

Turnitin

by An. Dr. Juliansyah Roy dkk

Submission date: 20-Jun-2022 05:20AM (UTC-0700)

Submission ID: 1758359228

File name: Turnitin_repot_Adi_Wijaya_dkk_2022.pdf (267.55K)

Word count: 9188

Character count: 49062

Fiscal Decentralization and Income Inequality – A Prediction using the SEM

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ABSTRACT ← 11

Economic development in a region not only measured through the fiscal dimension and the level of welfare but must also prioritize social and human resource aspects so that it can achieve the goals of sustainable development. East Kalimantan is an area that has abundant potential and reserves of natural resources, but there are still wide-ranging socio-economic problems. With these considerations, the aim of this study is to analyze the effect of fiscal decentralization on investment, economic growth, economic structure, employment opportunities, and income inequality between Districts/Cities in East Kalimantan Province for seven periods. This study uses panel data (2013-2019), which is an amalgamation of seven districts and three cities in East Kalimantan Province. We processed the analysis data through the Structural Equation Model (SEM). Our findings show that regional taxes have a positive and significant effect on investment, economic growth, and employment but have a negative and significant effect on economic structure and income inequality. Regional retributions have a positive but insignificant effect on investment and income inequality and have a positive and significant effect on employment opportunities. Regional retributions have a negative and significant effect on economic growth and economic structure. The special allocation funds have a positive but insignificant effect on investment and income inequality and have a positive and significant effect on the economic structure. The special allocation funds have a negative and insignificant effect on economic growth and employment opportunities. Profit-sharing funds have a positive but insignificant effect on income inequality and have a positive and significant effect on investment, economic growth, employment opportunities, then profit-sharing funds have a negative and insignificant effect on the economic structure. The practical implications offer solutions to the realization of local revenue sources for the use of economic development and alleviation of social problems such as employment opportunities and inequality in welfare. Interestingly, the motives for academic contributions also reflect and provide a new understanding of the urgency of the effectiveness of the fiscal policy. The drawbacks of the study are discussed in the future.

Key words: Fiscal, income inequality, panel data, structural equation model, East Kalimantan, Indonesia

ABSTRAK

Pembangunan ekonomi di suatu daerah tidak hanya diukur melalui dimensi fiskal dan tingkat kesejahteraan tetapi juga harus mengutamakan aspek sosial dan sumber daya manusia sehingga dapat mencapai tujuan pembangunan yang berkelanjutan. Kalimantan Timur merupakan wilayah yang memiliki potensi dan cadangan sumber daya alam melimpah, tetapi masih terdapat problematika sosial-ekonomi yang begitu lebar. Dengan pertimbangan tersebut, penelitian ini bertujuan untuk menganalisis pengaruh desentralisasi fiskal terhadap investasi, pertumbuhan ekonomi, struktur ekonomi, kesempatan kerja, dan ketimpangan pendapatan antar Kabupaten/Kota di Provinsi Kalimantan Timur selama tujuh periode. Penelitian ini menggunakan data panel (2013-2019) yang merupakan penggabungan dari tujuh kabupaten dan tiga kota di Provinsi Kalimantan Timur. Kami mengolah data analisis melalui Structural Equation Model (SEM). Temuan kami menunjukkan bahwa pajak daerah berpengaruh positif dan signifikan terhadap investasi, pertumbuhan ekonomi, dan penyerapan tenaga kerja tetapi berpengaruh negatif dan signifikan terhadap struktur ekonomi dan ketimpangan pendapatan. Retribusi daerah berpengaruh positif tetapi tidak signifikan terhadap investasi dan ketimpangan pendapatan serta berpengaruh positif dan signifikan terhadap kesempatan kerja. Retribusi daerah berpengaruh negatif dan signifikan terhadap pertumbuhan ekonomi dan struktur ekonomi. Dana alokasi khusus berpengaruh positif tetapi tidak signifikan terhadap investasi dan ketimpangan pendapatan serta berpengaruh positif dan signifikan terhadap struktur ekonomi. Dana alokasi khusus berpengaruh negatif dan tidak signifikan terhadap pertumbuhan ekonomi dan kesempatan kerja. Dana bagi hasil berpengaruh positif tetapi tidak signifikan terhadap ketimpangan pendapatan dan berpengaruh positif dan signifikan terhadap investasi, pertumbuhan ekonomi, kesempatan kerja, kemudian dana bagi hasil berpengaruh negatif dan tidak signifikan terhadap struktur ekonomi. Implikasi praktisnya menawarkan solusi bagi terwujudnya sumber pendapatan asli daerah untuk pemanfaatan pembangunan ekonomi dan pengentasan masalah sosial seperti kesempatan kerja dan ketimpangan kesejahteraan.

Menariknya, motif kontribusi akademik juga mencerminkan dan memberikan pemahaman baru tentang urgensi efektivitas kebijakan fiskal. Kelemahan dari penelitian ini dibahas di masa depan.

1. INTRODUCTION

The key problem in economic development is increasing national income (GDP), reducing income inequality, and eliminating poverty. In some countries, it is sometimes a dilemma between prioritizing economic growth or reducing the income gap (Walker et al., 2021). High growth does not guarantee that the income gap will be low (Harun, 2016). Many developing countries have a growth rate of around 7 percent per year, but the income gap and poverty rates are also high. This raises the demand for more emphasis on reducing the income gap than increasing economic growth.

Until now, fiscal decentralization and regional autonomy have always been interesting topics to discuss. This is because the study of fiscal decentralization is not only the realm of the economy but related to other dimensions such as political, administrative, and geographic. In addition, the results of fiscal decentralization studies rarely produce the same conclusions among researchers and decentralization enthusiasts. There are disagreements with each party having logical arguments and have proven it empirically. In relation to economic growth, the results of studies from several experts, such as Shang et al. (2021) and Hasan (2019) show that fiscal decentralization does not have a significant impact on economic growth in developing countries. Furthermore, Hanif et al. (2020), Wijaya et al. (2020), and Ginting et al. (2019) found that the implementation of fiscal decentralization had a negative impact on economic growth and was less profitable for development. On the other hand, the results of the study by Wijaya et al. (2019) and An et al. (2019) show different results, namely that fiscal decentralization has a positive effect on economic growth.

Regarding this phenomenon, Cahyadi (2019) stated that there is an ambivalent effect in the relationship between fiscal decentralization and economic growth, making it difficult to draw precise recommendations about how optimal decentralization. Furthermore, Nguyen et al. (2019) concluded that there is no clear, automatic relationship between fiscal decentralization and economic growth.

Recent literature suggests that it is possible

that the income gap has a negative relationship with economic growth. This conclusion is obtained from an in-depth study of areas that have a high level of income inequality and the occurrence of a poverty trap (Wijayanti & Darma, 2019). Policymakers and international organizations have a goal to "face up to inequality". More attention is now being paid to the distributional implications of traditional macroeconomic policies. Policies aimed at identifying situations at a high level of income inequality are likely to be detrimental to overall economic growth policies and can explain measures that will promote economic growth and income redistribution (equity) at the same time (Gründler & Scheuermeyer, 2018) so that economic growth with income distribution will be realized.

The economic structure of districts and cities in East Kalimantan is more dominated by the role of the manufacturing sector, such as Kutai Kartanegara, East Kutai, and West Kutai which are more dominated by contributions from the mining and quarrying sector, than the cities of Balikpapan and Bontang which are more dominated by contributions from the manufacturing sector in this case is oil and gas processing industry. The potential of this relatively abundant natural resource can be a great strength as well as a weakness if it is not managed properly (Darma, 2019; Wijaya et al., 2020).

The orientation of this paper considers the opposing theoretical and practical aspects, where if a region or country has abundant natural resources, ideally it does not have many constraints in terms of income, poverty, and welfare. But in fact, from several important findings such as those that occurred in Botswana, sub-Saharan Africa, Indonesia, and of course in producing countries classified as developing countries have reviewed by Adika (2020), Wibowo & Susilo (2018), Wijaya et al. (2022), and Lashitew et al. (2020) clarifies that there is no guarantee for those who only rely on oil, gas, and coal reserves. Massive exploitation without considering the environmental, social, and cultural affects on residents actually resulted in fatal economic collapse. Those who also do not have attention to the competence of human resources will eventually experience the degradation of the political crisis.

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Contributions and innovations need to be designed through a study that strengthens specific phenomena and empirical case studies. Referring to these phenomena in social and economic problems, we try to predict the extent of the effect of fiscal decentralization on investment, economic growth, economic structure, employment opportunities, and income inequality in districts/cities in East Kalimantan Province. To the knowledge of the authors, this study is the only one that has identified the relationship between fiscal decentralization on investment, economic growth, economic structure, employment opportunities, and income inequality comprehensively. This study also focuses on highlighting how the effects of the dimensions of economic development are from the inter-regional scope. In addition, the prospect of the findings will highlight different corridors, proportions, outcomes, and motives in the economic perspective of regional finance, investment, economic transformation, employment, and social inequality in society

2. THEORETICAL FRAMEWORK AND HYPOTHESES

Egbo & Ezeaku (2019) argue that 'economic development theory' is a vital component in the literature discussing growth. They highlight economic development based on its relevance to various empirical debates in developing and poor countries about the meaning of development and growth. Modernization theory emerged from classical theory, so that today the world focuses on the effects of transformation involving institutional structures through changing perspectives or perspectives that emphasize politics in economic, social, and environmental progress that is conducive to the status of a country.

Empirically, Pardo et al. (2017) evaluates his findings that structural transformation is an integral part of growth patterns, where 'growth theory' has actually reduced and excluded individual well-being. At present, they cannot ignore that it included the realities of sectoral issues and structural dynamics in the framework of the review model. In growth analysis, it is very contrary to theoretical arguments, and must focus on the technical side of progress (Constantine, 2017). It has ruled the evolution of consumer demand and supply out on the grounds of integrating recent literature that considers schools of thought that seek structural change over the long term (Yıldırım & Gökalp, 2016).

However, it is a long process for a country to gain a significant economic structure. The structural changes in question focused on production institutions that must adequate and enforced by the state (Eggertsson & Krugman, 2012). The theoretical line refers to Constantine (2017) who views that there is a difference between exchange institutions (law and property rights) and production institutions (tariff policy, industrial policy, and subsidy policy). There is a kind of difference in the treatment applied by the government without regard to minimum laws and some ownership rights, such as production and property. For this reason, polemics in exchange institutions have a positive effect on production capacity.

The fundamental theory of this study is fiscal decentralization and its relationship with economic growth and income inequality. Various arguments in favor of decentralization that are incorporated into traditional fiscal decentralization theory include those of Alexeev & Mamedov (2017), Digidowiseiso (2022), and Litvack et al. (1998) which emphasizes that the most efficient public services provided by areas that have the least geographical control. Furthermore, Hurley et al. (2018) argue that delegation of part of public financial affairs from the central government to regional governments is a consequence of achieving the standard of living of the people better.

Oates (2008) highlights two new theories on fiscal decentralization. First, something new it as "The second generation theory of fiscal federalism" which describes most of its motivation for several fiscal crises caused by opposing behavior at the regional decentralization level. Second, it is "The political economy approach to fiscal federalism" representing a more conventional evolution of public sector theory.

In line with these various thoughts, empirical results from various studies show that there are contradictory results where there are several research results that show that fiscal decentralization has a negative effect on economic growth as suggested by Jin & Zou (2005), Jin & Rider (2022) and Zulyanto (2012). From other findings, there are also differences that conclude that fiscal decentralization has a positive effect on economic growth (Amagoh & Amin, 2012; Azizah et al., 2022; Yushkov, 2015).

Regarding income inequality, Triyono et al. (2021), Sacchi & Salotti (2014), and Nguyen et al. (2020) inform that fiscal decentralization has a positive effect on inequality. On the other hand,

according to Arends (2020), Cavusoglu & Dincer (2015), Sibylle Stossberg & Blöchliger (2017), Farida et al. (2021), Irandra (2021), and Shahzad & Yasmin (2016) found that fiscal decentralization has a negative effect on inequality.

Susanto & Sugianto (2019) focused on researching the relationship between regional revenues and economic growth in Central Java (Indonesia) during 2005-2015. In the short term, there is a one-way causality of tax revenue on economic growth. Basuki et al. (2020) investigate the function of fiscal policy and foreign investment in regional growth in Indonesia. The results show that the right fiscal policy can increase economic growth in 14 provinces in Indonesia for

the period 2008-2017. From the scope of ASEAN, Nguyen & Domo (2022) conclude that from 2000 to 2020, there is a negative effect of income tax on economic growth. Referring to non-linear causality, the lower value of tax revenue can actually encourage investment and savings. However, the findings also emphasize that economic growth occurs when there is a serious turmoil when there is an increase in the government's budget deficit through foreign debt programs, investment, and uncontrolled spending allocations. Economic growth in ASEAN responded positively to the effects of long-term investment.

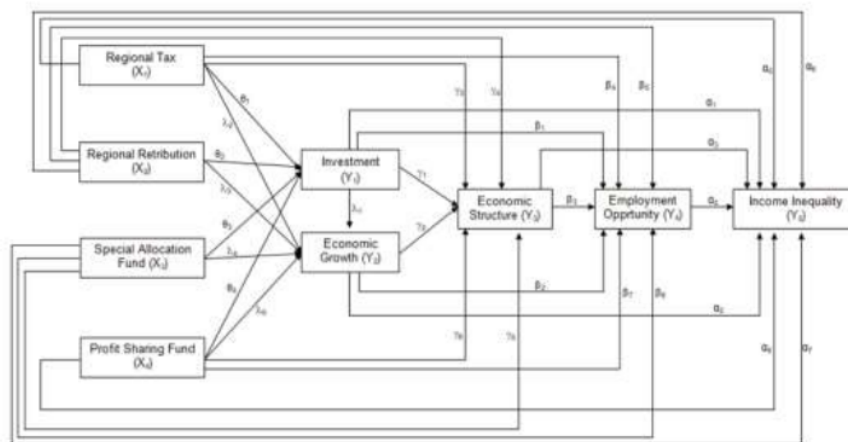


Fig. 1. Proposed research model

Due to this fact, researchers still believe that fiscal decentralization can encourage economic growth and reduce inequality. In other words, fiscal decentralization has a positive impact on economic growth but has a negative impact on inequality. In this conceptual framework, besides the two main variables, namely economic growth and inequality, it also adds several control variables, including investment, economic structure, employment opportunities. Systematically, the relationship between fiscal decentralization and investment, economic growth, economic structure, employment opportunities, and income inequality is described in Figure 1. Based on research questions, literature review, and conceptual framework, we can sign the hypothesis:

H1. Regional taxes have a direct and indirect negative effect on income inequality through investment, economic growth, economic structure, employment opportunities;

H2. Regional retributions have a direct and indirect negative effect on income inequality through investment, economic growth, economic structure, employment opportunities;

H3. The special allocation fund has a positive direct and indirect effect on income inequality through investment, economic growth, economic structure and employment opportunities;

H4. Profit-sharing funds have a direct and indirect positive effect on income inequality through investment, economic growth, economic structure, and employment opportunities

3. RESEARCH METHOD

To simplify the presentation, we use panel data that combines cross-section data with time-series data. Basically, ZA et al. (2021) assesses the use of the panel data method as having several advantages because it can account for individual heterogeneity explicitly by allowing individual-

specific variables. The ability to control individual heterogeneity makes panel data used to test and build more complex behavioral models.

The areas used as the object of observation are all Districts/Cities in the administrative area of East Kalimantan Province with thirteen observations with details (Samarinda, Balikpapan, Bontang, Kutai Kartanegara, East Kutai, West Kutai, Berau, Paser, and Penajam Paser Utara, and Mahakam Ulu) from 2013 to 2019. We apply panel data in ten areas in East Kalimantan, so that for each variable, the data is seventy. The figure got by multiplying the observation period and the sample, so the total data is six hundred and thirty.

A simultaneous equation model (SEM) approach supports data analysis. Using SEM should see a series of interdependence relationships simultaneously between exogenous and endogenous variables. This is useful if a dependent variable will become an independent variable in the next dependent relationship (e.g. Ferdinand & Batu, 2013; Soehadi & Ardianto, 2019). The simultaneous relationship between fiscal decentralization, private investment, economic growth, economic structure, employment opportunities, and income inequality, using a simultaneous equation scheme with the following reduced form:

$$Y1 = f(X1, X2, X3, X4) \quad (1)$$

$$Y2 = f(Y1; X1, X2, X3, X4) \quad (2)$$

$$Y3 = f(Y2; Y1; X1, X2, X3, X4) \quad (3)$$

$$Y4 = f(Y3; Y2; Y1; X1, X2, X3, X4) \quad (4)$$

$$Y5 = f(Y4; Y3; Y2; Y1; X2, X3, X4) \quad (5)$$

Where: X1 (regional taxes), X2 (regional retributions), X3 (special allocation funds), X4 (profit sharing), Y1 (investment), Y2 (economic growth), Y3 (economic structure), Y4 (employment opportunities), and Y5 (income inequality). Based on this functional model, it can follow a non-linear function or an exponential function as a regression equation the developed equation model is:

$$Y5 = \alpha_0 + \alpha_1 \ln Y1 + \alpha_2 \ln Y2 + \alpha_3 Y3 + \alpha_4 \ln Y4 + \alpha_5 \ln X1 + \alpha_6 \ln X2 + \alpha_7 \ln X3 + \alpha_8 \ln X4 + \mu_1 \quad (6)$$

$$\ln Y4 = \ln \beta_0 + \beta_1 \ln Y1 + \beta_2 \ln Y2 + \beta_3 Y3 + \beta_4 \ln X1 + \beta_5 \ln X2 + \beta_6 \ln X3 + \beta_7 \ln X4 + \mu_2 \quad (7)$$

$$Y3 = \gamma_0 + \gamma_1 \ln Y1 + \gamma_2 \ln Y2 + \gamma_3 \ln X1 + \gamma_4 \ln X2 + \gamma_5 \ln X3 + \gamma_6 \ln X4 + \mu_3$$

(8)

$$\ln Y2 = \ln \lambda_0 + \lambda_1 \ln Y1 + \lambda_2 \ln X1 + \lambda_3 \ln X2 + \lambda_4 \ln X3 + \lambda_5 \ln X4 + \mu_4$$

(9)

$$\ln Y1 = \ln \theta_0 + \theta_1 \ln X1 + \theta_2 \ln X2 + \theta_3 \ln X3 + \theta_4 \ln X4 + \mu_5$$

(10)

With supporting literature and work design, it is important to operationalize the variables in the following studies. Income inequality is the gap in the income level in East Kalimantan Province as measured by the Gini ratio of the seven districts and three cities (in percentage terms). Employment opportunities are the number of workers absorbed in seven districts and three cities in East Kalimantan Province (in units of souls). The economic structure is the ratio of the total GDP in the manufacturing sector to the total GRDP in seven districts and three cities in East Kalimantan Province (in percent). Economic growth is the amount of GRDP at constant 2010 prices in seven districts and three cities in the East Kalimantan (in rupiah). Investment is the amount of foreign investment (PMA) and domestic investment (PMDN) in seven districts and three cities in the province of East Kalimantan (in rupiah). Regional contribution is the amount of regional taxes from seven districts and three cities in East Kalimantan Province (in rupiah units). Regional contribution is the total regional fees from seven districts and three cities in East Kalimantan Province (in rupiah units). Special allocation fund is the amount of special allocation fund from seven districts and three cities in East Kalimantan Province (in rupiah units). Profit sharing fund is the amount of profit-sharing funds in seven districts and three cities in the province of East Kalimantan (in rupiah).

4. DATA ANALYSIS AND DISCUSSION

In this session, we discussed the main findings in depth based on the objectivity of the research and the standard method that has designed. Data processing using Microsoft Excel program. After being classified based on the observed variables, we transferred the data to the SPSS version 25 and AMOS 21 programs for analysis. There are two types of parameters (statistical values) estimated from the SEM model. First, the statistical values of unstandardized regression weight. Second, the statistical values of the standardized regression weights data.

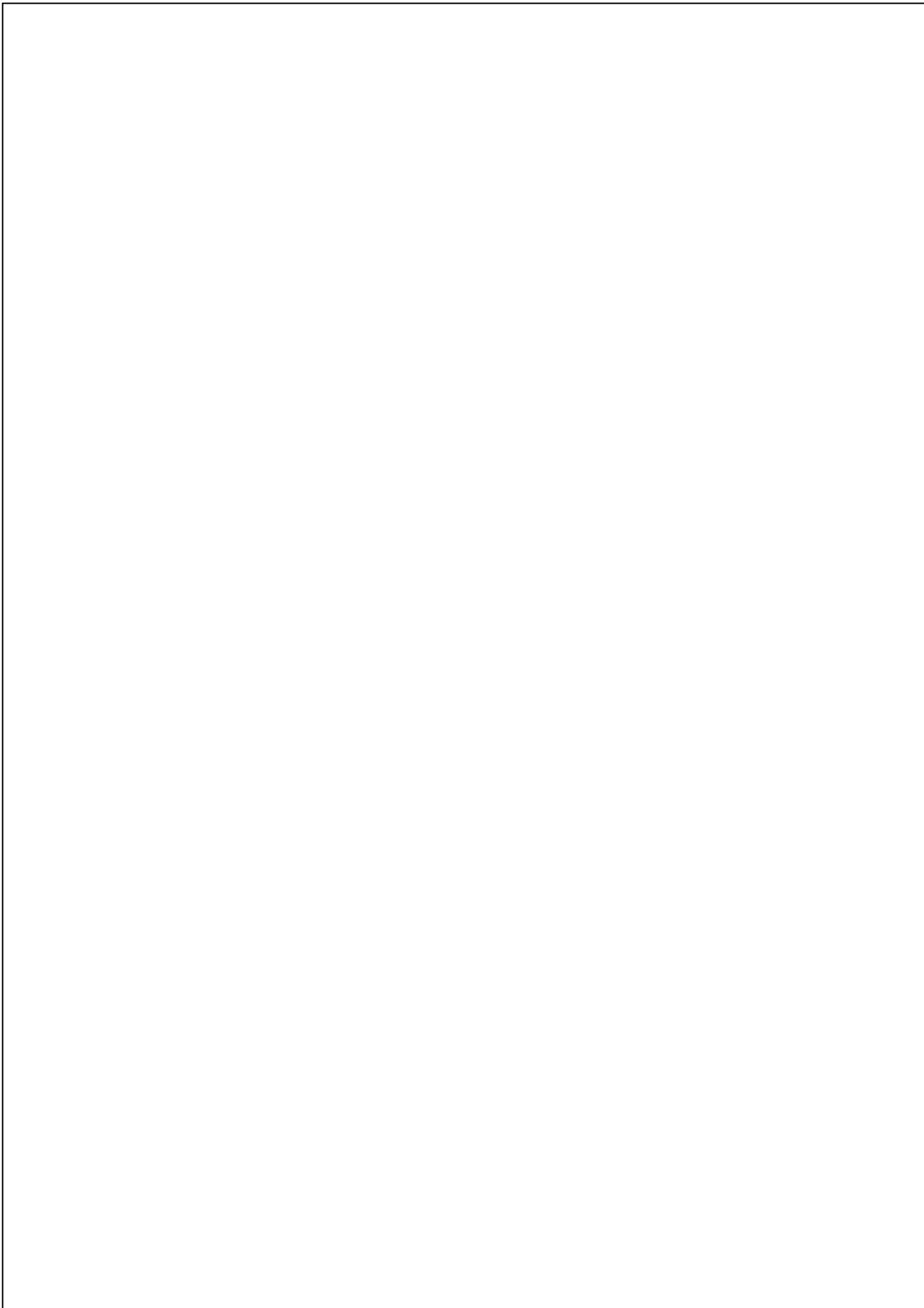


Table 1. Goodness of fit test for SEM

Criteria	Cut-off value	Result	Decision
Chi-square	Expected small	3.432	Fit
Probability	≥ 0.05	0.330	Fit
Relative Chi-Square	≤ 2.00	1.144	Fit
RMSEA	≤ 0.08	0.043	Fit
C F I	≥ 0.94	0.999	Fit
TLI	≥ 0.95	0.987	Fit

Source: (own tabulations)

The values used in this discussion are "un-standardized regression weights" which have passed the goodness-of-fit test, not "standardized regression weights", even though they have passed the goodness-of-fit test. Because this analysis aims to explain how much influence (impact) the independent variables have on the dependent variables, so it is not to compare which independent variables are the most dominant (comparative analysis) to the dependent variable. Both types of approaches exist in the SEM analysis results with the programs. The results of the Fit-test in Table 1 show that the results of the SEM model analysis are fit, meaning that the model is

suitable for use as a structural analysis model. Based on a fit model, a significance test of the functional relationship between variables carried out. It did partially testing with the value of the critical ratio (CR) or probability (p) on regression weights. The critical ratio (CR) value is the same as the critical student value (t-value) in the regular (non-structural) regression model.

The results of the estimation of the intercept or constant values and the regression coefficient of the functional relationship between the independent variables and the dependent variable in the respective SEM analysis can be seen in Table 2.

Table 2. Estimated results of the intercept value

Functional relationship	Intercept		CR	P
	Symbol	Value		
$Y_1 = f(X_2, X_3, X_4)$	θ_0	-30.778	-2.173	0.030
$Y_2 = f(Y_1, X_1, X_2, X_3, X_4)$	λ_0	-17.427	-3.571	***
$Y_3 = f(Y_2, Y_1, X_1, X_2, X_3, X_4)$	γ_0	-4.784	-0.051	0.959
$Y_4 = f(Y_3, Y_2, Y_1, X_1, X_2, X_3, X_4)$	β_0	-11.383	-4.381	***
$Y_5 = f(Y_4, Y_3, Y_2, Y_1, X_1, X_2, X_3, X_4)$	α_0	0.459	1.313	0.189

Source: (own tabulations)

Table 3. Estimated parameters of the direct effect between variables

No	Functional relationship		Parameter		CR	P
	Independent	Dependent	Symbol	Value		
1	X_1	Y_1	θ_1	0.377*	1.955	0.051
		Y_2	λ_2	0.507***	7.687	0.000
		Y_3	γ_3	-9.206***	-5.921	0.000
		Y_4	β_4	0.103**	1.976	0.048
		Y_5	α_5	-1.464*	-2.270	0.023
2	X_2	Y_1	θ_2	0.326	1.046	0.294
		Y_2	λ_3	-0.210**	-2.010	0.044
		Y_3	γ_4	-3.933**	-2.068	0.039
		Y_4	β_5	0.238***	4.375	0.000
		Y_5	α_6	0.856	1.169	0.242
3	X_3	Y_1	θ_3	0.296	1.519	0.129
		Y_2	λ_4	-0.068	1.371	0.305
		Y_3	γ_5	3.295***	2.786	0.005
		Y_4	β_6	-0.007	-0.199	0.842

4	X ₄	Y ₅	α_7	0.242	0.582	0.561
		Y ₁	θ_4	0.851**	2.046	0.041
		Y ₂	λ_5	0.957***	6.700	0.000
		Y ₃	γ_6	-2.989	-0.938	0.348
		Y ₄	β_7	0.530***	5.944	0.000
5	Y ₁	Y ₅	α_8	0.154	0.118	0.906
		Y ₂	λ_1	0.110***	2.895	0.004
		Y ₃	γ_1	0.035	0.049	0.961
		Y ₄	β_1	-0.106	-5.362	0.000
		Y ₅	α_1	-0.057	-0.203	0.839
6	Y ₂	Y ₃	γ_2	23.797***	11.782	0.000
		Y ₄	β_2	0.103	1.097	0.273
		Y ₅	α_2	-1.456	-1.273	0.203
7	Y ₃	Y ₄	β_3	0.007**	2.214	0.027
		Y ₅	α_3	0.053	1.353	0.176
8	Y ₄	Y ₅	α_4	0.037	0.027	0.978

(Source: own tabulations); Information: *) significant at $\alpha = 10\%$, **) significant at $\alpha = 5\%$, ***) significant at $\alpha = 1\%$, and #) form functional relationships according to theory.

The results of the estimation of the intercept or constant values and the regression coefficient of the functional relationship between the inde-

pendent variables and the dependent variable in the respective SEM analysis.

Table 4. Matrix of direct influence between variables

Dependent	Investment	Economic growth	Economic structure	Employment opportunity	Income inequality
Regional tax	1, 3, 6	1, 3, 6	2, 3, 5	1, 3, 6	2, 3, 5
Regional retribution	1, 4, 6	2, 3, 5	2, 3, 5	1, 3, 6	1, 4, 6
Special allocation fund	1, 4, 5	2, 4, 6	1, 3, 5	2, 4, 6	1, 4, 6
Profit sharing fund	1, 3, 5	1, 3, 5	2, 4, 6	1, 3, 5	1, 4, 6
Investment	-	1, 3, 5	1, 4, 5	2, 3, 6	2, 4, 6
Economic growth	-	-	1, 3, 5	1, 4, 5	2, 4, 6
Economic structure	-	-	-	1, 3, 5	1, 4, 5
Employment opportunity	-	-	-	-	1, 4, 6

(Source: own tabulations); Information: 1. Positive, 2. Negative, 3. Significant, 4. Not significant, 5. According to theory, and 6. Not according to theory.

Based on the Table 3 and Table 4, it found that the indirect influence of each exogenous variable, namely regional taxes (X1), regional retributions (X2), special allocation funds (X3), and profit-sharing funds (X4) each endogenous variable, namely economic growth (Y2), economic structure (Y3), employment opportunities (Y4), and income inequality (Y5).

The total effect is the overall effect between the direct effect of each exogenous variable (X1, X2, X3, and X4) and the respective indirect effects (X1, X2, X3, and X4) on each investment, econom-

ic growth, economic structure, employment opportunities, and income inequality. To see the total effect of each exogenous variable, namely regional taxes (X1), regional retributions (X2), special allocation funds (X3), and profit-sharing funds (X4) on each investment function (Y1), economic growth (Y2), economic structure (Y3), employment opportunities (Y4), and income inequality (Y5) which are presented in Table 5.

Table 5. Total parameter estimates of the effect of exogenous on endogenous

Exogenous	Endogenous			
	Y ₂	Y ₃	Y ₄	Y ₅
X ₁	0.549	3.867	0.147	-2.073

X ₂	-0.174	-8.068	0.129	0.065
X ₃	-0.035	2.467	-0.025	0.408
X ₄	1.051	22.051	0.703	-0.221

Source: (own tabulations)

Hypothesis testing of this research carried out by statistical tests on each of the direct influence paths partially (see Table 6). It contained the complete analysis results in the SEM analysis with the explanation that the effect of regional taxes on income inequality through investment, economic growth, economic structure, and employment opportunities. Regional taxes have a significant effect on income inequality at a significance level of 5 percent. Regional taxes have a significant effect on investment at a significance level of 10 percent. Regional taxes have a significant effect on economic growth at a significance level of 1 percent. Regional taxes have a significant

effect on the economic structure at the 1 percent significance level. Regional taxes have a significant effect on employment opportunities at a significance level of 5 percent.

The form of the relationship between regional taxes and endogenous variables shows that regional taxes have a negative effect on the economic structure and income inequality and the form of the relationship is as expected by the theory. Meanwhile, for investment, economic growth, and employment opportunities, it shows that regional taxes have a positive effect and the form of the relationship is not under the theory.

Table 6. Summary of estimated parameters of indirect effect

Endogenous variables	Exogenous variables				Result			
	X ₁	X ₂	X ₃	X ₄	X ₁	X ₂	X ₃	X ₄
Economic growth (Y ₂)								
Y ₁ Y ₂	λ ₁ θ ₁	λ ₁ θ ₂	λ ₁ θ ₃	λ ₁ θ ₄	0.042	0.036	0.033	0.094
Economic structure (Y ₃)								
Y ₁ Y ₃	γ ₁ θ ₁	γ ₁ θ ₂	γ ₁ θ ₃	γ ₁ θ ₄	0.013	0.011	0.010	0.030
Y ₂ Y ₃	γ ₂ λ ₂	γ ₂ λ ₃	γ ₂ λ ₄	γ ₂ λ ₅	12.065	-4.997	0.357	22.774
Y ₁ Y ₂ Y ₃	λ ₁ γ ₂ θ ₁	λ ₁ γ ₂ θ ₂	λ ₁ γ ₂ θ ₃	λ ₁ γ ₂ θ ₄	13.073	-4.135	0.775	25.040
Employment opportunity (Y ₄)								
Y ₁ Y ₄	β ₁ θ ₁	β ₁ θ ₂	β ₁ θ ₃	β ₁ θ ₄	-0.040	-0.034	-0.031	-0.090
Y ₂ Y ₄	β ₂ λ ₂	β ₂ λ ₃	β ₂ λ ₄	β ₂ λ ₅	0.052	-0.022	0.001	0.098
Y ₃ Y ₄	β ₃ γ ₃	β ₃ γ ₄	β ₃ γ ₅	β ₃ γ ₆	-0.064	-0.028	0.023	-0.020
Y ₁ Y ₂ Y ₄	β ₂ λ ₁ θ ₁	β ₂ λ ₁ θ ₂	β ₂ λ ₁ θ ₃	β ₂ λ ₁ θ ₄	0.00427	0.00369	0.00335	0.00964
Y ₁ Y ₃ Y ₄	β ₃ γ ₁ θ ₁	β ₃ γ ₁ θ ₂	β ₃ γ ₁ θ ₃	β ₃ γ ₁ θ ₄	0.00009	0.00008	0.00007	0.00002
Y ₂ Y ₃ Y ₄	β ₃ γ ₂ λ ₂	β ₃ γ ₂ λ ₃	β ₃ γ ₂ λ ₄	β ₃ γ ₂ λ ₅	0.08445	-	0.00250	0.15942
Y ₁ Y ₂ Y ₃ Y ₄	β ₃ γ ₂ λ ₁ θ ₁	β ₃ γ ₂ λ ₁ θ ₂	β ₃ γ ₂ λ ₁ θ ₃	β ₃ γ ₂ λ ₁ θ ₄	0.00690	0.03498	0.00542	0.01559
						0.00597		
Income inequality (Y ₅)								
Y ₁ Y ₅	α ₁ θ ₁	α ₁ θ ₂	α ₁ θ ₃	α ₁ θ ₄	-0.021	-0.018	-0.017	-0.048
Y ₂ Y ₅	α ₂ λ ₂	α ₂ λ ₃	α ₂ λ ₄	α ₂ λ ₅	-0.738	0.306	-0.022	-1.393
Y ₃ Y ₅	α ₃ γ ₃	α ₃ γ ₄	α ₃ γ ₅	α ₃ γ ₆	-0.488	-0.208	0.175	-0.158
Y ₄ Y ₅	α ₄ β ₄	α ₄ β ₅	α ₄ β ₆	α ₄ β ₇	0.004	0.009	-0.002	0.020
Y ₁ Y ₂ Y ₅	α ₂ λ ₁ θ ₁	α ₂ λ ₁ θ ₂	α ₂ λ ₁ θ ₃	α ₂ λ ₁ θ ₄	-	-	-	-
Y ₁ Y ₃ Y ₅	α ₃ γ ₁ θ ₁	α ₃ γ ₁ θ ₂	α ₃ γ ₁ θ ₃	α ₃ γ ₁ θ ₄	0.06038	0.05221	0.04740	0.13630
Y ₁ Y ₄ Y ₅	α ₄ β ₁ θ ₁	α ₄ β ₁ θ ₂	α ₄ β ₁ θ ₃	α ₄ β ₁ θ ₄	0.00070	0.00060	0.00055	0.00158
Y ₂ Y ₃ Y ₅	α ₃ γ ₂ λ ₂	α ₃ γ ₂ λ ₃	α ₃ γ ₂ λ ₄	α ₃ γ ₂ λ ₅	-	-	-	-
Y ₂ Y ₄ Y ₅	α ₄ β ₂ λ ₂	α ₄ β ₂ λ ₃	α ₄ β ₂ λ ₄	α ₄ β ₂ λ ₅	0.00147	0.00128	0.00116	0.00334
Y ₃ Y ₄ Y ₅	α ₄ β ₃ γ ₃	α ₄ β ₃ γ ₄	α ₄ β ₃ γ ₅	α ₄ β ₃ γ ₆	0.63944	-	0.01891	1.20700
Y ₁ Y ₂ Y ₃ Y ₅	α ₃ γ ₂ λ ₁ θ ₁	α ₃ γ ₂ λ ₁ θ ₂	α ₃ γ ₂ λ ₁ θ ₃	α ₃ γ ₂ λ ₁ θ ₄	0.00193	0.26486	-	0.00365
Y ₁ Y ₃ Y ₄ Y ₅	α ₄ β ₃ γ ₁ θ ₁	α ₄ β ₃ γ ₁ θ ₂	α ₄ β ₃ γ ₁ θ ₃	α ₄ β ₃ γ ₁ θ ₄	-	-	0.00026	-

52	20								
$Y_2 Y_3 Y_4 Y_5$	$\alpha_4 \beta_3 \gamma_2 \lambda_2$	$\alpha_4 \beta_3 \gamma_2 \lambda_3$	$\alpha_4 \beta_3 \gamma_2 \lambda_4$	$\alpha_4 \beta_3 \gamma_2 \lambda_5$					
$Y_1 Y_2 Y_3 Y_4 Y_5$	$\alpha_4 \beta_3 \gamma_2 \lambda_1$	$\alpha_4 \beta_3 \gamma_2 \lambda_1$	$\alpha_4 \beta_3 \gamma_2 \lambda_1$	$\alpha_4 \beta_3 \gamma_2 \lambda_1$					
	θ_1	θ_2	θ_3	θ_4					
					0.00238	0.00080	0.00085	0.00077	
					0.05230	-	0.00411	0.11806	
					0.00003	0.00102	0.00002	0.00110	
					0.00312	0.04557	0.00042	0.00590	
					0.00025	0.00003	0.00020	0.00058	
					-				
						0.00129			
						0.00022			

Source: (own tabulations)

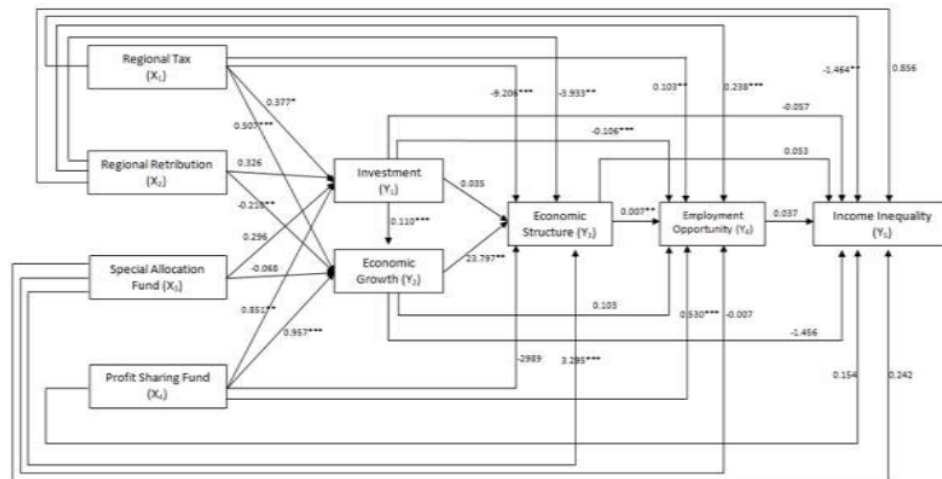


Fig. 2. Summary of variable
Source: (Own tabulations)

It based on a simple explanation of the shape and magnitude of the direct effect of each independent variable on the dependent variable in the SEM model on the estimated coefficient values each path in Figure 2.

The effect of regional retributions on income inequality through investment, economic growth, economic structure, and employment opportunities. Regional retributions have no significant effect on income inequality. Regional retributions have no significant effect on investment. Regional retributions have a significant effect on economic growth at a significance level of 5 percent. The regional retributions have a significant effect on the economic structure at the 5 percent significance level. Regional retributions have a significant effect on employment opportunities at a significance level of 1 percent. Regional retributions have a negative effect on economic growth

and economic structure and the form of relationships according to theory, while regional retributions have a positive effect on investment, employment opportunities, and income inequality and the form of relationships is not as expected by the theory.

The effect of special allocation funds on income inequality through investment, economic growth, economic structure, and employment opportunities. The special allocation fund has no significant effect on income inequality. The special allocation fund has no significant effect on investment. The special allocation funds have no significant effect on economic growth.

The special allocation funds have a significant effect on the economic structure at the 1 percent significance level. The special allocation fund has no significant effect on employment opportunities. The special allocation funds have a

positive effect on investment and economic structure and the form of relationships as expected by theory, the special allocation funds have a negative effect on economic growth and employment opportunities and the form of relationships is not as expected by theory, while for income inequality, the special allocation funds have a positive effect and the form of the relationship is not as expected by the theory.

The effect of profit-sharing funds on income inequality through investment, economic growth, economic structure, and employment opportunities. Profit-sharing funds have no significant effect on income inequality. Profit-sharing funds have a significant effect on investment at a significance level of 5 percent. Profit-sharing funds have a significant effect on economic growth at a significance level of 1 percent. Profit-sharing funds have no significant effect on the economic structure. Profit-sharing funds have a significant effect on employment opportunities at a significance level of 1 percent.

Profit-sharing funds have a positive effect on investment, economic growth, and employment opportunities and the form of the relationship is under theory expected, the profit-sharing funds have a negative effect on the economic structure and the form of the relationship is not as expected by the theory. On income inequality, profit sharing has a positive effect and the form of the relationship is not as expected by the theory.

There are similarities in the results with the recent findings by Pasichnyi et al. (2019) which presents countries in Eastern and Central Europe that have increased the share of fiscal decentralization since 1992. The empirical also shows that decentralization income has a low correlation with economic growth. Decentralization from the expenditure aspect has little to do with economic development. Overall, fiscal decentralization is an indicator that negatively affects economic growth, so that the interconnection is not strong.

From an understanding that emphasizes the role of investment and economic growth in supporting the economic structure, employment opportunities, and avoiding income inequality, it has been studied in other countries. As in Vietnam, Nguyen & Nguyen (2020) focus on the serious contradictions of the linkage of economic growth to investment and vice versa around the world. From 2000 to 2020, the test results highlight that there is a negative impact on laboured and economic growth in the short term. Alt-

hough in the long term, economic growth has increased because of investment incentives, the flow of labour openness has a positive effect on economic growth. The labour channel has contributed the most to opening public investment channels and foreign direct investment in Vietnam. Another phenomenon, reviewed by Ioan (2014). The contemporary world has solved the causal phenomenon between employment and economic growth with a case study in Romania through the diversification of human needs, the tendency of limited natural resources to produce conflict, confronted by welfare, and fair human development. During 1996-2011, unfortunately, there was high enthusiasm when economic performance improved, followed by growth in employment. The main implication is the flexibility of work programs and reduced working time, which is extended to the service sector.

It should be noted that in the last few decades, especially in high-income countries between 1993-2013, it has been documented that there is very significant income inequality between low-income countries and developed countries. Institutions that oversee the labour market at the national level mirror this inequality. It is noted that there are variations between workplaces and income, so the dynamics of inequality are very visible. This trend also highlights that workers' wages are growing in almost all developing and poor countries that employ forced labour systems. Local entrepreneurs and corrupt regulators are the actors behind the emergence of modern slavery methods with substandard wages and do not prioritize the living standards of workers, even safety at work. Tomaskovic-Devey et al. (2020) also detect wage inequality between workplaces, enterprise-level restructuring, weak labour market protections, and poor institutions risk increasing income inequality. Today, growing income inequality represents the most prominent inequality in the USA. Kochan & Riordan (2016) estimate the factors that influence the growth of inequality. In this prediction, a series of actions, such as trade unions, wage enforcement, safety net policies, worker regulations, and labour market institutions, represent the emergence of organizational restructuring as a solution to income inequality.

A comparison to this study, from 1983 to 2013, the relationship between income inequality and economic structure in the USA and Brazil was analyzed. Both countries face high levels of inequality, where there is low socio-economic

development. The proportion of total income and its distribution cause a striking difference. High-skilled workers are in a job structure that tends to be above compared to those who work as labourers. The more stable economic growth condition creates a gap between employees, especially workers who work at the top level, so that market advantage and company productivity determine the nominal wages (Maia et al., 2019).

During 1997-2008, discussions on economics focused attention on income inequality, particularly in the USA. Life decisions depend on the salary. It is relatively dissatisfied workers because the Gini coefficient is substandard in almost every state. Ahn et al. (2015) emphasized that workers' life satisfaction decreased by 33.8%. Thus, income inequality rose significantly separately between female workers and male workers.

5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

Regional taxes that are received by district and city governments are only a small part of the total taxes that should receive, even smaller than those received by the provincial and central governments, while the GRDP growth of districts and cities without oil and gas is higher than oil and gas. Then, investment in districts and cities also increases in the secondary and tertiary sectors, this causes regional taxes to have a positive and significant effect on investment, economic growth, and employment opportunities. However, regional taxes have a negative and significant effect on economic structure and income inequality. The implication of this finding is that the tax effect will be greater in reducing income inequality between districts and cities if investment encourages economic growth and economic structure, then economic growth creates employment opportunities so that income inequality between districts and cities decreases.

Besides regional taxes in the era of fiscal decentralization, regional retributions, which in fact are also a source of the regional revenue, have also increased by regional government, especially during the last five years, so that the results of the analysis show that regional charges have a positive but insignificant effect on investment and income inequality has a positive and significant effect on employment opportunities, then regional charges have a negative and significant effect on economic growth and economic structure.

One of the implications of the fiscal decentralization policy is the financial balance between the center and the regions, the special allocation fund is one of the balancing funds which is the transfer of the central government to the regions where the use of these funds has been predetermined. This results in the special allocation funds having a positive but insignificant effect on investment and income inequality and having a positive and significant effect on the economic structure. Then the special allocation funds have a negative and insignificant effect on economic growth and employment opportunities.

The component of the balanced fund which is very important and the biggest especially for East Kalimantan Province is profit sharing, especially from natural resources, as transfer funds are expected to have a positive impact on the economy of East Kalimantan considering that East Kalimantan is a natural resource-based area, especially from the mining, quarrying and industrial sector processing. The results of the analysis show that profit-sharing funds have a positive but insignificant effect on income inequality and have a positive and significant effect on investment, economic growth, employment opportunities, then profit-sharing funds have a negative and insignificant effect on the economic structure.

Sectors based on natural resources dominate district and municipal investment in East Kalimantan so that although it can encourage growth, it does not provide employment opportunities. The economic growth of districts and cities with oil and gas is lower than the economic growth in oil and gas, although nominally the economic growth dominated by mining and quarrying and the oil and gas processing industry, so even though it has a positive effect on employment opportunities, the effect is not significant.

Even though the economic structure has a significant effect on employment opportunities, the effect is tiny. In the end, employment opportunities actually have a positive impact on income inequality, although not significant.

This analysis only looks at the impact of fiscal decentralization on investment, economic growth, economic structure, employment opportunities, and income inequality, even though there are many other variables, such as poverty. We hope that other researchers in the future will consider this so that the study becomes more varied.

One implication of the fiscal decentralization instrument is the financial balance between the centre and the regions, where special allocation funds, which are items from the balanced funds that are transferred from the central government to regions, have been determined in the previous period. Typically, this impacts the relationship between special allocation funds which have a positive but not significant effect on investment and income inequality and have a positive and significant effect on economic structure, then special allocation funds have a negative and insignificant effect on economic growth, employment opportunities. In order to avoid a biased effect, the government of East Kalimantan needs to fight for a larger share of the revenue-sharing fund for the local government, especially the district and city governments in order to get a larger share of the revenue-sharing fund to stimulate investment, economic growth, economic structure, employment opportunities, and drowning income inequality. In addition, they must also reduce their dependence on natural resources that are non-renewable (will run out), especially from foreign investment (PMA) and domestic investment (PMDN) in sectors that do not rely on natural resources such as manufacturing, services, accommodation, transportation, and agriculture.

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ACKNOWLEDGMENT

WE SHOULD APPRECIATE THE CONSTRUCTIVE REVIEWS SUGGESTED BY THE REVIEWER TEAM AT "JEBAV". THERE ARE NO SPECIFIC GRANTS FOR THIS RESEARCH, EITHER INTERNAL OR EXTERNAL.

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