



# The 1<sup>ST</sup> UNICEB 2017

Garuda Plaza Hotel Medan, December 12th 2017



## GOVERNMENT TRANSFER AND INCOME INEQUALITY IN WEST JAVA PROVINCE INDONESIA

**ADHITYA WARDHANA**

Universitas Padjadjaran

Email: aditya.wardhana@fe.unpad.ac.id

**ANHAR FAUZAN**

Universitas Padjadjaran

Email: aditya.wardhana@fe.unpad.ac.id

**ARIEF BUSTAMAN**

Universitas Padjadjaran

Email: aditya.wardhana@fe.unpad.ac.id

### ABSTRACT

The implementation of fiscal decentralization gives local governments a broader financial assignment. However, limited local government's own revenue sources bring a result in a fiscal dependency over the central government funding, i.e. through the fiscal equalization grants. The later are in the form of general allocation transfers (DAU) and specific allocation transfers (DAK) and revenue sharing (DBH). Today, one and half decade since the decentralization was began, Indonesia faces a classical yet unsolvable development challenge. The alternative mechanisms to finance capital spending are through grant and social transfer. This study aims to assess the impact of central government transfers and capital spending, on income distribution in regency/municipality level in West Java Province. Observing West Java is interesting as the province is the most unequal one in terms of income distribution, and its inequality rate is above the national's amount. Particularly, this study tries to answer three questions, i.e.: (1) what is the effect of DAU and DAK on local capital spending?; (2) Does capital spending, DAU, DAK, grant and social transfer each affect local economy's welfare?; (3) Does capital spending, DAU, DAK, grant and social spending have effect on income distribution?. We use 3 regression model implemented in local government level. Local economy's welfare is measured by per capita GDRP. While, income distribution is represented by Gini index. Our preliminary results are: (1) transfers fund, e.g. DAU and DAK significantly improves capital spending; (2) capital spending, DAU, DAK, social spending and grant each positively increases local economy's welfare; and (3) capital spending, DAU, DAK, social spending and grant each fixes the distribution of income.

**Keywords:** DAU, DAK, social transfer, grant.