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Judul Implementation and Impact Fiscal Decentralization of Poverty in South Kalimantan Province

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Abstrac

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Keyword

Education Expenditure, Health Expenditure, HDI, South Kalimantan, Central Kalimantan

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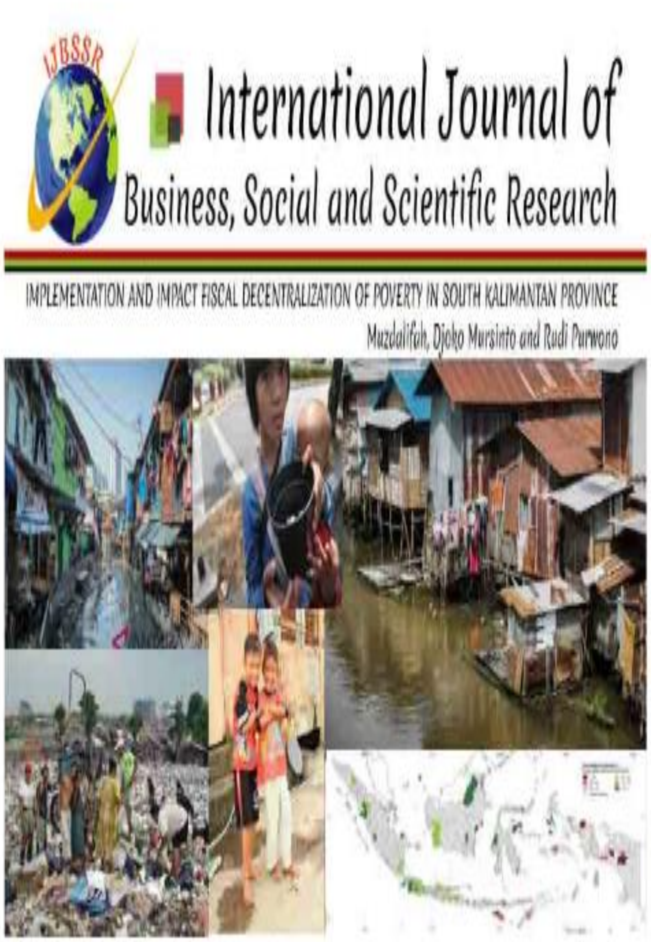

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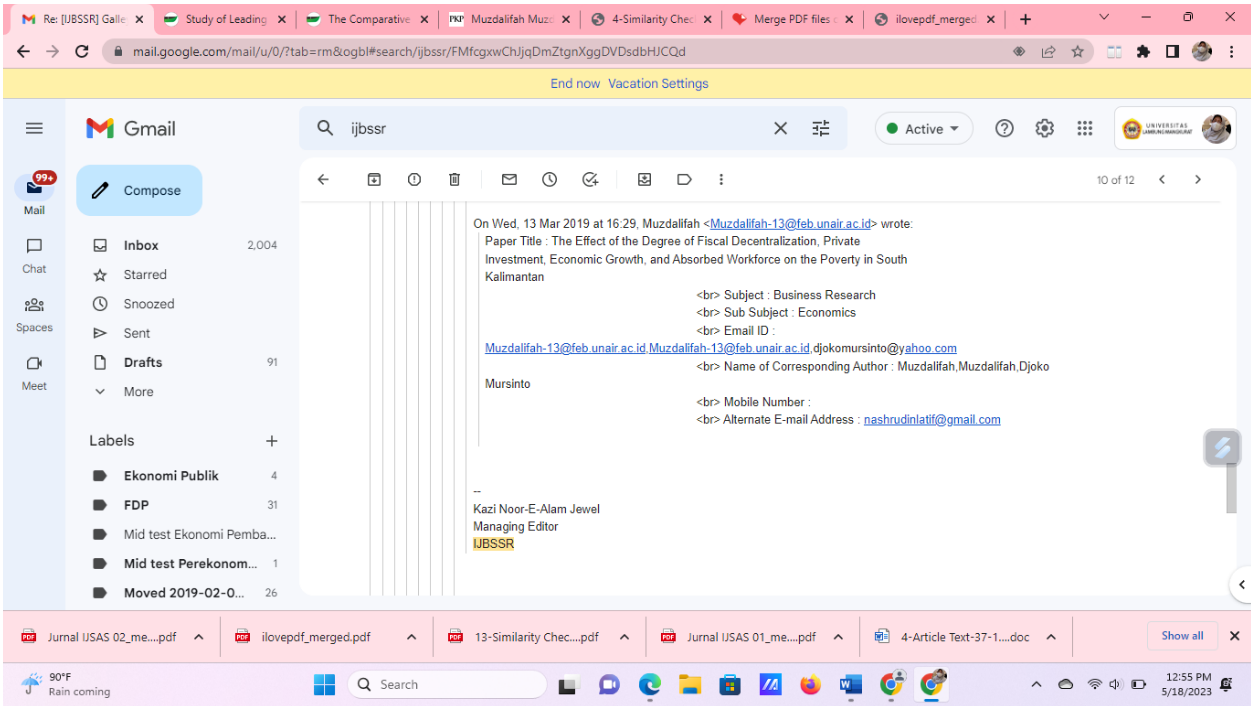

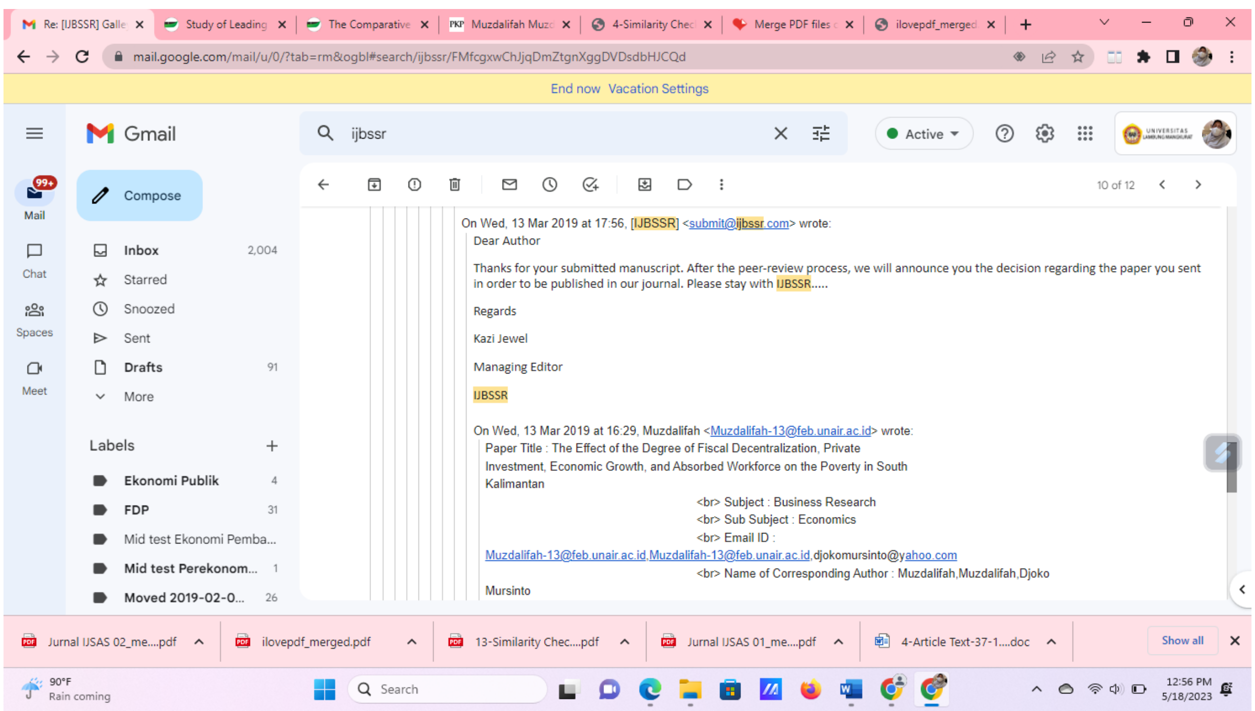

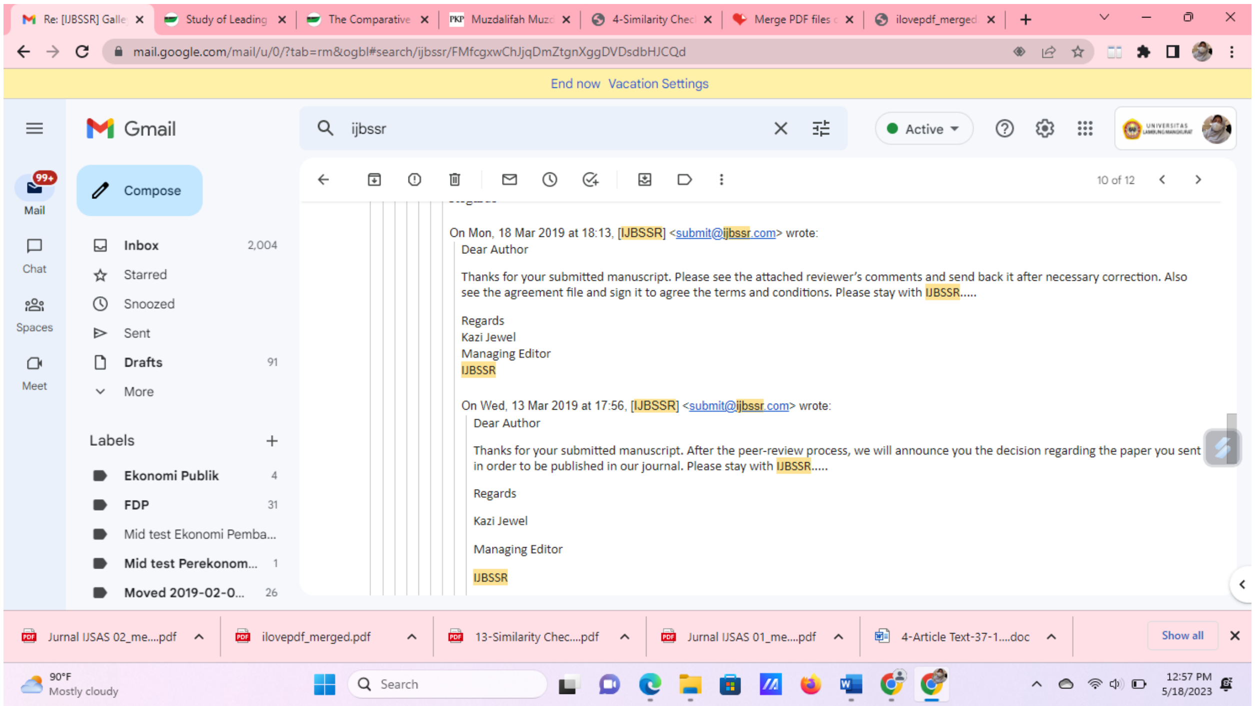

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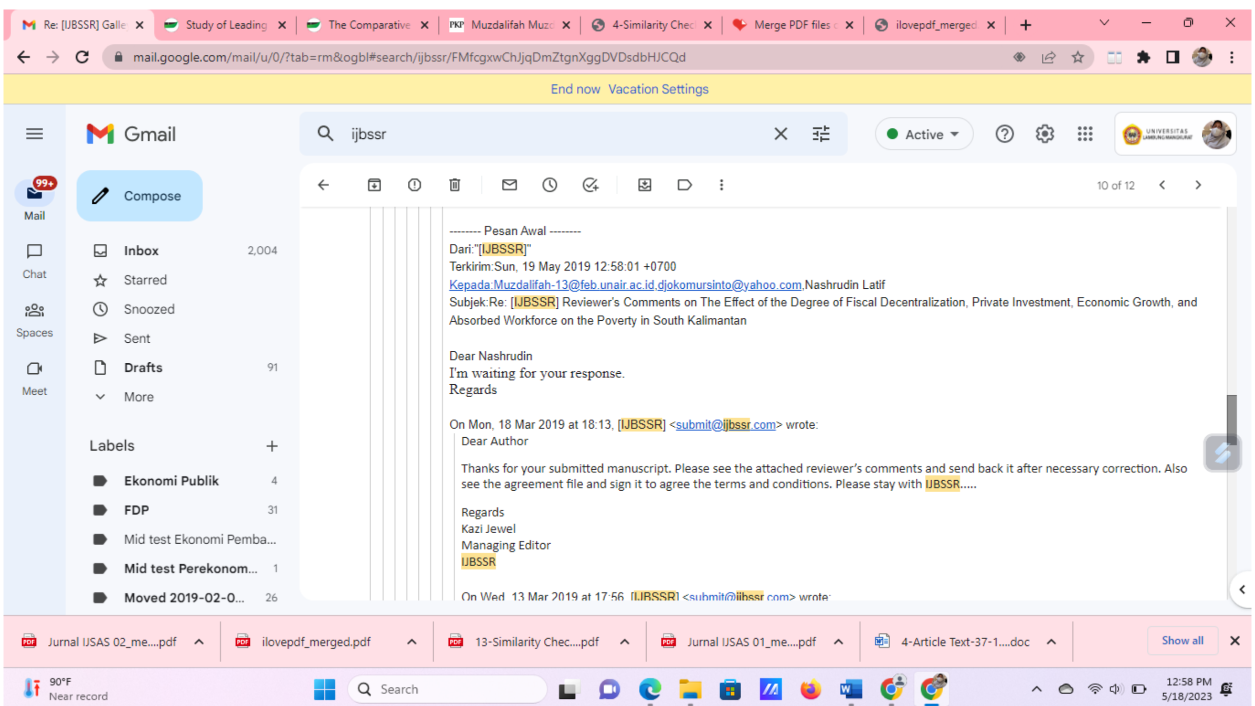

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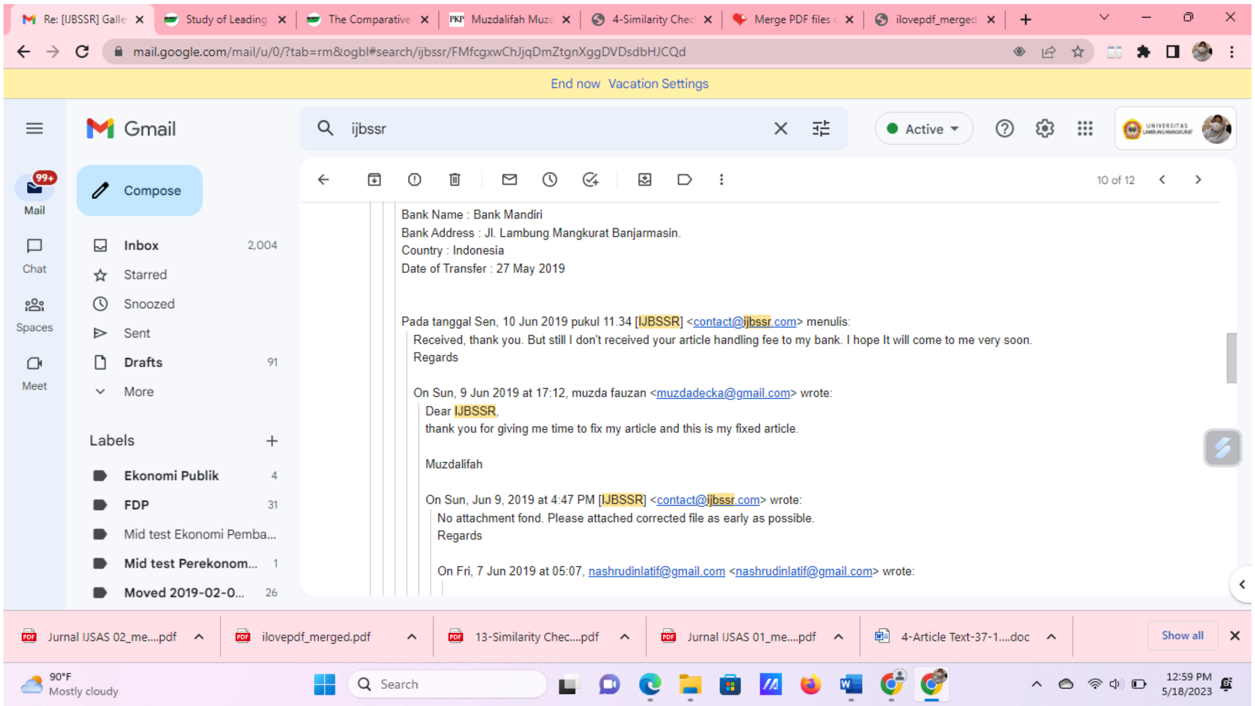

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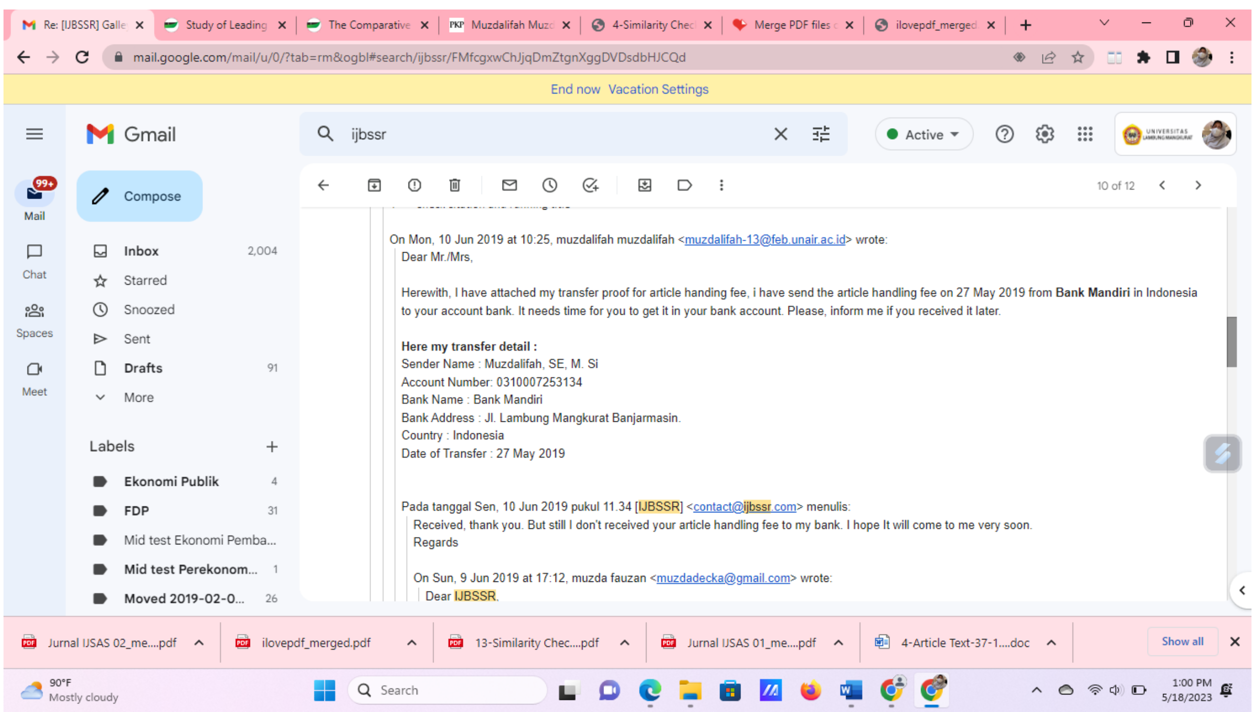

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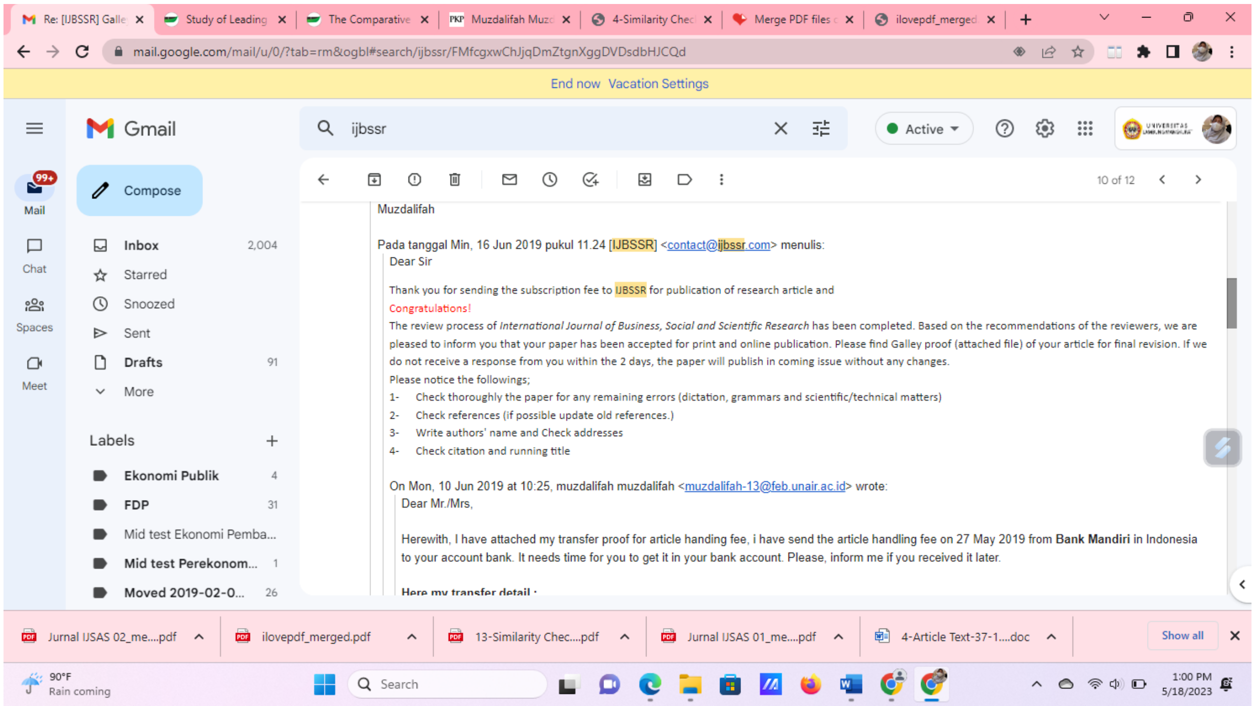

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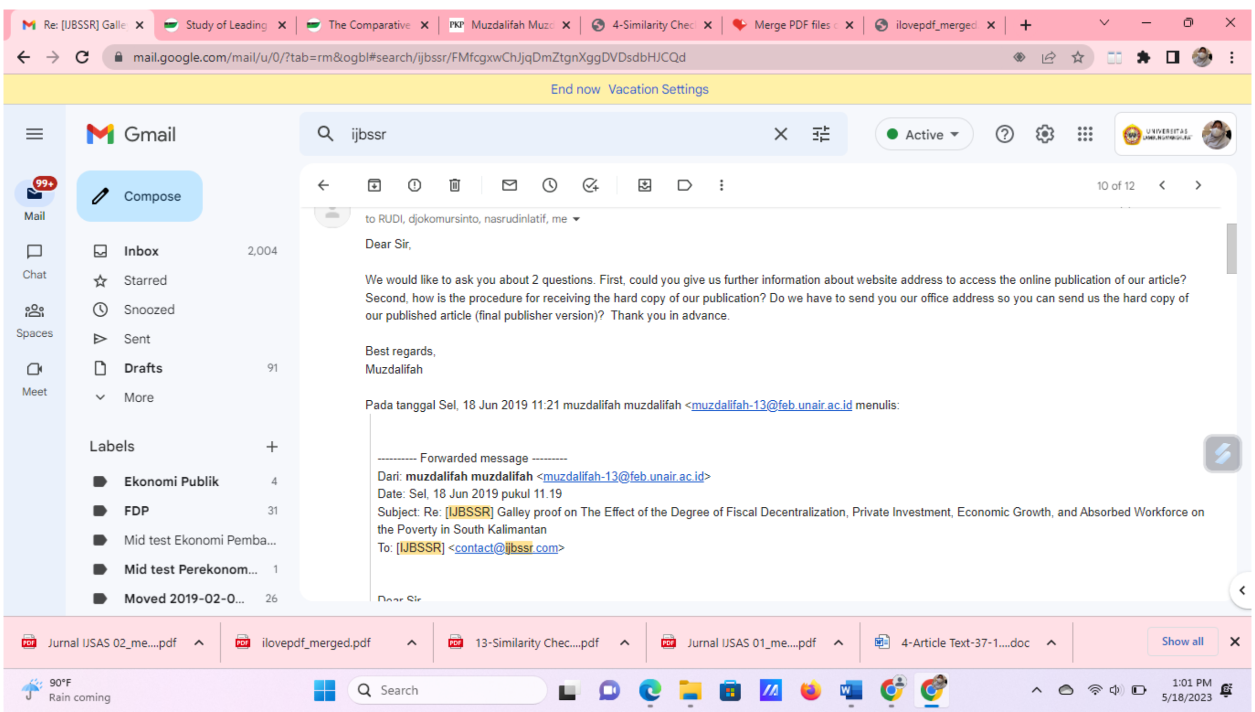

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IMPLEMENTATION AND IMPACT FISCAL DECENTRALIZATION OF POVERTY IN SOUTH KALIMANTAN PROVINCE

*Muzdalifah, Muzdalifah, Djoko Mursinto and Rudi Purwono1

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Abstract

The purpose of this study was to examine and analyze implementation and Impact fiscal decentralization of poverty in South KalimantanProvince through economic growth and absorbed workforce. This study used panel data from 13 Districts/Cities in South Kalimantan Province in 2005 – 2016. The research used the simultaneous model with Two-Stage Least Squared (TSLS) method. The research results of stage 1 with REM lag (-3) model showed that the effect of the degree of fiscal decentralization and private investment on economic growth was simultaneously significant and partially only the degree of fiscal decentralization had a significant effect with the negative direction of relationship at $\alpha = 5\%$, while the research results of stage 2 with the PLS lag (-3) model showed that the economic growth and absorbed workforce simultaneously had significant effect on poverty and the economic growth partially had significant effect on $\alpha = 5\%$ with negative direction and the absorbed workforce produced significant effect on $\alpha = 5\%$ with the positive direction of relationship.

Key words: degree of fiscal decentralization, private investment, economic growth, absorbed workforce, poverty.

Introduction

Submission of financial authority to the regions has lasted approximately 15 years, based on observations in 2005-2016, it is known that in general the average poor population has decreased, with conditions varying in each Regency / City, one with a high poverty rate in Banjarbaru City the average number of poor people reaches 5.27%. The factors that influence poverty reduction in each region are not the same so in this study will be examined from the implementation of regional fiscal decentralization and the magnitude of private investment, through economic growth and absorbed labor in reducing poverty.

Economic conditions between regencies / cities in South Kalimantan Province based on the growth rate of regency / city GRDP show the same pattern and trend with provincial and national conditions, and in 2016 some regions in real growth are higher than provinces and nationally, Banjarmasin, Banjarbaru City, Hulu Sungai Selatan and Hulu Sungai Tengah Regency. This condition of the number of poor people and a diverse economy shows that the implementation of regional autonomy cannot be carried out by all regions equally because the regional readiness and capability are different in their implementation.

The absorbed workforce in South Kalimantan Province found that the number of absorbed workers experienced a varied trend and tended to fluctuate, as well as private investment that was spread unevenly, this was indicated by the average growth rate of private investment realization which indicated that the Hulu District Sungai Utara is the highest, followed by Banjarmasin City and Tanah Bumbu Regency, although the average growth rate in Hulu Sungai Utara Regency is the highest but in 2016 the highest realization of private investment is in Banjarmasin City, Banjar Regency and Banjarbaru City.

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Based on preliminary data of the research consisting of the degree of fiscal decentralization, private investment, economic growth, absorbed workforce, and poverty in the Districts/Cities in South Kalimantan Province, some problems in this research can be stated as follows:

1. Do the Degree of Fiscal Decentralization and Private Investment simultaneously or partially have aneffect on Economic Growth in Districts and Cities of South Kalimantan?
2. Do the Economic Growth and Absorbed workforce simultaneously or partially have the effect on Poverty in the Districts and Cities of South Kalimantan?

Literature Review

According to Sen (1999), poverty occurs because several basic capabilities do not function or in other words someone is deemed poor if he does not have the opportunity to achieve/get the basic capability. Sen declared that poverty should not be considered only as low income but also capability handicap.

Malthus theory indicates that in the future the population growth will exceed the food supply. When this situation occurs, it will result in the limited food supply. Low-income people who do not get food supply will become poor. According to Kuncoro (2004), the factors that may cause poverty are level and rate of output growth, income distribution, employment opportunity, and investment.

According to Musgrave (1959) as cited by Simanjuntak (1998), the roles of government in the economy are the allocation, distribution, and stabilization functions. In public finance, the role of government is defined as the government's economic activities as a unit. Rossen (2002) stated that the government has three primary functions, in this case government function is Distribution the government's role to distribute the economic resources (revenue) to the entire society; in other words, the government guarantees that the entire society can access economic resources and earn a decent income. This function is related to equitable distribution of public welfare and optimization of economic growth. Furthermore, the fiscal decentralization theory comprises of two approaches i.e. based on the perspectives of Musgrave and Neoclassic. According to Musgrave's perspective, the public sector performs primary functions of the government which are determined by externality and preference level. This causes the main tasks to be centralized such as a function of stabilization. Several functions which must be decentralized such as allocation and distribution functions. On the other hand, the neoclassical perspective with political economy approach assumes that local people have relatively homogeneous preferences (like individual), thus the local government preference is closer to or more appropriate to the individual preference rather than the preference made by the central government.

In an effort to empower local government today, there are three key missions for the implementation of regional autonomy and fiscal decentralization as stated by Mardiasmo (2002) as follows: Improving the quality and quantity of public service and welfare; Creating efficiency and effectiveness in local resource management; Empowering the society members to participate in development.

According to Keynes (1936) in Sukirno (2012), government expenditure is an activity related to government function to regulate economic activity but also can affect the level of aggregate expenditures in the economy due to market imperfection. Keynes (neoclassic) and New Keynes schools believe that the government policy is still required to stabilize the economy. Government expenditure has a theoretical basis that can be identified from the national income balance namely $Y = C + I + G + (X-M)$ which is a source of legitimacy for the Keynesian perspective about the relevance of government interference in the economy.

In the endogenous growth theory, Romer (1986) argued that the role of government expenditure in economic growth assumes that government expenditure is made for productive activities such as infrastructure spending. Productive spending and the spending directly related to public interests will stimulate the economy. For instance, infrastructure development will encourage investment causing the economy to develop and create new jobs that will absorb unemployment and alleviate poverty.

According to Classical economist, Smith, economic growth is influenced by two main factors namely total output growth and population growth (Arsyad, 2010). Solow and Swan as restated by Boediono

(2014) say that economic growth depends on the growth of production factors among others population, workers, and capital accumulation (investment). The Solow's growth model is frequently referred to as the neoclassical growth model (Mankiw, 2003). The basic model in this growth model is:

Y = f (K,L)
Where:
Y = Output,
K = Capital,
L = Workforce.

Based on the neoclassical growth theory, output growth always comes from one or more of three factors consisting of the increase in the quantity and quality of worker (through population growth and education improvement), capital increase (through savings and investment), and technological improvement.

According to Sukirno (2012), investment activities continually carried out by the public will raise economic activities, employment opportunities, national income, and the level of society's prosperity. This is due to three important functions of investment activities: (1) investment is a component of the aggregate expenditures thus the increased investment will raise aggregate demands, national income, and employment opportunities; (2) increase in capital goods as a result of investment will raise production capacity; (3) investment always encourages technological development.

Lewis as cited by Todaro (2013) proposed his theory of employment; the excess supply of worker is an opportunity instead of a problem. The excess worker of a sector will contribute to the output growth and the provision of workers in other sectors. Furthermore, Lewis mentioned that there are two sectors in the economy of developing countries, i.e. modern and traditional sectors. Traditional sector does not only include agricultural sector in rural area but also informal sector in urban area (street vendor, retailer, *angkringan*). Informal sector is able to absorb the existing excess workers during the industrialization process, so it is called the employment safety valve. Because the excess worker in industrial sector (modern sector) is absorbed by informal sector, the wage rate in rural area will increase. The rise in wage will reduce the difference in income rate between rural and urban areas, therefore the excess supply of workers does not cause problem in economic growth. On the contrary, the excess worker is an asset to accumulate income with an assumption that the transfer of workers from traditional sector to modern sector runs smoothly and the number of workers transferred is not too large.

Previous study conducted by Adams (2002) comparing the experiences of various developing countries found consistent strong evidence that rapid and sustained growth is the single most important way to alleviate poverty. This cross-country study has typical estimate that 10 percent increase in the average income of a country will decrease the poverty rate of 20 – 30 percent.

According to Revallion and S Chen (1997), the central role of growth to encourage the speed of poverty reduction is confirmed by study in each country and group of countries. For instance, a study of 14 countries in the 1990s found that during this decade, the poverty decreased in 11 countries which experienced significant growth and such poverty rose in the three countries with low or stagnant growth. On average, a one percent increase in per capita income reduced poverty by 1.7 percent. Among these 14 countries, Vietnam had awfully significant reduction in poverty, in which the poverty reduced by 7.8 percent per year between 1993 and 2002, halving the poverty rate from 58 percent to 29 percent. Other countries with significant reduction in poverty during this period were including El Salvador, Ghana, India, Tunisia and Uganda, each with a reduction in poverty rate in range of three and six percent per year. This overall reduction in poverty was a result of growth that began in most countries in the mid-1990s. The average GDP growth rate for 14 countries was 2.4 percent per year between 1996 and 2003.

Numerous studies in other countries show the strength of growth in reducing poverty: China alone has lifted over 450 million people out of poverty since 1979. Evidence indicated that rapid economic growth between 1985 and 2001 was crucial to this tremendous reduction in poverty (Lin, 2003). India has seen significant falls in poverty since the 1980s where thepoverty rates accelerated into the

1990s. This has been strongly related to India's impressive growth record over this period (HBhanumurthy and HMitra 2004), and Mozambique illustrated the rapid reduction in poverty associated with growth over a shorter period. Between 1996 and 2002, the economy grew by 62 percent and the proportion of people living in poverty declined from 69 percent to 54 percent (Arndt, James, and Simler, 2006).

Based on the background, theoretical description, and also previous study, the study design is as follows:

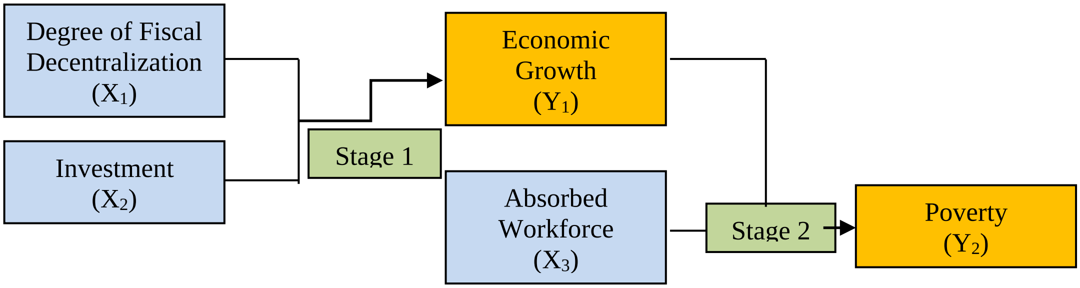

Figure 1: Research Design

Research Methods

The approach used in this research is a positivistic approach, with explanatory research. The scope of the study was observations in 2005 - 2016, the research locations in the regencies/ cities in the province of South Kalimantan, which consisted of 11 districts and 2 cities, the types of data is secondary in the form of data panel data, which had been documented and officially published by competent agencies/institutions, among others, sourced from the Central Statistics Agency (BPS), the National and Regional Development Planning Agency, the Ministry of Finance, the Directorate General of Fiscal Balance, and other related agencies.

The analytical tool used in the research is replication from previous research with the addition of economic growth variables as explanatory variables, and improvements in terms of variable degrees of fiscal decentralization with a shopping approach with the aim that available funds have been used / realized. Econometric analysis in this study used Simultaneous Equations Model (SEM) because the variables studied are related to each other using the Two-Stage Least Square (2SLS) with the following structural equation forms:

$Y_1 = \alpha_0 + \alpha_1 X_1 + \alpha_2 X_2 + \varepsilon^*_1$ …………………(3.1)

$Y_2 = \beta_0 + \beta_{21} \hat{Y}_1 + \beta_{22} X_3 + \varepsilon^*_2$ ………………..…..(3.2)

Where:

Y_1 = Economic Growth in Districts/Cities of South Kalimantan Province.
Y_2 = Poverty
X_1 = Degree of Fiscal Decentralization of Districts/Cities in South Kalimantan Province
X_2 = Private Investment of Districts/Cities in South Kalimantan Province
X_3 = Workforce absorbed in Districts/Cities of South Kalimantan Province
$\alpha_{0,}\ \beta_0$ =Constant
$\alpha_{1,2,}\ \beta_{1,2}$ =independent variable regression coefficient
ε^*_2 = error term

Identification of variables

The variables in this study consist of Exogenous Variables/Independent Variables, Endogenous Variables/Dependent Variables and Explanatory Variables/Estimated Variables with the following explanation:

1. Exogenous Variables or Independent Variables

   Variable whose variance is not influenced by the causal variables in the system and its causal relationship cannot be established. The exogenous variables refer to the starting variables which may influence other variables. In this study they are Fiscal Decentralization (X_1), Private Investment (X_2), and Absorbed Workforce Variables (X_3).

2. Endogenous Variables or Dependent Variables

   Variable whose variance is explained by exogenous variables. In this study it is poverty variable (Y_{2it})

3. Explanatory Variables

   Explanatory variable in this study is of exogenous in nature. In this research it is Economic Growth (Y_{1it})

Results and Discussion

The results of this research can be indicated by the results of the regression in the first and second stages and selection of the best model based on Chow and Hausman tests. The model chosen in the first stage is the REM model with lag (-3) (Table 1.1). The model chosen in the second stage is also REM model with lag (-3) (see table 1.2).

The results of the output reviews in the first stage demonstrate that the hypothesis stating that the degree of fiscal decentralization and private investment simultaneously influence economic growth can be accepted with a F value of 0.028837, while degree of fiscal decentralization partially has a significant effect on economic growth with t of 0.0179 and a direction of relationship is negative. This table of results suggests that if the degree of fiscal decentralization and investment is zero then economic growth is C (constant) of 6.25%, and if the degree of fiscal decentralization decreases by 1% then economic growth will decrease by 0.021%.

Table1. Results of Phase 1 Data ProcessedRandom Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	6.256415	0.408103	15.33049	0.0000
DDF(-3)	-0.021455	0.008918	-2.405886	0.0179
INV(-3)	-5.47E-09	1.56E-07	-0.035073	0.9721
R-squared	0.065921	F-statistic		3.669800
Adjusted R-squared	0.047958	Prob(F-statistic)		0.028837

The results of the first stage regression are highly consistent with the condition in the region because the transfer of authority to the regions to manage the regional budget does not necessarily have a positive impact on economic growth as demonstrated by an empirical study conducted by Fauziah (2007) with the Indonesia case involving 367 districts / cities in the 1991-2005. Rodriguez-Pose and Kroijer (2009) used a panel data approach on dynamic effects, the relationship between the degree of fiscal decentralization and the economic growth in 16 Central and Eastern European countries during the period 1990-2004. Rodriguez-Pose and Ezcurra (2010) analyzed the relationship between decentralization and economic growth in 21 OECD countries (Jumadi, 2013). This study used panel data from all autonomous districts and cities in East Java Province, consisting of 29 districts and 9 cities starting from 2007 to 2010. Baskaran and Felds (2009) found that fiscal decentralization was negatively related to economic growth.

The findings in this study are significant but the direction of the relationship is not in line with that proposed by Keynes (1936) in Sukirno (2012) on the theory of national income balance identity. Wagner as quoted by Mangkoesoebroto (2013) says that if per capita income increases relatively then government spending will increase as well where the relationship between the two is reciprocally positive. According to the theory proposed by Peacock and Wiseman in Mangkoesoebroto (2013), the government spending will increase along with the increase in GNP. In the opinion of Rossen (2002) the economic welfare is dependent on conditions by which the allocation of economic resources reaches Pareto efficiency. This happens as the economic growth cannot be achieved merely relying on the role of the government but also the public through private investment. This occurs due to the uneven distribution of investment despite the investment in large quantities but cannot encourage regional economic growth.

Most private investments in several districts/cities in South Kalimantan are particularly made in the plantation and mining sectors, which is in line with Faroek's (2010) empirical findings in East Kalimantan Province.When the industry grows well, private investment is also increasing but it has the impact on the reduced economic growth. This is because the industry belonging to this investment results in a primary sector having a low forward and backward linkage.In addition, most investors in districts/cities in South Kalimantan engaged in the mining sector and oil palm plantations have external processing industries thereby the regions only receive royalties for mining businesses,while the oil palm plantation products have not been processed so that the impact of private investment on economic growth becomes insignificant.

Table 1. Results of Phase 2 Data ProcessedRandom Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	14420.49	1387.575	10.39258	0.0000
GRO(-3)	-491.0662	229.7272	-2.137606	0.0347
TKT(-3)	0.024248	0.006942	3.492848	0.0007
R-squared	0.086562	F-statistic		5.401599
Adjusted R-squared	0.070537	Prob (F-statistic)		0.005737

The results of simultaneous regression in stage 2 show that the hypothesis stating that the economic growth and absorbed workforce simultaneously have an effect on poverty can be accepted with a F value of 0,005737 and partially both variables economic growth and absorbed workforce have a significant effect on poverty with t of (0.0347) with the negative direction of relationship for economic growth and t of (0.0007) for the absorbed workforce variable. The table shows the C (constant) value which means that if economic growth and workforce have zero value then there are 14,420 poor people, and if economic growth increased by 1% then poverty would decrease, suggesting that the poverty would decrease by 491 people and if absorbed workforce increases, then it will have an impact on increasing poverty by 0.02 people.

The findings in this research are in line with the findings of Nizar *et al.* (2013) on the Effect of Investment and Workforce on Economic Growth and Its Relationship to Poverty Level in Indonesia which used secondary data in the form of time series data of 1980-2010. The findings indicate that direct influence of economic growth (GDP) on the poverty level is very small but the relationship is negative and significant. However, the findings are not in line with the findings of Datrini (2009) on the Impact of Investment and Workforce on Economic Growth and Its Impact on Poverty Level in Bali Province, saying that economic growth has no effect on poverty level in Bali province 1990-2007 and the hypothesis saying that the coefficient of economic growth elasticity on poverty is larger than unity and elastic in nature is not acceptable. The results of research show that its absolute elasticity is less than unity or inelastic, meaning that economic growth will not necessarily reduce the number of poor people.

Conclusions and Suggestions

The results showed that the degree of fiscal decentralization has a significant effect on economic growth with negative direction of relationship, meaning that when the degree of fiscal decentralization is higher, the economic growth will decline. This means that when the increase in the degree of fiscal decentralization is not accompanied by the ability to allocate budgets, then its effect on economic growth is negative as it is expected that financial authority is delegated to the regional heads who know best what they need but because such authority can also cause moral hazard so that it will distort economic growth.

In stage 2 it is found that economic growth and absorbed workforce have a significant effect on poverty, which means that if economic growth and workforce increase, poverty will decrease. The economic growth will have an impact on poverty if the results of growth are evenly distributed, but if the absorbed work force increases, it has an impact on increasing poverty. This fact becomes interesting as the increase in the number of absorbed workforce should also enhance people's living standards thereby the poverty can be reduced. However, when the increase in the number of absorbed workforce does not boost people's living standards, then the absorbed workforces have not received adequate wages so that they remain living in the poverty line.

The government should guarantee that the financial authority transferred to regions can allow them to allocate the budget properly so that it will have a positive impact on economic growth. On the other hand, the private investment should also be able to drive the regional economy so that the government and the private sector becomes a synergy. On the other hand, this economic growth can reduce poverty thus it is very necessary to pay attention to the wages provided to absorbed workforces so that poverty can be alleviated.

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