



Effect of Fiscal Decentralization on District/City Community Welfare in South Sulawesi Province

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ABSTRACT

This study aims to see the effect of fiscal decentralization and capital spending on people's welfare both directly and indirectly through economic growth. Researchers used panel data from 24 districts/cities in South Sulawesi Province for the 2016-2021 period. The model used is panel data regression assisted by the E-views 12 application. The results of this study indicate that fiscal decentralization has no significant effect on economic growth. Capital expenditure has a significant effect on economic growth. Fiscal decentralization, capital expenditure and economic growth have a significant effect on people's welfare. Fiscal decentralization on people's welfare through economic growth has no significant effect, Capital expenditure on people's welfare through economic growth has a significant effect.

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INTRODUCTION

Over the last few decades, the transfer of fiscal authority and resources to local governments has occurred in many countries. When countries decentralize financial authority and resources to local government levels, understanding the various effects of fiscal decentralization policies becomes very important (Yang z, 2016). Fiscal decentralization is considered as part of a package of reforms to improve the efficiency of the public sector, to promote competitive competition among local governments in the provision of public goods and services, and to facilitate the realization of economic growth (Bahl and Lin 1992; Davoodi and Zou 1998). Discussion of decentralization Fiscal decentralization has received significant attention. Many empirical studies have focused on the effect of fiscal decentralization on economic growth.

Since fiscal decentralization began to be investigated, different terms and research methods have been introduced and different results have been obtained. Some economists find that fiscal decentralization has a positive effect on economic growth (Oates 1972; Lin and Liu 2000; Akai and Sakata 2002; Jin et al 2005), while others believe it has an inhibitory effect (Zhang and Zou 1998; Davoodi and Zou 1998; Xie et al 1999; Enikolopov and Zhuravskaya 2007).

The initial and fundamental goal of fiscal decentralization is to increase the delivery of goods and services in the public space which can be achieved through the transfer of authority and financial resources to the local government level. Many studies examine the impact of decentralization on poverty reduction, economic growth, interpersonal inequality, social capital formation, and so on, but they tend to be misdirected, namely determining whether decentralization leads to better provision of public services, and consequently to increased societal welfare. (Diaz-Serrano, Luis and Rodríguez-Pose, 2014). Therefore, an important step that is often ignored by most of the studies on the economic implications of fiscal decentralization is to discuss the welfare effects of fiscal decentralization.

The government is required to play an important, strategic and primary role in implementing development programs to realize the welfare of its people. Fiscal decentralization is the main instrument that leads the government to carry out its role in the country's economy. Development programs in sectors related to community social services, such as development in the fields of education, health and other social fields are a form of direct government concern for improving people's welfare. In addition, program policies and budgeting that are oriented towards economic growth, indirectly encourage people's welfare through the principle of the trickle down effect.

South Sulawesi's HDI value is still below the national average and has not met the RPJMD target. Based on published data, even though from 2016 to 2021 the HDI value of South Sulawesi has shown an increase, this increase has not been significant in increasing the HDI position of South Sulawesi nationally. The HDI of South Sulawesi in 2021 is 72.24 which places South Sulawesi in 16th place out of 34 provinces. This rating certainly does not match the target set out in South Sulawesi's RPJMD for the 2018-2023 period which plans to be included in the top 10 national categories. The low HDI value of South Sulawesi compared to the national one actually occurred when South Sulawesi achieved high economic growth over national economic growth. Yet according to Brata (2002), good economic performance supports human development and vice versa, quality human development.

In the 2016-2021 period the regions that achieved the highest HDI were the city of Makassar, the city of Palopo and the city of Pare-pare. As the capital of the province of South Sulawesi, the city of Makassar is the center of all activities, be it education, economy, entertainment, government and so on. Means and Makassar city infrastructure is quite adequate in supporting the achievement of human development. Community access to education and health is very easy and affordable. While the regions that achieved the lowest HDI during the 2016-2021 period were Jeneponto, Bone, and Takalar districts. If it is classified in the high and low HDI category for districts/cities in South Sulawesi Province during 2016-2021, only 7 districts/cities are in the high category and 17 districts are in the medium category.

South Sulawesi has a very rich population and territory potential. However, this potential has not been utilized optimally. Human development that continues to this day still leaves disparities between regions. The size of the area and the uneven distribution of development have caused inequality to occur. Both between urban and rural areas, between districts and between cities and districts. The disparity between districts/cities can be seen from the highest HDI achievement for the city of Makassar and the lowest HDI for Jeneponto district. In 2021 the difference in the HDI achievements of the two Regencies/Cities will reach a difference of 18.10 points.

RESEARCH METHOD

This research was conducted in 24 districts/cities in South Sulawesi Province. The type of data used is secondary data in the form of panel data (pooled data). With a combination of cross-section and time series. For cross section data, data from 24 regencies/cities in South Sulawesi Province. While time series data, entity data with time/period 2016-2021 dimensions. The data is sourced from publication documents published by the Central Statistics Agency) of South Sulawesi Province, the Directorate General of Fiscal Balance (DJPK).

The data analysis method used for this research model is the Panel Data Regression Analysis model using the EViews 12 software. This model is considered appropriate to explain the influences in the framework that has been made previously. This method is used to determine whether the independent variables (Fiscal Decentralization, and Capital Expenditures) affect the dependent variable (Community Welfare) either directly or indirectly through intermediary variables (economic growth).

RESULTS AND DISCUSSIONS

Result

a. Coefficient Determinant

Table 1. The results of the Coefficient of Determination (R2) of Equation I

R-squared	0.309052	Mean dependent var	5.337500
Adjusted R-squared	0.162665	S.D. dependent var	3.246370
S.E. of regression	2.970623	Akaike info criterion	5.177403
Sum squared resid	1041.303	Schwarz criterion	5.713619
Log likelihood	-346.7730	Hannan-Quinn criter.	5.395291
F-statistic	2.111198	Durbin-Watson stat	1.989930
Prob(F-statistic)	0.004084		

The coefficient of determination in equation 1 shows an Adjusted R-Square value of 0.16. This means that 16 percent of variations in changes in the variable Economic Growth can be explained simultaneously by variations in changes in the variables of fiscal decentralization and Capital Expenditures. The remaining 84 percent is determined by variables or other factors outside the capital of this study.

Table 2. Results of the Coefficient of Determination (R2) Equation II

R-squared	0.974443	Mean dependent var	69.77681
Adjusted R-squared	0.730166	S.D. dependent var	4.131350
S.E. of regression	0.730166	Akaike info criterion	2.376271
Sum squared resid	62.37765	Schwarz criterion	2.933111
Log likelihood	-144.0915	Hannan-Quinn criter.	2.602539
F-statistic	171.5774	Durbin-Watson stat	1.387227
Prob(F-statistic)	0.000000		

The coefficient of determination in equation 2 shows the Adjusted R-Square value of 0.96. This means that 96 percent of variations in changes in the variable Human Development Index can be explained simultaneously by variations in changes in the variables of fiscal decentralization, capital expenditures and economic growth. The remaining 4 percent is determined by variables or other factors outside the capital of this study.

b. F Test

Table 3. F Test Results Model I

Prob(F-statistic)	0.004084
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Based on the results of the F test of equation 1, it can be seen that the Prob (Fstatistic) value of $0.004 < 0.05$, it can be said that the independent variables jointly have a significant effect on the dependent variable.

Table 4. F Test Results Model II

R-squared	0.974443	Mean dependent var	69.77681
Adjusted R-squared	0.968764	S.D. dependent var	4.131350
S.E. of regression	0.730166	Akaike info criterion	2.376271
Sum squared resid	62.37765	Schwarz criterion	2.933111
Log likelihood	-144.0915	Hannan-Quinn criter.	2.602539
F-statistic	171.5774	Durbin-Watson stat	1.387227
Prob(F-statistic)	0.000000		

Based on the results of the F test of Equation 2, it can be seen that the value of Prob (Fstatistic) $0.000 < 0.05$, it can be said that the independent variables together have a significant effect on the dependent variable.

c. T test

Table 5. T-test results Equation 1

Variable	Koefisien Regresi	t-statistik	Probability	Information
Fiscal Decentralization (X ₁)	-0.033510	-0.276289	0.7828	Not Significant
Capital Expenditure (X ₂)	0.248307	4.878399	0.0000	Significant

C

F-statistic = 2.111198
 Prob (F-statistic) = 0,004084

*) Significant pada $\alpha = 5\%$; $R^2 = 0.309052$

The results of the t-test of equation 1 show that the Fiscal Decentralization Variable (X₁) has a regression coefficient of -0.033510 with a probability value of $0.7828 > 0.05$. This means that Fiscal decentralization has no positive and significant effect on the Economic Growth Variable (Y₁) while the Capital Expenditure variable (X₂) has a regression coefficient of 0.248307 with a probability value of $0.00000 < 0.05$. this means that the Capital Expenditure variable has a positive and significant impact on the economic growth variable (Y₁)

Table 6. Equation 2 T-test results

Variable	Koefisien Regresi	t-statistik	Probability	Information
Fiscal Decentralization(X ₁)	0.097098	3.255998	0.0015	Significant
Capital Expenditure(X ₂)	-0.034363	-2.505590	0.0136	Significant
Economic Growth (Y ₁)	-0.126786	-5.603242	0.0000	Significant

C

F-statistic = 171.5774
 Prob (F-statistic) = 0,000000

*) Significant pada $\alpha = 5\%$; $R^2 = 0.974443$

The T-test results of equation 2 show that the Fiscal Decentralization Variable (X₁) has a regression coefficient of 0.097098 with a probability value of $0.0015 > 0.05$. This means that fiscal decentralization has a positive and significant effect on the Community Welfare Variable (Y₂). Meanwhile, the capital expenditure variable (X₂) has a regression coefficient of -0.034363 with a probability value of $0.0136 < 0.05$. this means that the Capital Expenditure Variable has a negative and significant effect on the Community Welfare variable (Y₂). Economic Growth Variable (Y₁). Has a regression coefficient of -0.126786 with a probability value of $0.0000 < 0.05$. this means that the Economic Growth Variable (Y₁) has a negative and significant effect on Community Welfare (Y₂).

1. Discussion

a. The Direct Effect of Fiscal Decentralization on Economic Growth

The results of the data analysis show that fiscal decentralization has no significant effect on economic growth. The results of the effect of fiscal decentralization on economic growth obtained a p-value of $0.7828 > 0.05$. can be interpreted that fiscal decentralization does not bring changes in terms of economic growth. This research is in line with the results of Saputra and Mahmudi (2013),

Nantharath (2020), and Fanyasa (2021) stating that fiscal decentralization can lead to macroeconomic instability which in turn will hinder economic growth, because fiscal decentralization can reduce government spending and taxes. based on the central government that can be used to carry out the function of stability.

b. The Direct Effect of Capital Expenditures on Economic Growth

The results of the data analysis show that capital expenditure has a significant effect on economic growth. The results of the influence of Capital Expenditures on economic growth obtained a p-value of $0.0000 < 0.05$. It can be interpreted that the greater the government expenditure originating from capital expenditure, the economic growth will increase. These results are in line with the research by Waryanto (2017) and Bahasoan (2017) which state that capital expenditure has a positive and significant effect on economic growth. This is because capital expenditures, especially those related to infrastructure procurement, can encourage economic growth, which will ultimately achieve people's welfare evenly. The spread of equitable and quality infrastructure development in the regions ensures that economic growth can spread throughout the country. Even though the coefficient of capital expenditure on economic growth in this study is low, this is actually a warning for local governments to continue to improve the quality and quantity of capital expenditure.

c. The Direct Effect of Fiscal Decentralization on Community Welfare

The results of the data analysis show that fiscal decentralization has a significant effect on people's welfare. The results of the effect of fiscal decentralization on people's welfare obtained a p-value of $0.0015 < 0.05$. meaning that the higher the fiscal decentralization, the higher the people's welfare. This shows that the results of this study support the theory of fiscal federalism and the empirical findings of research conducted by Hirawan (2007), (Kusreni and Suhab 2009), Simanjuntak (2010), Saputra and Mahmudi, (2013) Pratiwi (2021) which states that fiscal decentralization area has a positive-direction relationship with the welfare of society. This relationship indicates that sources of regional income from PAD and tax and non-tax sharing (SDA) have not or are not distortive towards improving people's welfare.

d. The Direct Effect of Capital Expenditure on Public Welfare

The results of data analysis show that Capital Expenditure has a Significant Effect on Community Welfare (IPM). The results of the effect of Capital Expenditure on people's welfare (IPM) can be seen from the p-value $0.0136 < 0.05$. These results are in line with research by Mitchell (2005), okoro (2013), and (Pradana, 2018) which state that capital expenditures have a negative and significant effect on HDI. The negative direction of capital expenditures on people's welfare is indicated because the allocation of capital expenditures is not appropriate and even becomes a waste so that it does not have an impact on improving people's welfare.

e. The Direct Effect of Economic Growth on Community Welfare

The results of data analysis show that the effect of economic growth has a significant and negative relationship with the welfare of the community (IPM). The results of the effect of Economic Growth on HDI can be seen from the significance value of p-value $0.0000 < 0.05$. the results of this study are not in line with the research of Bahosan (2019) which found the results that economic growth had a positive and significant effect. However, the results of this study are in line with the results of research conducted by (Badrudin, 2012) which says that economic growth has a significant effect on people's welfare and has a negative relationship. This negative direction shows that the increase in economic growth has an effect on the decline in the welfare of the district/city community in South Sulawesi Province. This means that all district/city governments in South Sulawesi Province when setting targets for economic development results always use one of the assumptions, namely that economic development is always within a certain percentage.

If the economic growth target is achieved or even exceeded, it is said that the district/city government has succeeded in managing the government, on the other hand, if the economic growth target is not achieved, it is said that the district/city government has not succeeded in managing the government and is even said to have failed. Whereas the results of economic development are not

only oriented to the achievement of certain economic growth rates. The success of economic development is not only determined by the acceleration of economic growth. Therefore, the district/city governments in South Sulawesi need to distinguish between the terms economic growth and economic development because the two terms are different in addition to the impact they have on the district/city economy.

The empirical findings in this study which show a negative and significant relationship between economic growth and people's welfare, this finding is in line with the theory put forward by Todaro and Smith (2015), which argues that economic growth does not always increase along with the increase in people's welfare.

f. Indirect Effects of Fiscal Decentralization on Community Welfare Through Economic Growth

The results of data analysis show that the effect of fiscal decentralization on people's welfare through economic growth is not significant. This can be seen based on the results of the Sobel test to get a t value of 0.27595. because the t value obtained is $0.27595 <$ from t-table 1.65573 with a significance level of 5 percent, it can be concluded that economic growth cannot mediate the effect of fiscal decentralization on the welfare of the district/city community in South Sulawesi Province in 2016-2021, this is based on the fact that The negative relationship of decentralization to economic growth can lead to macroeconomic instability which in turn will hamper economic growth, because fiscal decentralization can reduce government spending and taxes based on the central government that can be used to carry out the function of stability. with the inhibition of economic growth, of course, there will be no increase in people's income, with no increase in people's income in meeting their needs gives a signal that there is no community welfare in the form of increased income.

g. Indirect Effect of Capital Expenditure on Community Welfare through Economic Growth

The results of data analysis show that capital expenditure has a significant effect on people's welfare through economic growth. This can be seen based on the results of the Sobel test to get a t value of 3.67934. because the t value obtained is $3.67934 >$ from the t-table 1.65573 with a significance level of 5 percent, it can be concluded that economic growth can mediate the effect of capital expenditure on the welfare of the district/city community in South Sulawesi province in 2016-2021. This is because capital expenditures, especially those related to infrastructure procurement, can encourage economic growth, which will ultimately achieve people's welfare evenly. The spread of equitable and quality infrastructure development in the regions ensures that economic growth can spread throughout the country.

CONCLUSION

From the results of the research discussion above, it can be concluded that: Fiscal decentralization has no significant effect on economic growth. Capital expenditure has a significant effect on economic growth. Fiscal decentralization, capital expenditure and economic growth have a significant effect on people's welfare. Fiscal Decentralization has no significant effect on people's welfare through economic growth. Capital Expenditure has a Significant Effect on Public Welfare through Economic Growth. In carrying out fiscal decentralization, the principle of money should follow function is a principle that must be considered and implemented, meaning that each transfer or delegation of governmental authority has consequences for the budget needed to carry out this authority. The number of areas of government that are the responsibility of the bureaucracy is the same at the district/city and provincial levels of government in Indonesia, but the success of each region in exercising its authority depends on creativity, organizational capacity of the regional government, and the conditions of each region. Therefore, in order for the economic development goals of districts/cities in South Sulawesi Province in the era of regional autonomy and fiscal decentralization to be successful, success indicators such as increased economic growth, increased HDI rates per district/city or nationally, decreased ratio of poor people and Index Gini ratio decreased. So the district/city governments in the province of South Sulawesi must be able to manage government management by upholding the principles of integrity and professionalism

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