (5%). While DP and DAK individually does not have any significant influences upon PMDN.

EFFECTS OF FISCAL DECENTRALITATION UPON INVESTMENT GROWTH (PMA)

Adjusted R Square value is 0,036. It means that 3,6% PMA variant can be explained by variation of fourth independent variables DAK, DP, PAD and DAU. While the rest ($100\% - 3,6\% = 96,4\%$) is explained by causes beside the models. While probability value (Sig.) is 0,002. This value is lower than 0,05 (5%), then the fourth independent variables DAK, DP, PAD and DAU all together influences significantly upon PMA.

From fourth independent variables DAK, DP, PAD and DAU, individually PAD, DAU and DAK variables influences significantly upon PMA because probability value (Sig.) below 0,05 (5%). While DP individually does not have any significant influences upon PMA

EFFECTS OF INVESTMENT GROWTH UPON ECONOMIC GROWTH

Adjusted R Square value is negative 0,003. Because it is negative then *Adjusted R Square value* is assumed zero value. It means that variants PMA and PMD can not explain variants of PE.

Probability value (Sig.) is 0,608 which is much larger than 0,05% (5%), then independent variable PMA and PMD equally does not influence significantly upon PE. From both independent variables, PMA and PMD, individually those variables does not influence significantly upon PE because they have probability value (Sig.) much above 0,05% (5%).

EFFECTS OF FISCAL DECENTRALITATION AND INVESTMENT GROWTH UPON ECONOMIC GROWTH

Adjusted R Square value is 0,218. It means that 21,8% variants PE can be explained by variants of sixth independent variables DAK, DP, PAD, DAU, PMD and PMA. While the rest ($100\% - 21,8\% = 78,2\%$) is explained by causes beside the model. Probability

value (Sig.) is 0,000 which is smaller than 0,05% (5%), therefore sixth independent variables DAK, BDH, PAD, DAU, PMD and PMA equally significantly influence PE. Partial test result shows that from sixth independent variables DAK, DP, PAD, DAU, PMD and PMA, individually PAD and DAU variables influence significantly upon PE because have probability value (Sig.) below 0,05 (5%). While DP, DAK, PMD, and PMA individually does not influence significantly upon PE.

CONCLUSION AND SUGGESTION

CONCLUSION

- Independent variables such as DAK, DP, PAD, DAU, PMD and PMA equally have significant influences upon economic growth.
- From sixth independent variables DAK, DP, PAD, DAU, PMD and PMA, individually variables PAD and DAU is significantly influencing upon economic growth. Independent variables PMA and PMD equally does not significantly influence upon PE.
- Management of balance funds need to be increase so it can contribute significantly upon economic growth enhancement, which is influenced in population welfare improvements.

SUGGESTION

- Efficient tax systems and redistributions are needed and reduce the cost of tax collecting or redistributions
- Implementation of preparing human resources which can understand the rules and systems of taxes and regional redistributions
- Identification prospective superior regional sector and which becomes regional core competence

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