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Research Paper

The Effects Of General Allocation Funds, Special Allocation Funds And Revenue-Sharing Funds On Investment, Economic Growth, Economic Structure, And Employment

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ABSTRACT:- Entering the world changes so fast, local governments are faced at least two challenges, namely the challenge of change from an agrarian society to industry, and the challenges in the receiving stream changes post-Industrial civilization. The challenge for Indonesia to catch up today, one through the effectiveness of the government's role in creating welfare. The challenge for Indonesia to catch up today, one through the effectiveness of the government's role in creating welfare. Based on the above background, while that which is the goal of this study was to examine the influence of the General Allocation Fund, Special Allocation Fund, and DBH of the investment, economic growth, economic structure, and employment. Based on the research problem and the conceptual framework presented earlier, this research is explanatory. The technique used to answer the research hypothesis is Descriptive Analysis and Structural Model Analysis. Statistics inferential methods used in the data analysis of this research is Structural Equation Modeling (SEM). The research concludes that there is significant indirect effects of the General Allocation Funds, the Special Allocation Funds, and the Revenue-Sharing Funds over Employment either through Investment, Economic Growth, and Economic Structure. This indicates that the amount of the General Allocation Funds, the Special Allocation Funds, and the Revenue-Sharing Funds has no effect on the level of Employment, despite an increase or decrease in the investment, economic growth, and economic structure.

Keywords:- Investment, Economic Growth, Economic Structure, and Employment

I. INTRODUCTION

In the Post-New Order era, the government of Indonesia had a tendency to perform the perfect governmental function, the perfect developmental function, as well as the perfect public-service function. The governance at that time was essentially done using the principle of good governance, in which it was not only limited to the implementation of the legislation in force, it was also developed by applying the principles of good governance, which implies that governance does not only involve the government or the state (state) itself, but it must also involve both a bureaucratic system and external bureaucracy. (1997, Blundell and Murdock). The rapidly-changing world makes regional governments deal with at least two types of challenges, namely the challenge of changes from an agrarian society into an industrial society as well as the challenge of the tide of changing civilization in the post-industrial society. Barro and Sala-i-Martin (2004) introduce an endogenous model that emphasizes the importance of fiscal policy to stimulate economic growth, which in turn leads to increased social welfare. In this context, economic growth is driven by increased government spending on public services and development of technology and capital expenditures to achieve a higher degree of social welfare.

The current challenge for Indonesia to catch up can be met through the effective role of the government in creating social welfare. A development approach that is able to optimize the roles of all development resources is required, both the ones available in a national development scale and the ones spread across remote areas even at the level of the smallest community of these remote areas. The approach considered appropriate, just like in other developing countries, is the approach of decentralized development policies, which replaces the approach of centralized development policies used/ implemented previously. The policy of regional development is expected to make the implementation of development programs more effective in promoting the welfare of the community, particularly through decentralized areas of development.

The causal relationship between economic growth and equitable distribution of income needs to be addressed. The more important issue is to identify the line that links economic growth with income inequality. This is necessary to produce a policy that promotes economic growth with equitable distribution of income.

The complexity of the problems faced by each country is different, depending on the characteristics of each country.

Reforms that began a few years ago after the New Order regime in Indonesia have penetrated into every single aspect of life. One aspect of the reforms that is dominant is the aspect of governance. The governance aspect here is the aspect of relationships between the central government and the regional governments. In this aspect, the issue raised is the demands for greater and more real autonomy to be given to regional governments. Therefore, since 1 January 2001, Indonesia has begun a new chapter in its governance, where regional autonomy begins to be held in every city and regencies. Almost the whole authority of the central government is transferred to the regional governments. Regional autonomy and decentralization is part of the strategic move of Indonesia to welsome the era of economic globalization by strengthening regional economic bases. Based on the foregoing, this research aims to examine the effects of General Allocation Funds, Special Allocation Funds, and Revenue-Sharing Funds over Investment, Economic Growth, Economic Structure, and Employment.

II. LITERATURE REVIEW

The term "*decentralization*" do not have one single meaning. It can be translated into a number of meanings, depending on the context of use. Parson in Hidayat (2005) defines decentralization as sharing the powers of government between the power holders at the center with the other groups, where each of these group has the authority to govern specific areas within the territory of a country.

On the other hand, Mawhood (1987) expressly states that decentralization means devolution of powers from the central government to regional governments. Moreover, Smith also defines decentralization as the moving of powers from a main organization to a lower-level organization within a territorial hierarchy, which may also apply to governmental organizations in a country as well as in other large-scale organizations (non-governmental organizations) (Hidayat, 2005).

Decentralization actually is a tool or instrument that can be used to achieve effective and participatory governance (Tanzi, 2002). As a tool, the government can use it in order to get closer to the people, both in attempts to meet the objectives of democratization or for the purposes of the public welfare.

Fiscal decentralization is a process where the regional government is authorized to economic activities at the regional level, covering fiscal responsibilities at various levels of governance. It also relates to the fiscal instruments and procedures in order to assist in the implementation of public services (Bird et al, 1995).

Akai and Sakata (2002) define fiscal decentralization as a transition of authority in relation to decision-making by governments at lower levels. Thiessen (2001) describes this fiscal decentralization as something requiring a shift in responsibilities with regard to accountability of the govenrments at lower levels. It can be described as the ability of the governments at lower levels in increasing tax revenue and deciding how they are going to allocate the revenue on various programs with specified criteria.

The principles of decentralization implementation in Indonesia are essentially in line with the experience of other countries in carrying out this decentralization. As Ter-minassian reveals (1997) that many countries around the world implement the decentralization program as a reflection of the political evolution that requires a change in their form of government to a more democratic one that promotes participation.

Furthermore, Ter-Minassian explains that the implementation of decentralization is an effort to improve the responsiveness and accountability of politicians to their respective constituencies and to ensure the presence of a correlation among the quantity, quality, and composition of public-service provision and the needs of the beneficiaries of the service.

According to Keynes, an economy can achieve an equilibrium position at a condition of *less than full employment*. One of the methods or the solutions proposed by Keynes to overcome issues on unemployment that occur in an economy is the implementation of fiscal policies through the instruments of taxes and government spending. Viewed from the perspective of spending in which the taxes are equal to the amount of the government spending, the taxes will thus provide a positive impact on investment, economic growth and employment, on the other hand, if the taxes as an income function or viewed from the perspective of the income, the taxes will thus have a negative impact on investment, economic growth and employment.

Moreover, still in relation to taxes, according Adisasmita (2010), one way to realize the independence of a nation or state in terms of development financing can be achieved by exploring domestic sources of funds, i.e. taxes. Taxes are used to finance the development that is useful for the common good, this is possible because taxes serve a budgetary function (reception) and function as a tool for organizing and implementing policies on social and economic fields.

Just like taxes, in the view of Adisasmita (2010), levies also have an impact on the economy although the impact is not necessary as big as the impact of taxes on the economy. It seems like the proportion of the amount of levies to the value of the entire trade transaction volume is relatively smaller, so that the role of a shift in the amount of the levies imposed is not so significant. Furthermore, because the levies is not associated with a unit of goods sold.

In so doing, levies are more like part of the fixed cost and thus the amount of the levies imposed tends not to be shifted to others. This also applies to the licensing levies which characteristics are similar to costs. Such costs are more often regarded as sunk costs that are not taken into account in production activities.
Furthermore, levies will only affect the willingness to use or the demand for services and products produced by the government, and therefore levies are not similar to taxes, they will only reduce consumption, but does not reduce the ability or the willingness to work, to save and to invest, however this reduction is insignificant, so that it will not have a great impact on the regional economy.

III. RESEARCH METHODS

Pursuant to the research problems and the conceptual framework presented earlier, this research belongs to explanatory research. The data were collected from a number of sources, namely the Central Bureau of Statistics (BPS), the Regional Development Planning Agency (BAPPEDA), the Regional Revenue Office of Sulawesi (*Dinas Pendapatan Daerah Sulawesi*), Bank Indonesia Chapter Sulawesi, as well as other relevant agencies and government agencies. In addition, the data were also dericed from the internet through the sites like www.djpk.depkeu.go.id, www.bi.go.id, www.bps.go.id, and www.bpk.go.id. Techniques used to address the hypotheses of the present study were *Descriptive Analysis* and *Structural Model Analysis*. The inferential statistical analysis focuses on the subject of the analysis and data interpretation to draw conclusions. This analysis was used to examine the proposed research hypotheses using the obtained sample data. The inferential statistical method employed in the data analysis of the present study was *Structural Equation Modeling* (SEM).

IV. RESEARCH FINDINGS

The testing results for the mediation among Investment (Y1), Economic Growth (Y2), and Economic Structure (Y3) towards the effects of General Allocation Funds (X1) on Employment (Y4) are given as follows.

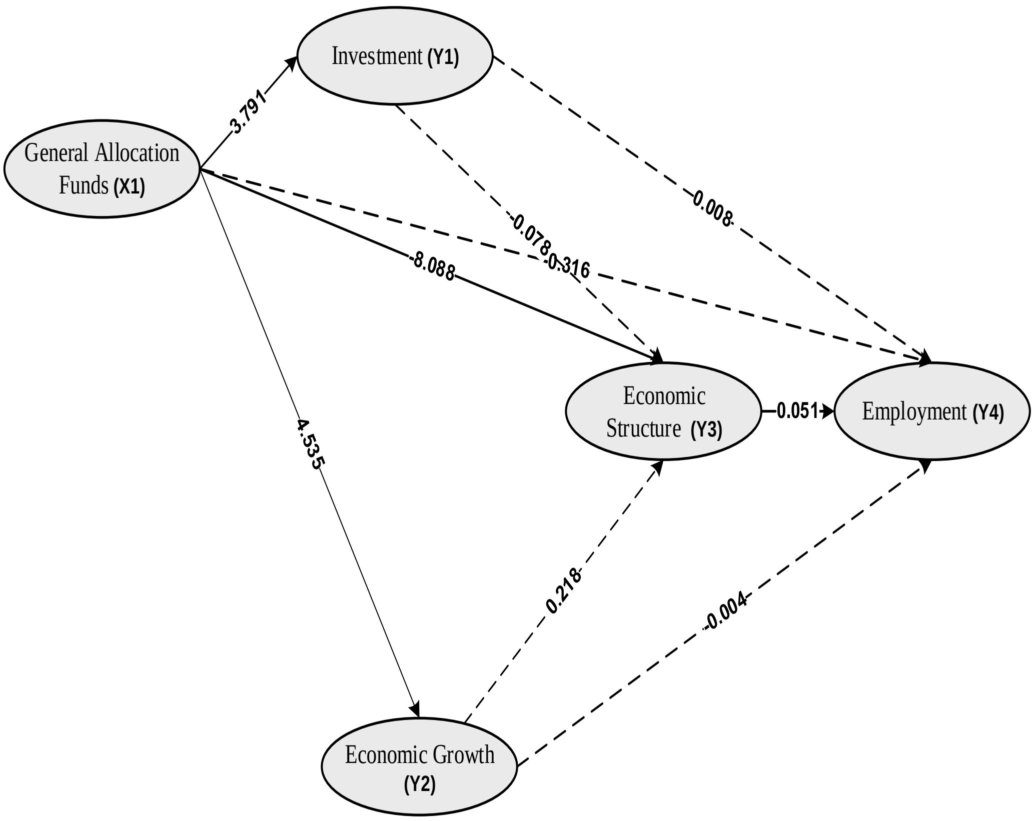

Figure 2. Structural Equation Modeling SEM Investment Mediation (Y1), Economic Growth (Y2), and Economic Structure (Y3) in effect General Allocation Funds (X1) to Employment (Y4)

Table 1. Investment Mediation (Y1), Economic Growth (Y2), and Economic Structure (Y3) in effect General Allocation Funds (X1) to Employment (Y4)

Relationship between Variables	Coefficient	P-value	Explanation
X1 → Y1	3.791	0.050	significant 5%
X1 → Y2	4.535	0.000	significant 5%
X1 → Y3	-8.088	0.000	significant 5%
Y1 → Y4	0.008	0.773	**Not Significant**
Y2 → Y4	-0.004	0.939	**Not Significant**
Y3 → Y4	0.051	0.184	**Not Significant**
X1 → Y4	-0.316	0.539	**Not Significant**
X1 → Y1→ Y4	0.030	-	**Not Significant**
X1 → Y2→ Y4	-0.018	-	**Not Significant**
X1 → Y3→ Y4	-0.412	-	**Not Significant**

Source: Primary Data Processed, 2014

Based on the table and figure above, the indirect effect of the General Allocation Funds (X1) on the Employment (Y4) through the Investment (Y1) is not significant since one of the two direct effects that form this relationship is not significant (the effect of the General Allocation Funds towards the Investment is significant while the effect of the Investment towards the Employment is not significant). This implies that any values of the General Allocation Funds will not result in changes in the Employment, despite an increase or decrease in the Investment.

The indirect effect of the General Allocation Funds (X1) on the Employment (Y4) through the Economic Growth (Y2) is not significant since one of the two direct effects that form this relationship is not significant (the effect of the General Allocation Funds towards the Economic Growth is significant while the effect of the Economic Growth towards the Employment is not significant). This implies that any values of the General Allocation Funds will not result in changes in the Employment, despite an increase or decrease in the Economic Growth.

The indirect effect of the General Allocation Funds (X1) on the Employment (Y4) through the Economic Structure (Y3) is not significant since one of the two direct effects that form this relationship is not significant (the effect of the General Allocation Funds towards the Economic Structure is significant while the effect of the Economic Structure towards the Employment is not significant). This implies that any values of the General Allocation Funds will not result in changes in the Employment, despite an increase or decrease in the Economic Structure.

The testing results for the mediation among Investment (Y1), Economic Growth (Y2), and Economic Structure (Y3) towards the effects of Special Allocation Funds (X2) on Employment (Y4) are given as follows.

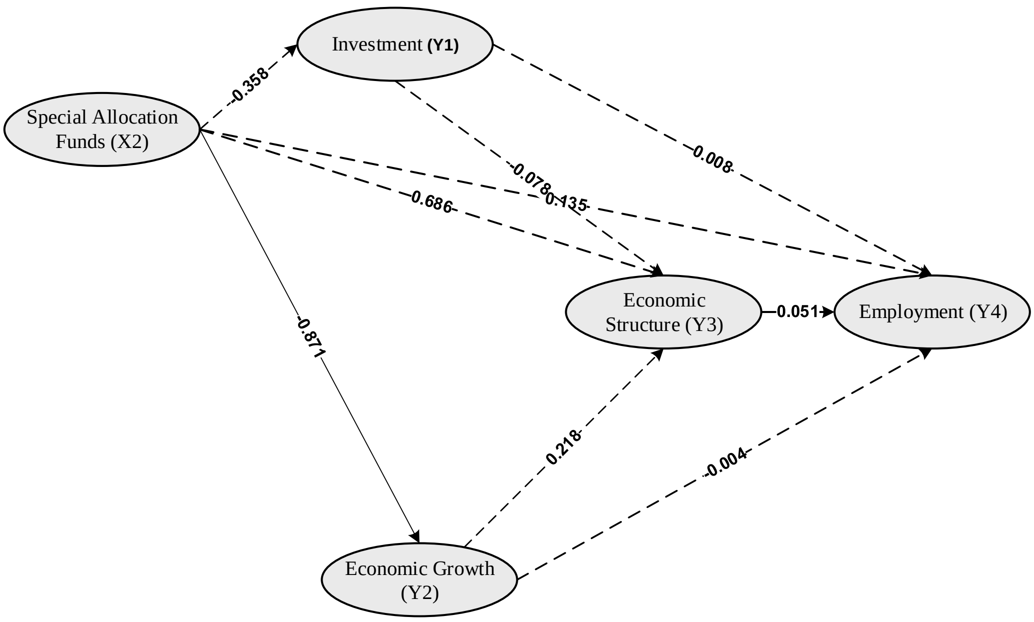

Figure 3. Structural Equation Modeling SEM Investment Mediation (Y1), Economic Growth (Y2), and Economic Structure (Y3) in effect Special Allocation Funds (X2) to Employment (Y4)

Tabel 2. Investment Mediation (Y1), Economic Growth (Y2), and Economic Structure (Y3) in effect Special Allocation Funds (X2) to Employment (Y4)

Relationship between Variables	Coefficient	P-value	Explanation
X2 → Y1	-0.358	0.640	Not Significant
X2 → Y2	-0.871	0.042	Significant 5%
X2 → Y3	0.686	0.227	Not Significant
Y1 → Y4	0.008	0.773	Not Significant
Y2 → Y4	-0.004	0.939	Not Significant
Y3 → Y4	0.051	0.184	Not Significant
X2 → Y4	0.135	0.339	Not Significant
X2 → Y1→ Y4	-0.003	-	Not Significant
X2 → Y2→ Y4	0.003	-	Not Significant
X2 → Y3→ Y4	0.035	-	Not Significant

Source: Primary Data Processed, 2014

Based on the table and figure above, the indirect effect of the Special Allocation Funds (X2) on the Employment (Y4) through the Investment (Y1) is not significant since one of the two direct effects that form this relationship is not significant (the effect of the Special Allocation Funds towards the Investment is significant while the effect of the Investment towards the Employment is not significant). This implies that any values of the Special Allocation Funds will not result in changes in the Employment, despite an increase or decrease in the Investment.

The indirect effect of the General Allocation Funds (X2) on the Employment (Y4) through the Economic Growth (Y2) is not significant since one of the two direct effects that form this indirect effect is not significant (the effect of the General Allocation Funds towards the Economic Growth is significant while the effect of the Economic Growth towards the Employment is not significant). This implies that any values of the General Allocation Funds will not result in changes in the Employment, despite an increase or decrease in the Economic Growth.

The indirect effect of the General Allocation Funds (X2) on the Employment (Y4) through the Economic Structure (Y3) is not significant since one of the two direct effects that form this indirect effect is not significant (the effect of the General Allocation Funds towards the Economic Structure is significant while the effect of the Economic Structure towards the Employment is not significant). This implies that any values of the General Allocation Funds will not result in changes in the Employment, despite an increase or decrease in the Economic Structure.

The testing results for the mediation among Investment (Y1), Economic Growth (Y2), and Economic Structure (Y3) towards the effects of Revenue-Sharing Funds (X3) on Employment (Y4) are given as follows.

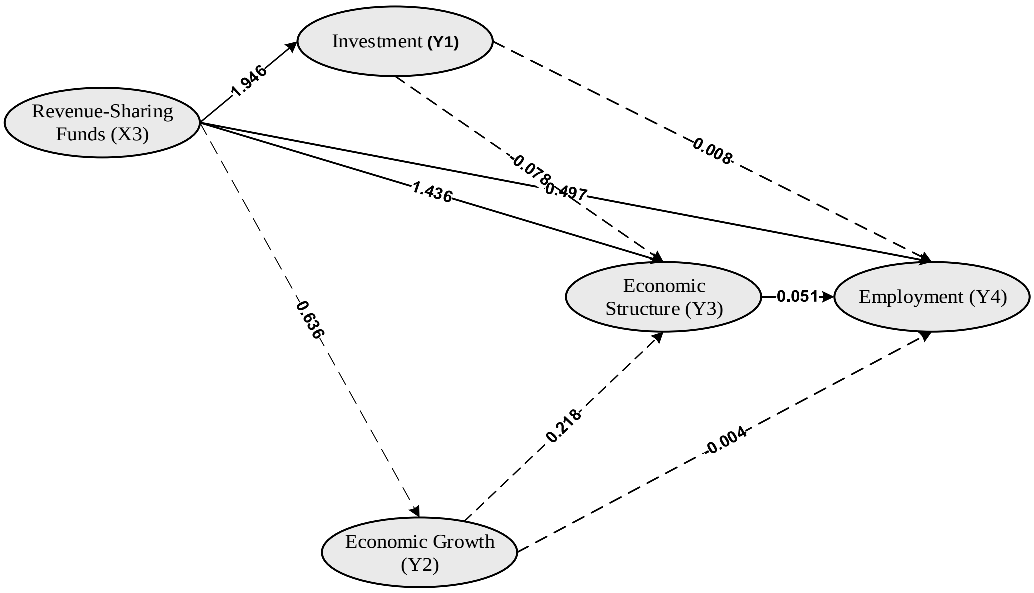

Figure 4 Structural Equation Modeling SEM Investment Mediation (Y1), Economic Growth (Y2), and

Economic Structure (Y3) in effect Revenue-Sharing Funds (X2) to Employment (Y4)

Table 3. Investment Mediation (Y1), Economic Growth (Y2), and Economic Structure (Y3) in effect Revenue-Sharing Funds (X2) to Employment (Y4)

Relationship between Variables	Coefficient	P-value	Explanation
X3 → Y1	1.946	0.086	Significant 10%
X3 → Y2	0.636	0.332	**Not Significant**
X3 → Y3	1.436	0.086	Significant 10%
Y1 → Y4	0.008	0.773	**Not Significant**
Y2 → Y4	-0.004	0.939	**Not Significant**
Y3 → Y4	0.051	0.184	**Not Significant**
X3 → Y4	0.497	0.019	Significant 5%
X3 → Y1→ Y4	0.016	-	**Not Significant**
X3 → Y2→ Y4	-0.003	-	**Not Significant**
X3 → Y3→ Y4	0.035	-	**Not Significant**

Source: Primary Data Processed, 2014

Based on the table and figure above, the indirect effect of the Revenue-Sharing Funds (X3) on the Employment (Y4) through the Investment (Y1) is not significant since one of the two direct effects that form this relationship is not significant (the effect of the Revenue-Sharing Funds towards the Investment is significant while the effect of the Investment towards the Employment is not significant). This implies that any values of the Revenue-Sharing Funds will not result in changes in the Employment, despite an increase or decrease in the Investment. The indirect effect of the Revenue-Sharing Funds (X3) on the Employment (Y4) through the Economic Growth (Y2) is not significant since one of the two direct effects that form this indirect effect is not significant (the effect of the Revenue-Sharing Funds towards the Economic Growth is significant while the effect of the Economic Growth towards the Employment is not significant). This implies that any values of the Revenue-Sharing Funds will not result in changes in the Employment, despite an increase or decrease in the Economic Growth. The indirect effect of the Revenue-Sharing Funds (X3) on the Employment (Y4) through the Economic Structure (Y3) is not significant since one of the two direct effects that form this indirect effect is not significant (the effect of the Revenue-Sharing Funds towards the Economic Structure is significant while the effect of the Economic Structure towards the Employment is not significant). This implies that any values of the Revenue-Sharing Funds will not result in changes in the Employment, despite an increase or decrease in the Economic Structure.

An increase in regional revenues of Sulawesi should not only be aimed at improving its economic structure but also at improving its provincial government by considering the impacts on the resulting investment development, employment and income inequality. Things to note specifically in Sulawesi certainly are the fall in economic growth due to an increase in the regional revenues of each province in Sulawesi.

An increase in the general allocation funds of each province in Sulawesi should not be aimed at promoting investment and economic growth, rather it has to remain considering the impacts on the resulting changes in the economic structure that provides negative impacts because these general allocation funds have no effect on employment and most importantly the greater magnitude of the resulting income inequality that occurs in Sulawesi.

It is true that an increase in the special allocation funds can reduce the magnitude of the regional income inequality that occurs Sulawesi. However, it is also important to consider the impacts on investment, economic structure and employment, especially by the provincial governments of Sulawesi. In particular, the negative impacts on economic growth need to be investigated more deeply by the provincial governments of Sulawesi. This is indicated by the implications that result in a decrease in economic growth that further increases the income inequality which of course will reduce the positive direct impact stated in the beginning.

V. CONCLUSIONS

The findings of this research suggest the existance of significant indirect effects of the General Allocation Funds, the Special Allocation Funds, and the Revenue-Sharing Funds over Employment either through Investment, Economic Growth, and Economic Structure. This indicates that the amount of the General Allocation Funds, the Special Allocation Funds, and the Revenue-Sharing Funds has no effect on the level of Employment, despite an increase or decrease in the investment, economic growth, and economic structure.

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