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Fiscal Policy, Urbanization and Education: Analysis of EKC Province in Indonesia

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Abstract

This study investigated the EKC hypothesis for Total Suspended Solid (TSS) and Fecal Coli (FCOLI) pollutants in Indonesia with a quadratic model and several control variables (fiscal policy for natural resources revenue sharing, foreign investment, urbanization and education). Using a pool data of 33 provinces in 2011-2014. The results of the study support the EKC hypothesis significantly for TSS pollutants and not significant for FCOLI pollutants. Foreign investment, urbanization and education tend to increase pollutants even though they are not significant. Fiscal policy is significant for reducing TSS pollutants but does not apply to FCOLI pollutants. The government must increase inclusive green growth and environmental competencies in education.

Keywords: TSS, FCOLI, Urbanization and Education, Fiskal, EKC

1. Introduction

Environmental degradation is difficult to avoid in line with development progress, especially in developing countries. Colole et al. (1997). Nature as one of the factors of strategic production, has not been calculated proportionally or is considered external cost, so its availability decreases. This condition is in line with Asici (2013) finding that the current paradigm of economic growth is not sustainable, especially in middle-income countries. Therefore, one of the important agenda of the 2030 Sustainable Development Goal (SDG's) is to preserve the environment and UNDP (2016) asserts that water resources have economic, social and ecological strategic significance.

Classical economists are pessimistic that long-term economic growth will be stationary along with the limitations of natural resources. The World Bank (1992) reports that the pattern of relationships between development and environmental degradation (air pollutants) follows an inverted U pattern. That is, degradation increases at the beginning of growth to a certain point, then decreases in tune with the increase in income. This statement is supported by the findings of Cropper and Griffith (1994) for deforestation in Africa, Latin America and Asia. This relationship model was later popularly known as EKC (Environmental Kuznet Curve)

The Indonesian government is very committed to improving the environment and has scheduled in the Medium Term Development Plan (RPJMD, 2015-2019). As an effort to realize sustainable development, through the Ministry of Environment and Forestry is programmed, that the final environmental quality index of the RPJMD will reach the intermediate level.

Indonesia's economic growth in 2011-2014 is relatively high (5.7%/year). This condition is related to the contribution of the industrial sector that continues to grow on average (21.30%). The strategy of developing capital-intensive industrial sectors has become a prima donna, because it is able to provide large and fast added value compared to the relatively traditional and less productive agricultural sector.

Changes in economic structure to industrial sectors located in urban areas, causing

