The Evaluation of Fiscal Decentralization Implementation

Rudy Badrudin[1*] & Claudia Astika Putri Mayangsari[2]

Afiliasi
[1,2] Sekolah Tinggi Ilmu Ekonomi YKPN, Yogyakarta, Indonesia

Koresponden
[*]*rudybadrudin.stieykpn@gmail.com*

Abstract. The objective of study is conducted in order to evaluate the fiscal decentralization in Central Java Province by analyzing the effect of fiscal decentralization on capital expenditure, economic growth, and social welfare in 35 districts in Central Java Province based on data from 2015 to 2019 with capital expenditure and economic growth as intervening variable. The Central Java Province is a province who does not have regional divisions so its originality or authenticity of the territorial integrity of the regional autonomy will be seen into force since 2001. The year of 2015 to 2019 is a 15-years period of fiscal decentralization implementation in Indonesia after 2001. The analytical method used is based on the Partial Least Square (PLS) which follows the structural equation model (SEM) model for testing hypothesis ($\alpha =$ 5%). The findings of study are fiscal decentralization has a positive significant effect on capital expenditure, economic growth, and social welfare; capital expenditure has a negative significant effect on economic growth but has a positive significant effect on social welfare; and economic growth has a positive significant effect on social welfare in regency and city in Central Java Province.

Keywords: fiscal decentralization, capital expenditure, growth, welfare

Introduction

Indonesia is a country which employs uses regional autonomy system for the goverment since January 1, 2001. With regional autonomy, regions have the right, authority, and obligation autonomous regions to set up and manage their own affairs and interests of a government of a society accordance with the legislation. Regional autonomy characterized by fiscal decentralization, where the formulation and implementation of the Regional Government Budget is the responsibility of each region. According to the (Mirza, 2012) aim of decentralization is to increase the independence of the region and reduce the fiscal dependence on the central government and to create equalization of financial capability among regions that commensurate with the magnitude of the authority of government affairs submitted to the autonomous region.

Fiscal decentralization policy through the transfer of authority of the financial management to local governments, followed by the fiscal transfer, basically aimed at improving efficiency of public sector service in the area, particularly for infrastructure in order to achieve better social welfare. According to Žemgulienė (2012) and Badrudin (2015), local governments have a better knowledge of the societal conditions and potential land and thus the fiscal decentralization policy is expected to create a better public service. It means that regional autonomy is expected to encourage local governments to be performing well in managing the region's potential for improving economic development in the region.

From the dimensions of development, social welfare is measured by various methods for valuing the social welfare and measurable indicators of achievement of development results. Since 1990, United Nations Development Program (UNDP) adopted a new paradigm of development called the paradigm of human development index, the paradigm is to see human beings in terms of a more complex and comprehensive, as well as to take into the success of human development from the economic aspect, also take into the non-economic aspects. Based on this concept, human development means improving the human resources in the broadest sense includes physical and spiritual aspects, material, and spiritual in both individual and social scale, which in turn must be able to become comprehensive development resources (Nasution & Wahyudi, 2017). As well as economic development, human development requires the availability of data analysis for policy-making and planning for the right target and need to be evaluated to what extent the construction carried out to improve the quality of human life as an object of development.

Regional development carried out so that economic growth imbalances between regions does not spread. Activities of regional development is inseparable from the role of all governments in the region and people who jointly took the initiative to build the region that successfully utilize all available resources in each area. According to Yandri (2014), local government should be able to look at sectors which have advantages as well as drawbacks, optimize the empowerment of all potential, and assign priority commodity sector development. Thus, the purpose of economic development to improve real incomes

as well as to increase the productivity of their society (Badrudin, 2015; F Simanjuntak *et al.*, 2013).

Implementation of fiscal decentralization in Indonesia was marked by the transfer of financial resources to the regions in a very significant number. At the beginning of fiscal decentralization, the transfer to the regions as a fiscal balance transfers from the central government to regions only Rp. 81.1 trillion, and increased by 16.8 percent in 2002 to Rp. 94.7 trillion. Fiscal balance transfers in 2006 reached Rp. 222.2 billion, an increase of 55.2 percent from the previous year. Until the year 2008, the amount of fiscal balance transfers has reached Rp. 278.7 trillion (Zulyanto, 2010). In addition to transfers to regions has increased, decentralization and regional autonomy is also characterized by creation of new local or regional divisions, both at the provincial and regency/ city. If in 1998 the number of provinces in Indonesia's 27 provinces, then in 2006 increased to 33 provinces, an increase of 22.2 percent. So is the only regencies that originally numbered only 274 in 1999, in 2006 reached 348 regencies, an increase of 27 percent. While the area of the city which originally numbered 70 to 86 cities in 2006. In 2008, the number has reached 387 regencies and 96 cities areas, bringing the total area of the regency and city in the year 2008 as many as 483 areas (Zulyanto, 2010). Following a phenomenon that occurs nationwide, regional expansion in Central Java Province from the commencement of the implementation of regional autonomy until 2017 is a province that does not undergo expansion area. Because it does not undergo expansion area, it will show the originality or authenticity of the territorial integrity of the regency/ city since regional autonomy was implemented by January 1st 2001 (Badrudin, 2013) .

The implementation of fiscal decentralization in Indonesia is encouraged to overcome the problems of macroeconomic instability, low economic growth, to improve the quality of the human development index, to eradicate poverty, and to accelerate regional infrastructure development. The fiscl decentralization policy aims to increase regional fiscal capacity so that local governments can create social protection programs such as education, health, and to create jobs to reduce unemployment and poverty. The growth of fiscal decentralization, economic growth, public welfare, and poverty, are social constructs that have a causal relationship. The progress of one of these constructs can cause changes in other structures. The adequate fiscal capacity can stimulate economic development, then contribute to improving public welfare, and minimizing poverty, and vice versa. The high economic growth has an impact on increasing public welfare and minimizing poverty, and vice versa (Hiktaop *et al.*, 2020).

Literature Review And Hypothesis Development

Relationship model of fiscal decentralization that is from top to down can be analyzed by the agency theory that explains the relationship of principal and agent. Based on agency theory, described the relationship of the people with the government can be considered as an agency relationship. The relationship arising from a contract established by the

people (as principal) who use the government (as agent) to provide services in the interests of the people.

The people represented by the Regional House of Representatives (DPRD) is the principal and the government are the agents. Agents are expected to take a favorable financial policy principals. Principals have the authority to regulate to the agent, and providing resources to the agent in the form of taxes, levies, fiscal balance transfers , the results of the local income management and other legitimate regional income. The local government running the government, construction, and public service, must submit a report public financial accountability to evaluate whether the local government managed to carry out their duties properly or not. People oblige the government to account over the management of resources so that it can be seen the extent to which the government has acted to the creation of economic growth in the region will have an impact on improving social welfare.

Fiscal decentralization can be defined as a process of distribution of the budget of the higher levels of government to lower governmental functions or tasks to support the devolved government. Study of Badrudin & Kuncorojati (2017) showed that the own-source revenue has a significant effect on capital expenditure. Fiscal decentralization aims to make social welfare. That is why, if the regional government wants to increase social welfare, the regional government must increase the budget of direct expenditure including capital expenditure. In order to increase the budget of direct expenditure that consists of components of capital expenditure, the regional government must be able to increase regional income through the raise of own source revenue and profit dividing of tax and non-tax (Badrudin, 2013). In conducting fiscal decentralization, the principle of money should follow function is the principle that has to be watched or done, it means that every transfer or allowance of governing authority carries consequences toward budget that is needed to run that authority (Badrudin, 2015). Based on these descriptions then compiled the research hypothesis as follows:

Hypothesis 1: fiscal decentralization has a positive significant effect on capital expenditure in regency and city in Central Java Province.

Fiscal decentralization consisting of own-source revenue and dividing of tax and non-tax profits has a very important role in the economic growth of a region. The local government has greater authority to invest and spend more on productive sectors. Badrudin & Kuncorojati (2017) proved that own-source revenue has significant effect on economic growth. Study of Simanjuntak et al. (2017) stated that the regional own source revenue has a significant effect on economic growth. Based on these descriptions then compiled the research hypothesis as follows:

Hypothesis 2: fiscal decentralization has a positive significant effect on economic growth in regency/ city Central Java Province.

The local government is able to provide public goods and services needed. Local government will be more sensitive to the local economy as local governments certainly understand the situation and the ability of the resource area. The greater autonomy that given to region, making local government more efficient to allocate a various local potential in accordance with the needs of the public. Study of Žemgulienė (2012) and

Badrudin & Kuncorojati (2017) proved that own-source revenue has significant effect on social welfare. According to Simanjuntak et al., 2017, the own-source revenue has a significant effect on social welfare that measured by the Human Development Index (HDI). Based on these descriptions then compiled the research hypothesis as follows:
Hypothesis 3: fiscal decentralization has a positive significant effect on social welfare in regency and city in Central Java Province.

Based on Government Regulation No. 59 Year 2007 Article 53, paragraph (1), capital expenditure will be used for expenses incurred in order to procure fixed intangible assets that have value more and than twelve (12) months to be used in government activities. In order to create a region with a high human quality, local governments use the Local Government Budget (APBD) to finance its development in these sectors. Local governments should be able to allocate local budget through development expenditures supporting sectors to boost economic growth. The increasing of capital expenditure also increase a good infrastructure by local governments to spur economic growth in the area. With the variety of public facilities provided by the government will encourage economic growth and increased revenue. If the local government set a capital expenditure or greater development of routine expenditures, the budget expansion policy of this area will boost economic growth in the region.

According to Simanjuntak *et al*. (2017), the investment that is related to the accumulation of assets with an expectation to obtain profit in the future consist of three types, namely government investment or capital expenditure, domestic investment, and foreign investment. An area having most large investment level is an area with high infrastructure, natural resources and human resources. So the investment has a significant effect on economic growth (Simanjuntak *et al*., 2017). But difference with study of Nasution & Wahyudi (2017) stated that government spending have positive impact on economic growth, but in other direction also have a negative impact. Based on these descriptions then compiled the research hypothesis as follows:
Hypothesis 4: capital expenditure has a positive significant effect on economic growth in regency/ city in Central Java Province.

One way to increase social welfare is by economic development, a series of activities carried out by the government together with all levels of society to achieve a better life. Through the capital expenditure, local governments could fund development activities devoted to the public interest. The local government can build public facilities such as roads, bridges, telecommunications, electricity, schools, hospital buildings, markets, and other public facilities. Several types of public facilities will facilitate the accessibility of society in economic activity. In addition, people can also take advantage of the non-economic activity, especially in the social activities in various public spaces available. Study of Mirza (2012) showed that government-issued capital expenditure has a positive significant effect on social welfare in Central Java Province. Study of Arham & Naue (2015) stated that the public expenditure on infrastructure did not have any effect toward the level of poverty in regency and city in Gorontalo Province. Study of Badrudin & Kuncorojati (2017) proved that capital expenditure has not a significant effect on economic growth social welfare in regency and city in Special Region of Yogyakarta

Province. According to Simanjuntak *et al.* (2017), the government investment or capital expenditure has a significant effect on social welfare. Based on these descriptions then compiled the research hypothesis as follows:

Hypothesis 5: capital expenditure has a positive significant effect on social welfare in regency and city in Central Java Province.

Economic growth is defined as a long-term increase in the ability of a country to provide more and more kinds of economic goods to its citizens, this ability to grow in accordance with technological progress and institutional and ideological adjustments are needed. Economic growth as the relative value of the Gross Regional Domestic Product (GRDP) changes over time showed an increase in people's income from time to time. The increasing number of people's income is indicated by an increase in the allocation of revenues to the consumption needs of primary, secondary, and tertiary so that the local communities are getting richer, healthier, and better educated that shows indicators Human Development Index (HDI) and there is also a decrease in the poverty rate shown by indicator poor population ratio (PPR).

According to Constitution No. 11 Year 2009 regarding Social Welfare, social welfare is the fulfillment of the conditions of material, spiritual, social and citizens in order to live a decent and able to develop themselves, so that they can perform their social function. In this study, social welfare measured by two indicators. The first indicator is the Human Development Index (HDI), which measures human development achievements based on a number of basic components of quality of life. HDI is the ability of the purchasing power to a number of needs of the average amount of expenditure per capita that representing the development gains for a decent life. As a measure of quality of life, HDI is built through a three-dimensional approach. These dimensions include a long and healthy life, knowledge and a decent life. A second indicator is poor population ratio (PPR), the proportion of poor people. To measure poverty, Central Bureau of Statistic (BPS) uses the concept of ability to fulfill their basic needs (basic needs approach). With this approach, poverty is seen as an economic inability to complete the basic needs of food and non-food which is measured from the expenditure side. BPS counted with the concept of Head Count Index (HCI-P0), is the percentage of the population under the poverty line (PL).

Social welfare can be achieved by the development of infrastructure and facilities and infrastructure in an area. Sources of development funding comes from capital expenditure budget. That is, if the proportion of capital expenditure increases, the funds for infrastructure development is also high. Better infrastructure will facilitate the public in accessing the facility to meet industry standards of life so that it will achieve the welfare of society for the better. This means that fiscal decentralization may affect the social welfare through capital expenditures. Study of Suparwati & Setyowati (2012) stated that the economic growth has significant positive on public welfare. Study of Popa (2012) provided that the social factors that are positively correlated with the economic growth (i.e. the expected years of schooling and the life expectancy) and, respectively, the factors that are negatively correlated with the economic growth (i.e. the population at risk of poverty and the unemployment rate). According to F Simanjuntak *et al.* (2013) and

Simanjuntak *et al*. (2017), economic growth has a significant effect on social welfare. The increase in economic growth impact on improving of the social welfare. Based on these descriptions then compiled the research hypothesis as follows:

Hypothesis 6: economic growth has a positive significan effect on social welfare in regency and city in Central Java Province.

Research Method

There are 35 districts covering 29 regencies and 6 cities in Central Java Province. Those districts in Central Java Province was chosen because Central Java Province is a province who does not have regional divisions so its originality of the territorial integrity of the regional autonomy will be seen into force since January 1, 2001. The year of 2015 to 2019 were chosen as the research period, because the period was the third five years implementation of regional autonomy in Indonesia after 2001. The data about Regional Government Budget each regency and city in Central Java Province was sourced from the budget realization report from the Directorate General of Taxation through www.djpk.depkeu.go.id. The Directorate General of Taxation is an Indonesian government agency under Ministry of Finance which has the task of formulating and implementing taxation policies and technical standardization in the field of taxation. The data about economic growth and social welfare each regency and city in Central Java Province was sourced from the Central Bureau of Statistics through www.bps.go.id. Fiscal decentralization is the delegation of fiscal authority by the central government to the autonomous regions to regulate and administer government affairs within the system of the Unitary State of the Republic of Indonesia.

Fiscal decentralization variables are measured by the ratio between own source funds plus taxable and non-tax revenue shares with total regional expenditures in Regional Government Budget expressed in percent units. Capital expenditure is the expenditure made within purchase order for the provision of tangible fixed assets that have a benefit value of more than twelve months for use in government activities stated in Rupiah. Economic growth is the change of Gross Regional Domestic Product (GRDP) each year based on constant prices expressed in terms of percent (Badrudin & Kuncorojati, 2017)Social welfare is a condition that shows about the state of public life that can be seen from the standard of life communities expressed in index units. The social welfare variable as latent variable in this study is measured by Index Human Development (HDI) and Poor Population Ratio (PPR). HDI is an important indicator to measure the success in the effort to build the quality of human life (Badrudin & Kuncorojati, 2017). The HDI explain how residents can access development results in obtaining income, health, and education. The PPR is percentage of population below the Poverty Line. The analytical method used is based on the Partial Least Square (PLS) model which follows the structural equation model (SEM) included assessing goodness of fit models (inner and outer models) for testing research hypothesis ($\alpha = 5\%$).

Result And Discussion

Descriptive statistics give a summary about the sample being studied. Descriptive statistics are still used to give a general summary. Descriptive statistics of research variables is presented in Table 1.

Table 1. Descriptive Statistics of Research Variables

Variable	Mean	Maximum	Minimum
Fiscal Decentralization	17%	45.67%	8.87%
Capital Expenditure	191,648	1,886,150	25,479
Economic Growth	5.48	6.89	1.98
Human Development Index (HDI)	74	79.98	58.64
Poor Population Ratio (PPR)	14.48	24.58	5.04

Source: Obtained from data processing

The fiscal decentralization ratio in regency and city in Central Java Province on average during 2015 to 2019 is 17%. The highest value occurred in Semarang of 45.67% in 2017, while the lowest value of 8.87% occurred in Jepara in 2018. The number of districts / cities that have a fiscal decentralization ratio above the average of 28.6% and the rest 71.4% of regency and city have below average fiscal decentralization ratios. The capital expenditure in regency and city in Central Java Province on average during 2015 to 2019 is 191,648 million Rupiah. The highest value occurred in Surakarta of 1,886,150 million Rupiah in 2017, while the lowest value of 25,479 million Rupiah occurred in Batang in 2015.

The average value of economic growth in regency and city in Central Java Province that is equal to 5.48% in 2015 to 2019. The highest value of 6.89% in Banyumas in 2017, while the lowest value is received in Cilacap in 2016 amounted to 1.98%. The development of the overall economic growth in the regency and city in Central Java Province is stable of 5.49%.

The regency and city in Central Java Province in 2015 to 2019 has a high HDI average, which is the case in Salatiga (79.11), Surakarta (78.42), Semarang (78.10), and Magelang (74,91) while the average HDI lowest in Pemalang (60.65). The regency in Central Java Province with high HDI average in 2015 to 2019 are Sukoharjo (72.73) and Karanganyar (72.16). The average value of PPR in regency and city in Central Java Province from 2015 to 2019 is 14.48%. The lowest PPR occurred in Semarang in 2019 at 5.04% and the highest PPR occurred in Purbalingga in 2015 at 24.58%.

Evaluation of Goodness of Fit Model to Outer Model
Evaluation of goodness of fit model on outer model is measured using convergent validity. Convergent validity is a measurement tool to see the degree of measurement of

a concept obtained from two different instruments that measure the same concept and the results show a high positive correlation. The outer model meets the convergent validity if the degree of measurement results is greater than 0.70 with p-significant less than at 5%. Evaluation of goodness of fit model to outer model are presented in Table 2.

Table 2. Convergent Validity Value for Variable of Social Welfare

Indicator	Loading Value	P-Value	Result
Human Development Index	0.919	<0.001	Valid
Poor Population Ratio	-0.919	<0.001	Valid

Source: Output program WarpPLS 5.0

The positive mark (+ 0.919) on coefficient of loading factor HDI shows that the HDI contribution toward social welfare variable goes along with direction, it means if HDI contribution rises so the value of social welfare variable rises, on the contrary, if the HDI contribution descends so the value of social welfare descends. The negative mark (-0.919) on coefficient of loading factor PPR shows that the contribution PPR toward social welfare is in different direction, it means if the PPR contribution rises so the value of social welfare variable descends, on the other hand, if PPR contribution descends so the value of social welfare rises.

Evaluation of Goodness of Fit Model to Inner Model
Evaluation of the goodness of fit model serves to determine the suitability of a model used in this study using exogenous variables that is fiscal decentralization, namely intervening endogenous variable that are capital expenditure and economic growth and endogenous variables depend that is social welfare. Evaluation of goodness of fit model to inner model are presented in Table 3.

Table 3. Result of Goodness Fit Model

No.	Variable
1.	Average Path Coefficient (APC)= 0.165, P=0.006
2.	Average R-Squared (ARS)= 0.061
3.	Average block VIF (AVIF)= 1.029

Source: Output program WarpPLS 5.0

Based on the results of the general analysis of the model fit in Table 3, the value of average path coefficient (APC) of 0.165 P=0.006, indicating that the APC value significantly (<0.05). The significant value of the APC can prove that the independent and dependent variables have a cause and effect relationship either directly or indirectly. The test results of the average R-Squared (ARS) obtained yield was 0.061, indicating that the variables in this study could affect the dependent variable of 6.1% and the remaining 93.9% is owned by other variables outside the model. Average block VIF = 1.029, is acceptable if <= 5, ideally <= 3.3. This shows that AVIF acceptable and does not occur

multicolinearity, then our model can be used to predict the effects of independent variables on the dependent variable.

The results of hypothesis testing are presented in Table 4 and Figure 1.

Table 4 The Results of Hypothesis Testing

| Hypothesis	Relationship Variable	Path Coefficient	P-Value	Prediction	Finding	Result
H1	FisDec => CapEx	0.26	<0.01	+	+	Supported*)
H2	FisDec => EcoGro	0.13	0.03	+	+	Supported*)
H3	FisDec => SocWel	0.14	0.03	+	+	Supported*)
H4	CapEx => EcoGro	-0.18	<0.01	+	-	Rejected**)
H5	CapEx => SocWel	0.15	0.02	+	+	Supported*)
H6	EcoGrow => SocWel	0.12	0.05	+	+	Supported*)

Source: Output PLS program WarpPLS 5.0
Note: FisDec: Fiscal Decentralization, CapEx: Capital Expenditure, EcoGro: Economic Growth, SocWel: Social Welfare
*) Significant because the value p-value $\leq 5\%$
**) Significant but directional relationship between prediction and contradictory findings

Base on Table 4 and Figure 1 can be seen the coefficient (β of H1) is 0.26 (positive). The significance level of <0.01 which the value is smaller than the specified significance level of 5%. It shows that fiscal decentralization has a positive significant effect on capital expenditure in regency and city in Central Java Province. These test results indicate that hypothesis 1 is supported. That is, the proxy own-source revenue and taxable and non-tax revenue shares with total regional expenditures in Regional Government Budget in regency and city in Central Java Province has an influence on fiscal decentralization in influencing capital expenditure in regency and city in Central Java Province. Fiscal decentralization aims to make social welfare. So, if the local government in regency and city in Central Java Province wants to increase social welfare, the local government must increase the budget of direct expenditure including capital expenditure. There are five categories of capital expenditure, namely land acquisition, equipment and machinery, buildings, roads, irrigation, and networks, as well as the acquisition of other fixed assets. In order to increase the budget of direct expenditure that consists of components of capital expenditure, the local government must be able to increase regional income through the raise of own source revenue and profit dividing of tax and non-tax. Therefore, the local government has been able to generate local revenue and revenue sharing to cover part of capital expenditure. This finding means that the local government allocates local revenues and revenue sharing funds for those capital expenditure and not solely rely on other funding sources such as general allocation funds and special allocation funds. This is in accordance with the research findings of Badrudin, (2013, 2015).
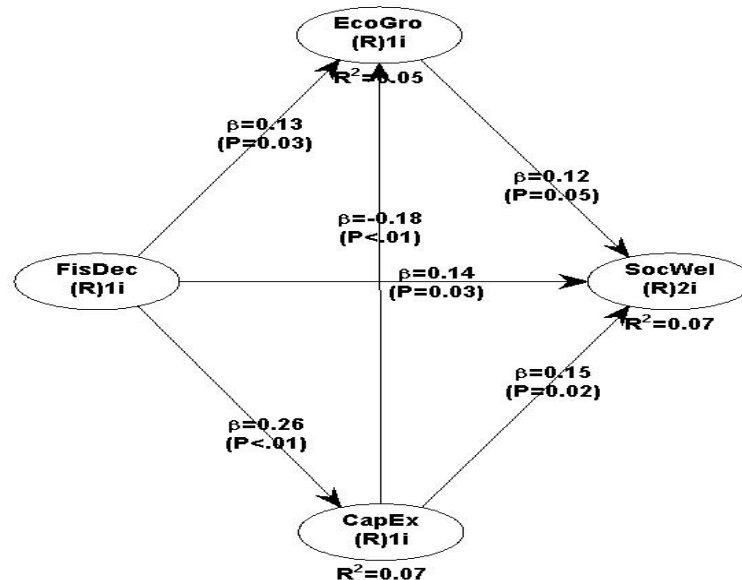
Source: Output PLS program WarpPLS 5.0

Figure 1. The Output of Hypothesis Testing

Base on Table 4 on Figure 1 can be seen the coefficient (β of H2) is 0.13 (positive). The significance level of 0.03 which the value is smaller than the specified significance level of 5%. It shows that fiscal decentralization has a positive significant effect on economic growth in regency and city in Central Java Province. These test results indicate that hypothesis 2 is supported. That is, the proxy own-source revenue and taxable and non-tax revenue shares with total regional expenditures in Regional Government Budget in regency and city in Central Java Province has an influence on fiscal decentralization in influencing economic growth in regency and city in Central Java Province. The local government in regency and city in Central Java Province has greater authority to invest and spend more on productive sectors and can provide public goods and services needed. This is could encourage the economic growth and income per capita. This is in accordance with the research findings of Badrudin & Kuncorojati (2017), Simanjuntak et al., (2017) and Žemgulienė (2012).

Base on Table 4 and Figure 1 can be seen the coefficient (β of H3) is 0.14 (positive). The significance level of 0.03 which the value is smaller than the specified significance level of 5%. It shows that fiscal decentralization has a positive significant effect on social welfare in regency and city in Central Java Province. These test results indicate that hypothesis 3 is supported. That is, the proxy own-source revenue and taxable and non-tax revenue shares with total regional expenditures in Regional Government

Budget in regency and city in Central Java Province has an influence on fiscal decentralization in influencing social welfare in regency and city in Central Java Province. Fiscal decentralization aims to make social welfare. The greater autonomy that given to region, making local government more efficient to allocate a various local potential in accordance with the needs of the public. This means that the efficiency aspect is "raison d'etre" to local autonomy. Individual preferences differ from one person to another in choosing the public good. A person can choose to live in a certain area according to their individual preferences in order to maximize their welfare of society. Regional autonomy has given local governments the authority and right to make policies more autonomous and to organize their budgets independently. The regencies and cities in Central Java Province have full autonomy to take decisions according to the needs and specific conditions of the region. This is in accordance with the research findings of Badrudin & Kuncorojati (2017) and Simanjuntak et al. (2017).

Base on Table 4 and Figure 1 can be seen the coefficient (β of H4) is -0.18 (negative). The path coefficient of -0.18 (negative) indicates that the increasing of capital expenditures will decline economic growth, and vice versa. The significance level of <0.01 which the value is smaller than the specified significance level of 5%. It shows that capital expenditure has a negative significant effect on economic growth in regency and city in Central Java Province. These test results indicate that hypothesis 4 is rejected. The proportion of capital expenditure is still smaller than indirect expenditures. If the local government set a budget greater than the direct expenditure Indirect expenditure budget, the local budget expansion policy will encourage local economic growth. In addition, capital expenditure on the Local Government Budget has a negative correlation toward economic growth in regency and city in Central Java Province in 2013 until 2017 due to factors such as capital expenditure unproductive. The capital expenditure is allocated for long-term investment, and the effect of private sector investment is even more instrumental in influencing the economic growth in regency and city in Central Java Province. The allocation for long-term investments have led to the result of the investment have not been able to show an increase in economic activity in the short term, so that the high capital expenditure has not been followed by an increase in economic growth. This is in accordance with the research findings of Nasution & Wahyudi (2017).

Base on Table 4 and Figure 1 can be seen the coefficient (β of H5) is 0.15 (positive). The path coefficient of 0.15 (positive) indicates that the increasing of capital expenditures will increase social welfare, and vice versa. The significance level of 0.02 which the value is smaller than the specified significance level of 5%. It shows that capital expenditure has a positive significant effect on social welfare in regency and city in Central Java Province. These test results indicate that hypothesis 5 is supported. The result of this estimation is supported by the data, where capital expenditures shows a positive growth each year in line with improving social welfare, as we can see through increasing of HDI and decreasing of PPR. This means that capital expenditures can affect social welfare in regency and city in Central Java Province. So, the capital expenditure as a component of total direct expenditure on regional expenditure will be allocated by the local government in Central Java Province to fund development activities devoted to the

public interest. This is in accordance with the research findings of (Mirza, 2012) and (Simanjuntak *et al*., 2017) but not in accordance with the research findings of Arham & Naue (2015) and Badrudin & Kuncorojati (2017).

Base on Table 4 and Figure 1 can be seen the coefficient (β of H6) is 0.12 (positive). The path coefficient of 0.12 (positive) indicates that the increasing of economic growth will increase social welfare, and vice versa. The significance level of 0.05 which the value is equal with the specified significance level of 5%. It shows that economic growth has a positive significant effect on social welfare in regency and city in Central Java Province. These test results indicate that hypothesis 6 is supported. The result of this estimation is supported by the data, where economic growth shows a positive growth each year in line with improving social welfare, as we can see through increasing of HDI and decreasing of PPR. This means that economic growth can affect social welfare in regency and city in Central Java Province. This is in accordance with the research findings of Suparwati & Setyowati (2012), Popa (2012), Simanjuntak *et al*. (2013) and Simanjuntak *et al*. (2017).

Conclusion

The findings of study are fiscal decentralization has a positive significant effect on capital expenditure, economic growth, and social welfare; capital expenditure has a negative significant effect on economic growth but has a positive significant effect on social welfare; and economic growth has a positive significant effect on social welfare in regency and city in Central Java Province. Based on the conclusions of this research, that capital expenditure has no significant effect on economic growth.

Suggestions for government in regency and city in Central Java Province is to increase the portion of direct expenditure in which there are components of capital expenditure. This can be done by fulfilling the provisions of the regulation concerning budgeting guidelines. In this study, the social welfare is measured using two indicators, namely the HDI and the PPR.

Suggestions for further studies are to add indicators of measurement of social welfare variables such as the Gini Index and unemployment rate indicators as indicators of social welfare measures. The addition of social welfare measurement indicators for economic development achievement in districts in Central Java Province can explain the achievement of inclusive economic growth that is economic growth accompanied by increasing HDI, poverty reduction (PRR), and decreasing of income distribution inequality and open unemployment rate.

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