How the New Fiscal Decentralization Affected Economic Growth in Indonesia: Regional-Level Empirical Investigation
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This article tries to find out the effectiveness of Indonesian new fiscal decentralization policy by investigating its relationship with the regional economic growth during fiscal year of 2001 until 2002. We develop four models of empirical study to evaluate the implementation of new fiscal decentralization policy which has multi-dimensional facets. The proxies of fiscal decentralization are employed and crafted based on the specific nature of Indonesian fiscal decentralization, by considering such factors as the type of equalization funds, budget expenditure, and population and wide area of each region. We find neither the type of equalization fund nor regions’ demographic- rather it is the type of budget expenditure which affected the economic growth in Indonesian regions. Several explanations are offered for our findings.

Keywords: Fiscal decentralization, economic growth, GRDP

Area of interest: No. 6. Economic Sciences