

The Effect of Local Revenue and Local Expense on Economic Growth (Study In The Regencies and Cities of North Moluccas Province Within 2006-2015)

Rudin M^{1)*}, Maria Lea FrensyBakarbessy²⁾, Andi Matulada Amir³⁾, Vita Yanti Fattah³⁾, Suardi³⁾

¹⁾Doctoral Student of Economic Science, Tadulako University, Palu, Indonesia

²⁾MagisterStudent of Public Administration, Tadulako University, Palu, Indonesia

³⁾Advisor, Doctor Economic Science, Tadulako University, Palu, Indonesia

E-mail: rudin.ternate@gmail.com; maria.ternate83@gmail.com; andi_@yahoo.com; vita_fattah@yahoo.com; suardi@yahoo.com

Abstract

This research's aim was to know the effect of local revenue and local expense on regencies and cities' economic growth in North Moluccas. The population was 8 regencies and 2 cities in North Moluccas. The research used panel data from the combination of cross section and time series data. The research results showed that 1) locally generated revenue, general allocation fund, employee's expense, and goods and services' expenses were together affect the economic growth, 2) locally generated revenue was significantly affect the economic growth, 3) general allocation fund was significantly affect the economic growth, 4) employee's expense was significantly affect the economic growth, and 5) goods and services' expenses was not significantly affect the economic growth. The local government of North Moluccas is suggested to increase the locally generated revenue by increasing the

quality of personnel resources through training and education, and maximize the data and information system of local financial management. The government should empower the regencies and cities of North Moluccas to increase the allocation proportion of goods and capital expenses in APBD, thereby accelerating the availability of public service's facilities and infrastructure and continue sanctions impositions to the regencies and cities which are late to submit the APBD.

Keywords: employee's expense; general allocation fund; goods and service expense; local revenue; local expense; and economic growth.

1.1 Introduction

The implementation of regional autonomy in the Unitary State of the Republic of Indonesia is now referring to the Constitution Number 23 Year 2014 about Local Government [1], in which Article 1 paragraph 6 stated that: "the

implementation of regional autonomy is the right, authority, and obligation of regions to independently set and manage their government affairs and local society concern in the Unitary State of the Republic of Indonesia.

In the implementation of decentralization, The Republic of Indonesia gives an authority to the local government to be freely managing their local resources independently. Every region is given an authority and is asked to increase the local autonomy, so that they can freely manage their local resources for the achievement of balanced regional development. The main source of local government's fund is from the local revenue. It is used to carry out the development of every region, including community's equitable distribution of income in the local area [2].

Local revenue is the right of local government that was approved as net asset value adder within the related year according to Constitution Number 33 Article 1 paragraph 13, Year 2004 [3]. Local revenue is incoming current of local cash obtained from local government's activity during a period that had caused the addition of equity and is not obtained from loan that must be returned [4]. Local revenue is obtained from locally generated revenue, equalization funds, and the other local revenues [5].

Local expense is all of the expenditures of local government in a period of budget in the form of outward

current assets, used to carry out the obligations, authorities, and responsibilities to the society and central government. According to the Constitution Number 23 Article 298 Year 2014, it had been explained that: 1) Local expense's priority is to fund the obligatory government's affairs related to basic service that had been set with minimal service standard, 2) Local revenue is guided by technical standard and regional unit price standard in accordance with the constitutional rule, 3) Local expense for funding the government's affairs as the regional authority is both guided by the analysis of expense standard and regional unit price standard in accordance with the constitutional rule, 4) Grant expense and social assistance budgeted in APBD is in accordance with the local financial capability after prioritizing the obligatory and selected government's affairs expense, except otherwise specified in the Constitutional rule.

Economic growth is one of the indicators that are generally used in determining developmental success. Economic growth is used as the measurement of development and the economic progress of a country or region, because it is strongly related with society's economic activities particularly in increasing the production of goods and services [6].

According to the theory of David Ricardo, economic growth is determined by limited number of natural resources,

and the number of resident producing labor adjusting them with the wage, above or below the minimal wage. Development of technology increases the productivity of labor. It also slower the process of diminishing returns deterioration of the wage rate and profit towards their minimum level [7].

According to the theory of Thomas Robert Malthus, the measurement of economic development's success is the state's welfare, that is when the potential PNB increasing. The dominant sectors are agriculture and industry. If the outputs of these two sectors are increasing, the potential PNB can be increased. The growth theory by A. Lewis explains that economic growth begin in a developing country that has two sectors with different characteristics, that is traditional agriculture subsystems in the village and modern industries in big cities [7].

1.2 Methodology and Techniques Used

Research Type

This research was a descriptive and verification research. The descriptive research explained the development of local revenue, local expense, and the economic growth of regencies/cities in North Moluccas Province. The verification research tests the hypothesis (H) to know the effect of local revenue and local expense on economic growth.

Location and Time of Research

The research was located on regencies/cities in North Moluccas

Province, Indonesia, and was done in six months since the research proposal seminar. The location had been chosen based on the data and information related to the main problems of the research, which are local revenue, local expense, and economic growth. Besides, North Moluccas Province is a provincial division from Moluccas Province so that a research of local revenue, local expense, and economic growth is needed there.

Population

The population of this research included the reports of local revenue, reports of local expense, and reports of economic growth of 8 regencies and 2 cities in North Moluccas Province. Because of researcher's limitation in reaching the population, sample was not used in this research.

Variables' Operational Definition

Research's variables are anything stated by the researcher to be studied so that the readers can have the information related to the things and draw the conclusion [8]. The variables used in this research were dependent variables and independent variables.

Table 1. The Matrix of Variables’ Operational.

No	Variable	Indicators	Scale	Data Sources
1	Locally Generated Revenue General Allocation Fund	Local Taxes, Local Retribution, Living Environment, Trading.	Ratio	BPS RI, North Moluccas BPS, Central Sulawesi BPS, and Dirjen PKPD RI.
2	Employee’s Expense Goods/Services Expense	Employee’s Salaries Building and heavy equipments rents	Ratio	BPS RI, North Moluccas BPS, Central Sulawesi BPS, and Dirjen PKPD RI.
3	Economic Growth	The Development Rate of PDRB	Ratio	BPS RI, North Moluccas BPS, Central Sulawesi BPS, and Dirjen PKPD RI.

(Source: Researcher’s Processing, 2016).

Technique Used

Panel Data Analysis

Panel data is a combination of cross section and time series data with linear regression model [9]. To estimate the model parameter with panel data, some techniques suggested are: 1) ordinary least square technique by making regression of cross section and time series data. For panel data, it should combine the cross section and time series data. After that, the combined data is treated as a unit of observation and used to estimate the model with Ordinary Least Square (OLS) method; 2) Fixed Effect Model, stated that some variables are not included to the model equation and cause non constant intercept. With the other words, the intercept can be changed for every individual and time. This thought is the basis of the model formation; 3) Random Effect Model, in this model the difference of intercepts is accommodated through error. This technique is also count that errors might be correlated along the cross section and time series.

1.3 Results and Discussion

Result

Test of Panel Data Regression Model

There were three techniques of panel data analysis used: common effect, fixed effect model, and random effect model [9]. The result of Chow test using EViews 6 program showed Chi Square value of 0.0000 that is smaller compared to Alpha

0.05. Therefore, it can be concluded that the best model was Fixed Effect Model.

The Selection of Fixed Effect Model and Random Effect Model

The testing of fixed effect and random effect model was using Hausman test. From the test result, it showed Prob.Cross Section Random value of 1.0000 that is bigger compared to Alpha 0.05. Therefore, null hypothesis was accepted and it can be concluded that Random Effect method was the best one in this research.

Simultaneous Test of Hypothesis (F test)

The F test with EView 6 program showed that counted F value was 29.63993 in probability level of $0.000000 < 0.05$. It can be concluded that the research hypothesis (H_1) which stated that locally generated revenue, general allocation fund, employee's expense, goods and service expenses, are significantly affect the economic growth of regencies and cities in North Moluccas Province was accepted.

Partial Test of Hypothesis (t Test)

Second research hypothesis (H_2) stated that locally generated revenue is significantly affecting the economic growth of regencies and cities in North Moluccas Province. According to the t test result, it is known that counted t value is 4,133966 and the probability value is 0.0000 smaller compared to Alpha 0.05. Therefore it can be concluded that H_2 was accepted.

Third research hypothesis (H_3) stated that general allocation fund is significantly

affecting the economic growth of regencies and cities in North Moluccas Province. According to the t test result, it is known that counted t value is 3.912696 and the probability value is 0.0001. Because the probability value was smaller compared to Alpha 0.05 it can be concluded that H_3 was accepted.

Fourth research hypothesis (H_4) stated that employee's expense is significantly affecting the economic growth of regencies and cities in North Moluccas Province. According to the t test result, it is known that counted t value is 3.400806 and the probability value is 0.0007. Because the probability value was smaller compared to Alpha 0.05 it can be concluded that H_4 was accepted.

Fifth research hypothesis (H_5) stated that goods and service expenses are significantly affect the economic growth of regencies and cities in North Moluccas Province. According to the t test result, it is known that counted t value is 10.101003 and the probability value is 0.9196. Because the probability value was bigger compared to Alpha 0.05 it can be concluded that H_5 was rejected.

Determination Coefficient (R^2)

According to the count, the determination coefficient (R^2) obtained was 0.232896. This value showed that locally generated revenue, revenue sharing, general allocation fund, specific allocation fund, other legal local revenue, employee's expense, goods and service

expenses, capital expense, and indirect expense are affecting the economic growth of regencies and cities in North Moluccas Province.

Discussion

Based on the research result, it can be seen that locally generated revenue, general allocation fund, employee's expense, and goods and service expenses is significantly affect the economic growth of regencies and cities in North Moluccas Province. This can be explained that if the value is decreasing, the economic growth of regencies and cities in North Moluccas Province will be decreasing as well. The explanations of each independent variable's effect to the dependent variable are as follows.

The Effect of Locally Generated Revenue on Economic Growth

If locally generated revenue of regencies and cities in North Moluccas Province is increasing, the economic growth will also be increasing and vice versa; if locally generated revenue of regencies and cities in North Moluccas Province is decreasing, the economic growth of these regions will be slower or decreasing as well. This research result is in accordance with the research result done by Masuduzzaman[10].

The Effect of General Allocation Fund on Economic Growth

If the general allocation fund of regencies and cities in North Moluccas Province is increasing, the economic

growth will also be increasing and vice versa; if the general allocation fund of regencies and cities in North Moluccas Province is decreasing, the economic growth will also be decreasing. Therefore, the regions are still need the general allocation fund. This research result is in accordance with the research result of Herni and Darsana[11] concluded that general allocation fund is positively and significantly affect the economic growth. **The Effect of Employee's Expense on Economic Growth**

If the employee's expense of regencies and cities in North Moluccas Province is increasing, the economic growth will also be increasing and vice versa; if employee's expense of regencies and cities in North Moluccas Province is decreasing, the economic growth of these regions will be slower or decreasing as well. Therefore, the up and down of economic growth is affected by local employee's expense.

This research result is in accordance with the research result of Endang[12] concluded that employee's expense is positively and significantly affect the economic growth.

The Effect of Goods and Service Expenses on Economic Growth

This research that was located on regencies and cities in North Moluccas Province showed that goods and service expenses are not significantly affect the economic growth. This can be explained that up and down of goods and service

expenses in North Moluccas' regencies and cities is not significantly affect the economic growth.

This research result is in accordance with the research result of Pasekiet. al. [13] concluded that goods and service expenses are not significantly affect the economic growth.

1.4 Conclusions and Recommendations

Conclusion

Locally generated revenue, general allocation fund, employee's expense, and goods and service expenses are simultaneously affecting the economic growth. Locally generated revenue is significantly affecting the economic growth. General allocation fund is significantly affecting the economic growth. Employee's expense is significantly affecting the economic growth. Meanwhile goods and service expenses are not significantly affect the economic growth.

Recommendation

For the local government of regencies and cities in North Moluccas Province it is suggested to increase the locally generated revenue by these activities: 1) increasing the quality of personnel resources through training and education, 2) maximize the data and information system of local financial management aspect.

The central government should empower the regencies and cities in North

Moluccas Province to be able to increase the proportion of goods expense and capital expense allocation in APBD, thereby accelerating the availability of public services' facilities and infrastructure. It is also suggested to keep implementing the policy of sanctions impositions to the regencies and cities, which is late to submit the APBD, and also to give rewards to the regencies and cities which is managed to submit the APBD on time.

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