

The Impact Decentralization To Per Capita Income Growth And Poverty Alleviation In East Kalimantan

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Abstract: Since the enactment of the autonomous region in the past decade that it gave a discretion to the Government of the province and district/cities to set up and manage its territory. With the autonomous region, where the share of funds for the good Government of the province or district/city gained a much greater funding than ever given the Province with a lot of natural resources. With the data of 9 district/cities in the Province of East Kalimantan obtained that the existence of autonomous region did not significantly improve per capita income growth but significant enough in lowering poverty goal of this research is to find out how big the influence of regional autonomy against per capita income growth and poverty in East Kalimantan in the period 2004 – 2013. This research method using eksplanatoris with data time-series and cross-section and mengaplikasikan model of simultaneous equations (2SLS). The important findings of this study are (a), the mining sector gave a negative influence against the growth of per capita income, (b), government spending has no effect against per capita income growth of kabupaten/kota, (c), the influential economic growth negatively to poverty.

Keywords: autonomous regions, government spending, per capita income growth and poverty.

Background

Decentralization is a concept of the existence of pelimpahan kewenangan from the Central Government to local governments to take care of its own territory. The concept of decentralization aims so that local governments can further improve the efficiency and effectiveness of the functions of his Ministry to all walks of life in the regions. In Indonesia, decentralization is manifested in the form of Regional Autonomy policy. Regional autonomy is essentially the rights, authority and responsibilities of the regions to set up and take care of his household himself. Those rights acquired through the submission of Government Affairs of the Central Government to local governments in accordance with the circumstances and the ability of the area concerned (Djohan,1990). Autonomous region as a manifestation of the principle of decentralization, adhered to be able to provide the best service to the community. Because the Authority received by the Regions through Regional Autonomy, will give "freedom" to the region. In terms of performing various actions that are expected to be in accordance with the conditions and aspirations of the community on its territory. The assumption is because logically the local government closer to the people, so that local governments know better what the demands and desires of the community.

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In the Indonesian concept of the autonomous region is not a new concept but has been around since the reign of the Netherlands East Indies (Matsui, 2003,4). However, in the implementation of decentralization does not match what is expected. In 1995 the Central Government tried to design a decentralized model in 26 districts throughout Indonesia with each county per province. But in practice, the policy of decentralization during the new order Government, accompanied the Government's budget allocation does not become an incentive of reducing imbalances between areas and regions (Majidi, 1997:14), because of the high degree of fiscal centralization (Syafrizal, 1997:34). Based on the above conditions in early 2001 a paradigm shift from centralized administration to desentralistik with enacted Act (the Act) is to set the Regional Autonomy Law No. 22 of 1999 on Regional Government and Law No. 25 of 1999 on Financial Balance of the Central Government and the Regions, which was later revised into law. No. 32 of 2004 and Act. No. 33 of 2004 as a legal framework for decentralization. Two major issues of decentralization, namely the redistribution of authority in the field

of governance and economic (fiscal decentralization). The principle of implementation is geared to accelerate the realization of public welfare through the improvement of service, empowerment, able to increase competitiveness with due regard to the principles of democracy, equality, justice, specificity, potency and diversity of the region (Mardiasmo, 2009: 562). According to the mandate of the Regional Autonomy Law, local governments have the authority or affairs are more likely to plan the direction of regional development in accordance with the potential of existing resources. With the authority of the central government to the local government, is expected to solve the development problems that affect economic growth through an increase in per capita income, improving the quality of education and health as well as poverty reduction.

A. Literature Reviews

1. The Decentralization Concept

In a more recent study, Stansell (2005) is based on an empirical study of local government by examining the relationship between decentralization area and regional economic growth during the period from 1960 to 1990, using data 314 metropolitan areas in the United States. He found a negative and significant relationship between the city center and a metro population population numbers and growth in real per capita income and a positive and significant relationship between the number of local governments per resident metropolitan areas and between population growth and real per capita income. Therefore, this study shows there is evidence of a strong positive relationship between local and regional decentralization in metropolitan economic growth. Overall, the empirical work is focused on the structure of local governments in the metropolitan area have highlighted the role of fragmentation decentralization measures, but the results tend to vary with the size of decentralization and economic indicators. Being in the opinion of Brueckner (1999) based his research showed using a model of overlapping generations (OLG) that decentralization through a jurisdiction that affects the young and old savings incentives. Brueckner (2006) continued this research to show that within the framework of OLG as an endogenous variable in the growth of savings incentives change also affects human capital investment and economic growth. Theoretical models have important implications when we compare the effects of decentralization of growth in different regions. A good example is the comparison between metropolitan and non-metropolitan areas in the country.

Sorting Brueckner assumption requires young and elderly populations are different in each region. While in the United States, that the metropolitan area has a rich composition of young and old, non-metropolitan areas of the composition shortcomings. Therefore, positive growth results from Brueckner (2006) may not apply to the case of decentralization in non-metropolitan regions that have a relatively older population and homogeneous (Lobao and Kraybill, 2005). Liao and Kraybill (2005) provides a timely review of the differences between metropolitan and non-metropolitan local governments in the US. They report the findings of a national survey of the district government. They found that the non-metropolitan districts reported greater fiscal stress due to the admission requirements of decentralization. This finding is very important because the state plays an important role in the American federal system in promoting local economic development and growth.

2. The Development and Economic Growth

Term economic development are used interchangeably with terms such as economic growth, economic welfare, economic progress and long-term change. But some economists are certain (Schumpeter and Ursula Hicks) has attracted more usual distinction between economic development and economic growth. Economic development refers to the issues of economic growth in underdeveloped countries was referring to the developed countries. The development, according to Schumpeter, is the change in the spontaneous and discontinuous in a stationary state that is borne in change and change the situation of balance that existed previously, while growth is a long-term change, slowly and mantab happens through higher savings and population by Ursula Hicks (Jhingan, 2000). According to Abdul Hakim (2009) that economic development is an effort to improve the economic welfare of large scale, the scale of a country. Because such a large scale, to evaluate the extent of the success of economic development is not easy. Besides the large-scale, well-being observed is variable, a variable that is not easy to measure because it is qualitative. Plus that measure well-being is not simple, but includes a lot of things or multidimensional. To overcome this problem the economists, especially economic development set up several development indicators. Furthermore, Abdul Hakim (2009) confirms that the development indicators have improved in line with the development of economic development. Behind this development effort involved economists from major universities in different countries. Here are some of the indicators used in evaluating the economic growth that is: *First*, growth in Gross National Product (GNP). When the economics of development is still very young, economic development is defined as the change in GNP from a static state for a long time, then grow between 5 to 7 per cent per year (Todaro and Smith, 2003). By itself, the number of countries using GNP growth as an indicator to evaluate the course of economic development. Economic development will be said to be successful if the GNP could grow according to the criteria above. Second, the growth of GNP per capita. GNP per capita is a measure of national income already takes into account the total population. This measure is expected to better reflect the level of welfare. GNP per capita is the most basic development indicators and is still in use today, although it contains many weaknesses. GNP per capita at least, has two advantages: (i) the GNP is relatively easy to calculate. All countries have a record of GNP (some using GDP) and population per capita GNP so that records can be calculated for all countries. (ii) this measure adequately represent the main essence of development, namely the

improvement of welfare and poverty removal (if income distribution assumptions are met). Some criticism of the GNP per capita as an indicator of development, namely: (a). The use of GNP to make comparisons over time and between countries. GNP indicators and indicators GNP per capita GNP variable using the main base. GNP per capita variables we can get easily if known GNP and population at any given time. (b). Problems in comparing the GNP of developed countries and developing countries. International institutions such as the IMF, World Bank or the United Nations, which issued a GNP per capita of data between countries, in general, does not seek its own data. These institutions only based on statistical data collected by statistical agencies in the countries concerned. There are a few things concerning the calculation of GNP that can not be compared for granted, especially between rich countries to poor countries.

3. The Dimension of Poverty

The study of poverty must begin first of all with the definition of poverty. Differences in the criteria used to define poverty. As some researchers defined the poor as part of the population who can not meet the needs of living standards (Haughton and Kandker, 2009). Another opinion about poverty is a condition in which a person or group of people unable to meet their basic rights to maintain and develop a dignified life (Bappenas, 2011). Basic rights, among others, (a) the fulfillment of the needs of food, (b) health, education, employment, housing, clean water, land, natural resources and the environment, (c) the security of the treatment or the threat of violence, (d) the right to participate in social and political life. For some researchers, poverty is defined in a very broad context, such as can not meet "basic needs". Related physical basic needs (food, health, education and housing, etc) and non-physical (participation, identity, etc.) Poverty can be defined according to two approaches: absolute poverty and relative poverty (Abdul Hakim, 2009 and BPS 2009). Absolute poverty is determined based on the inability to meet the minimum basic needs such as food, clothing, housing, education and health needed to be able to live and work. The minimum basic needs translated as financial measures in the form of money and its value is known as the poverty line. Residents who have an average income / expenditure per capita per month below the poverty line are classified as poor. The World Bank calculates the absolute poverty line using consumption expenditure converted into US \$ PPP (Purchasing Power Parity / Purchasing Power Parity), instead of the official exchange rate of US \$. The goal is to compare poverty levels between countries. This is helpful in determining where to channel financial resources (funds) are there, also in analyzing the progress in the fight against poverty. PPP conversion rate indicates the number of rupiah spent to buy a number of goods and services in which the same number can be purchased for US \$ 1 beside America. This conversion rate is calculated based on the price and quantity in each country were collected in a survey that is normally conducted every five years. In general, there are two sizes used by the World Bank, namely: a) US \$ 1 PPP per capita per day, (b) \$ 2 PPP per capita per day. The measure now revised to US \$ 1.25 and US \$ 2 PPP per capita per day. Since the 1990s, introduced the UNDP human development approach (human development) are formulated in terms of Human Development Index (Human Development Index). Compared with the approach of the World Bank, UNDP approach is relatively more comprehensive because it covers not only the economic dimension, but also the dimensions of education (literacy rate) and health (life expectancy) (UNDP, 1990). For the benefit of empirical studies, usually used three

indicators of absolute poverty (absolute poverty) (Adams, 2003, Kraay, 2004), namely: first, poverty headcount index (PHI), the percentage of people living below the poverty line. If the number (headcount) poor (earning below the absolute poverty line, Y_p) is expressed by N_p and the total population declared N , then the PHI is:

$$PHI = \frac{N_p}{N} \dots\dots\dots (2.1)$$

If the number of poor people as many as 100 people and a population of 1000 people, the PHI of 0.1 or 10 percent. The World Bank uses US \$ 1.25 and US \$ 2 per person per day (international poverty index) as the poverty line. Although this indicator has been used widely in a variety of studies on poverty, but the index is considered to be rather simple because it ignores the calculation of the percentage of expenditure (income) of the poor to the poverty line. In Indonesia, the poverty measure is often based on the approach used by the BPS. Prior to 1993, BPS poverty line (poverty line) is based on the amount of rupiah spent to meet the needs of food equivalent to 2,100 calories per day per person. This figure is often called the food poverty line (food poverty line). In this approach is considered as a "imejiner" because total spending is assumed to all be spent on the needs of calories. Since 1993, BPS approach basic needs (basic needs approach) by entering the calculation of food and non-food needs. For minimum food needs have been 52 types of food (respectively for urban and rural areas) and the amount equivalent to 2,100 calories. In SUSENAS (National Social Economic Survey) has been used to obtain the implicit price of the poverty line. This methodology is considered to be simpler and easier to understand in relation to the needs of the data to determine the poverty line. Sedang to minimum non-food requirement includes 46 kinds of commodities consisting of housing, clothing, education, health, transport, durable goods and miscellaneous goods and services. Non-food expenditure component does not distinguish between urban and rural areas. Thus, the total poverty line was obtained from the sum of the food and non-food needs. In 1999, in order to better adjust to the current consumption pattern, the BPS has made revisions to the size of the poverty line. If the previous poverty line per month respectively Rp 79 113, - per person and Rp 316 452, - per household, the new poverty lines respectively Rp 84 537, - per person and Rp 338 148, - per household. But the World Bank (2001) in a report entitled Indonesia Constructing a New Strategy for Poverty Reduction, provides a critique of the approach applied to Indonesia in poverty because they are too focused on targets figures. The poverty line (the poverty line), for example, emphasized in spending to meet the necessities of life in a very narrow sense. Target figures combined with a development approach that is both top-down (top-down approach) has ruled many dimensions of poverty that although difficult to quantify, but the dimensions are very important. By just looking at them statistically in the category below the poverty line, this approach narrows the scope of poverty and away from the reality of the poor dynamic. Therefore, one of the themes raised in the report is the need to expand the definition, facts and objectives of the anti-poverty programs. Nonetheless, the World Bank realized that the figures and keep away from targets mathematical course also not possible, however, because the numbers are still needed. On the other hand, is too focused on achieving the targets figures also unwise because it is too simplistic. The World Bank then recommend the use of indicators of international development (International Development Goals Indicators) prepared by

representatives of the international community and Indonesia, including one of its members. Expansion targets for poverty reduction such as the World Bank has suggested that more focus on the depth of the targets that have been set for this. At dimensions of material living standards, for example, the proportion of poor people (1999) is 27% and in 2004 is targeted at 13.5%. In the dimension of human resources are also developed targets eg graduated numbers of primary education in the poorest population, the infant mortality rate and the level of health. Similarly, access to infrastructure, whether access to the poorest of the water resources and sanitation can be improved next five years and no less important, is the participation of the poor in the decisions of local politics that affect their lives, can be improved through programs certain.

B. Frmework of The Research

Studies on the effect of growth on poverty and income inequality used the model proposed by Aghion et al, Barro and Zaman et al and poverty reduction through sectoral growth by Suryahadi et al to modify the variables that are used. Generally models simultannya equation is as follows:

$$Economic\ Growth = f_1(Gini)$$

$$Poverty = f_2(Economic\ Growth, Gini)$$

From the model of the original equation, and then developed by adding some variables that affect the model equations are: Government spending (Mehmood and Sadiq, 2010), education (Arimah, 2004), inflation (Sugema et al, 2010) and mining (Rolfe et al , 2011).

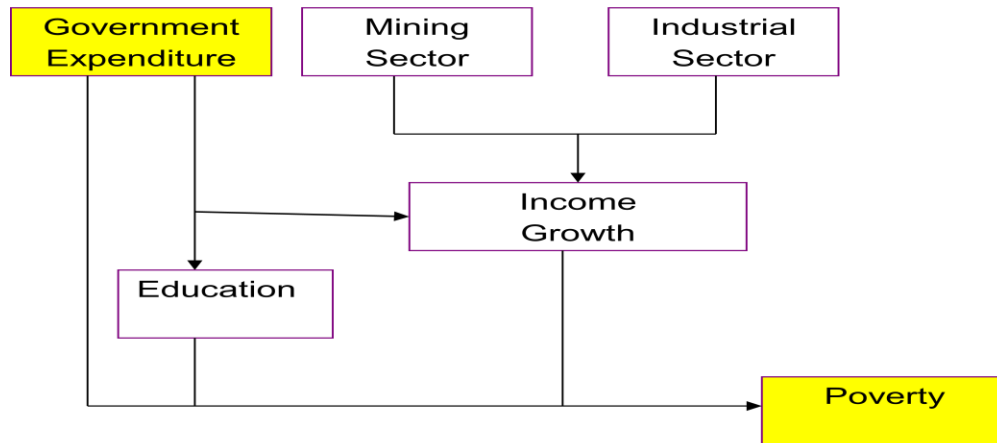
So the equation becomes:

$$YP = f_1(GE, MNG, IND, EDUC)$$

$$P = f_2(YP, EDUC, GE)$$

Based on the description above, schematically, the framework of this study are as follows:

Figure 1.
The Frame of The Research



D. The Research Methodology

1. The Object of The Research

The object of this study include three (3) main points namely: autonomy represented by government spending, growth in per capita income and poverty in East Kalimantan from 2004 through 2013. Poverty using indicators percentage of poor people (poverty headcount). Due to the use of the indicators are based on studies conducted so far, especially in Indonesia, just use poor indicator of the percentage of the total population to population

2. The Research Method

In this study, the method used is explanatory research (explanatory research). This method is suitable for social studies trying to see, measure and test the causal relationships between the variables studied. The research method is also consistent with that used by the research aimed to test the hypothesis. Being the nature of this study is verification, which examined the relevance and effect relationship between the independent variables (independent variables) and the dependent variable (dependent variables) were examined, and tested the relationship between variables with statistical and econometric tests for the conclusion.

4. Data Types and Sources

This study uses secondary data time series in the form of an annual which covers the period 2004 to 2013 and cross-sectional data (panel) for 9 districts / cities in East Kalimantan, because the necessary data in this study is the macroeconomic data that include among others:

- a. GDP growth data and the population of the district / city as an indicator of growth in income per capita, GDP mining and quarrying, as well as the industrial sector for the 9 district / city in East Kalimantan province.
- b. The number of government expenditure on education as education variables for 9 districts / cities in East Kalimantan.
- c. The number of poor to 9 districts / cities in East Kalimantan.

The data is obtained using the method of literature (library search). These data are expected to be obtained either through the Central Bureau Website Statistik Indonesia or BPS each province as well as an annual publication, or other relevant institutions

such as Bank Indonesia, as well as the Ministry of Finance and other agencies.

5. Data Collection

Metode pengumpulan data dalam penelitian ini dengan menggunakan metode kepustakaan (*library search*). Kemudian data dikelompokkan ke dalam kelompok yang disesuaikan dengan kebutuhan pengolahan data. Sedangkan pengolahan data dilakukan dengan menggunakan dua software, yaitu *Ms. Excel* dan *Eviews* versi 6 untuk estimasi parameter, pengujian statistik dan pengujian validasi model.

6. Analysis Model

In this study will be used simultaneous equation model (simultaneous equation regression model) using regression techniques two stage least square (2SLS) to see an indirect relationship between the mining sector, against poverty and inequality. In this model, growth, inequality and poverty is treated as an endogenous variable, while the percentage of mining, agriculture, industry, services, government spending, population, education, health, investment and inflation are treated as exogenous. So that structural equation models were used in this study are:

$$YP = f_1(GE, Mng, Ind, Educ) \dots\dots\dots (3.1)$$

$$PH = f_2(YP, GE, Educ) \dots\dots\dots (3.2)$$

Where:

- YP = GDP per capita growth in the district / city are expressed in terms of percent
- PH = percentage of poor population according to district / city
- MNG = percentage of the mining sector GDP by district / city
- Ind = percentage of industrial sector GDP by district / city
- Educ = the percentage of high school graduates or equivalent by district / city

Based on structural equation above it appears that growth variables (YP) and the poverty variable (PH) has interconnected

to one another so that the reflected variables are categorized as endogenous and exogenous variables (predetermined variable). This condition indicates that the model meets the requirements of the application as simultaneous equations. Because it is assumed that all structural equation above has a linear relationship, the form of the equation can be formulated such that it qualifies linear regression model. So the equation becomes:

$$YP_t = \alpha_0 + \alpha_1 GE_t + \alpha_2 Mng_t + \alpha_3 Ind_t + \alpha_4 Educ_t + \mu_1$$

..... (3.3)

$$PH_t = \gamma_0 + \gamma_1 YP_t + \gamma_2 GE_t + \gamma_3 Educ_t + \mu_2$$

..... (3.4)

where:

YP = GDP per capita growth in the district / city are expressed in percent

PH = percentage of poor population according to district / city

MNG = percentage of the mining sector GDP by district / city

Ind = percentage of industrial sector GDP by district / city

Educ = the percentage of high school graduates or equivalent by district / city

GE = government spending by district / city

t = year-to-t, where t = 2004 – 2013

$\alpha_j \gamma_j$ = estimation parameters

$\alpha_0 \gamma_0$ = *intercept*

E. Discussion

1. Influence of Government Expenditure to Revenue Growth Per Capita

Three of the four independent variables used has a significant influence on the growth of income per capita district / city is mining, industry and education, while government expenditure variable does not significantly affect the growth of income per capita district / city in East Kalimantan province. An important finding of the study that the mining sector had a negative impact of -0.009256 against per capita income growth, which means that the mining sector increased by one percent would lower the per capita income counties / cities of 0.9256 percent, this is in accordance with the opinion of Ahmad Komarulzaman and Armida S, Alisyahbana 2006) that the mining sector a negative impact on regional economic growth, but contrary to the opinion of Mensah (2011: 10-11), Connolly and Orsmond (2011: 47) and Tawiah and Baah (2011: 7), Pourush and Thanai, 2012: 8 with case studies in Ghana, Australia and India that mining had a positive impact on economic growth, education and development and transfer of new technologies, especially in mining, The industrial sector had a negative impact of -0.002377 against per capita income growth, which means that the industrial sector increased by one percent per capita income growth led to the district / city decreased by 0.2377 percent. Moderate government spending has no effect on the growth of income per capita district / city, which means that the increase or decrease in the budget district / city does not have any impact on the growth of income per capita district / city. This is supported by research by Sinha (1998: 78) and Adeyose et al (2010: 35) that government spending has no effect on economic growth, in contrast to research conducted by Taiwo and Abayomi (2011: 25) that government spending has positive effect to economic growth.

2. Effect of Per Capita Income Growth on Poverty.

The estimation results indicate educational growth variables and coefficients as expected, while the government spending variables showed coefficients are not as expected. The growth of per capita income and education provide negative and significant impact on poverty. Several studies on the relationship between growth and poverty have been made by economists to think different, relationship growth and poverty is negative (trade off) as Ahluwalia et al (1979), Janvry and Sadoulet (2000), Bigsten and Levin (2000), Bourguignon (2004), Fosu (2010), Gelaw (2010), Pradhan (2010), Zaman et al (2010) and Ijaiya et al (2011) and Yue (2011), results of this study concluded that the growth has no effect on poverty Indonesia. Thus the first hypothesis that government spending sector influence on economic growth as measured by per capita income growth in the district / city is not proven because government spending and no significant negative effect on the growth of per capita income. The second hypothesis is that the effect of government spending on poverty is not proven because government spending and no significant negative effect on the growth and negatively affect the growth of poverty.

F. Conclusion

Based on the results of the discussion that has been stated previously, it can be concluded in a few things:

1. Regional Autonomy were represented as government spending district / city in East Kalimantan province does not play a role in increasing the per capita income but quite a role in poverty alleviation.
2. The variables measured economic growth of per capita income growth in the district / city in East Kalimantan province quite a role in reducing poverty (Poverty headcount) in East Kalimantan.
3. Education plays a role in lowering the per capita income growth and also plays a role in reducing poverty

G. References

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