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THE EFFECT OF ORIGINAL REGIONAL INCOME, BALANCE FUND AND DEMOGRAPHY ON FLYPAPER EFFECT THROUGH SHOP THE REGIONAL GOVERNMENT

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ABSTRACT

The purpose of this study is to find out the pure regional income, balancing funds and demographic against Flypaper Effect. This type of research is explanatory use a saturated sampling method in 38 cities or cities in East Java Province. Analysis techniques for use path analysis. The results of the study show that pure regional income, balancing funds, and demographics influence government expenditure. Pure regional income and balancing funds affect the flypaper effect. Demographics have no effect on the flypaper effect. The government expenditure has an effect on the flypaper effect. Pure regional income and balancing funds affect the flypaper effect through government expenditure. Demographics has no effect on the flypaper effect through government expenditure.

Keywords : Pure Regional Income, Balancing Fund, Demographic, Flypaper Effect, Government Expenditures

INTRODUCTION

Regional autonomy is a challenge that is not easy, because of regional autonomy it must be based on the awareness that regional autonomy is an opportunity for area to prove its independence. This means that regional autonomy cannot seen as a failure. The implementation of regional autonomy must be directed to accelerate the realization of community welfare through empowering roles and a larger community and increased regional competitiveness. Transfer funds or also called balancing funds consisting of profit sharing funds, general allocation funds, and special allocation fund. In addition to the balance funds, the regional government also has its own funding source in the form of local revenue. Policy funding of all these funds is submitted to the regional government. Third fund these balances have different goals from each other. In addition to funds the balance, the regional government also has its own funding source in the form of local revenue. The funding policy for all the funds is submitted to the regional government. All balance funds are channeled into regional income and expenditure budget. Therefore, in management The regional government must account to the House of Representatives Area. Based on Minister of Home Affairs Regulation Number 13 of 2006. Shopping regions classified in direct and indirect shopping. Besides The central government also provides loans and assistance to the Government Area. The purpose of fund transfers, is the direction of the Central Government fiscal policy in the framework of implementing regional autonomy, among others, to reduce fiscal gap between the Center and the Region, as well as between the Regions themselves, and reduce regional disparity in public services.

Regional revenue is all regional government revenues originating from regional economic sources. Optimization of receipt of genuine income regions should be supported by local government efforts to improve quality public service (Mardiasmo, 2009). Regional Government Financing is conducted on top burden of

regional income and expenditure budget. In the framework of organization Local governments and services to local communities are given the authority to levy taxes or levies and manage natural resources. Original ability most of the Region reflected in Regional Revenue is only capable collect no more than 15% of the value of the Regional Revenue and Expenditure Budget. Therefore, the shortcomings must be assisted by the Central Government through balance fund mechanism consisting of profit sharing funds, general allocation funds, and special allocation funds that complement each other and complement each other (Usman *et al.* , 2008).

The low financial capacity of the Region will often cause a cycle negative, namely the low level of community service that will invite interference the hands of the central Government, so that it can cause the transfer of some functions -the functions of the regional government to the central government level (Isdijoso and Brahmantio, 2002). Receipt of Local Government originating from central Government transfers in the form of balancing funds is a stimulation for regional governments on spending regions, from the transfer funds creates a difference in regional income especially Regional taxes. The results of evaluating the use of fiscal balance funds in Indonesia shows that the Regional Government is very dependent on transfers Central government to finance limited regional income inequality with the level of government spending in effect (Hofman *et al.* 2006).

Regional government fiscal dependence on central Government transfer funds, call it a *flypaper effect* (Aragon 2009), which is the condition where shopping Local governments are more likely to respond to the transfer funds income from Central government rather than local revenue. If the Government is dependent The area for transfer funds is greater than dependence on income original area, then this indicates a *flypaper effect* has occurred . *Flypaper the effect* can also lead to asymmetry when fiscal changes occur. When general allocation funds increase, local governments spend extra income, but when the amount of general allocation funds decreases regional spending does not reduced (Junaidi, 2012). Fiscal behavior of local governments in responding to transfers from the central government is a major concern in supporting the effectiveness of transfers. In practice, transfers from the Central Government are the main funding source Regional government to finance its main daily operations, which by Regional government is reported to be calculated in the regional income and expenditure budget.

The purpose of this transfer is to reduce fiscal disparity between Governments and guarantee the achievement of minimum public service standards throughout the country (Sidiket *al* , 2002). Empirical evidence shows that the high dependence on transfers turned out to be negatively related to the results of government (Mello and Barenstein, 2001).

In fact, some regions in Indonesia have not been able to maximize the potential of the region so that it still relies heavily on balancing funds, especially DAU. According to data from the Ministry of Finance of the Directorate General of Balance Finance, the balance fund reaches 73% where most of the balance funds (amounting to 67%) is a general allocation fund. It is seen that the regional government is still very much dependent on transfer funds. This phenomenon is called *flypaper effect*. According to Melo (2002) in Rokhaniyah and Nugroho (2011) *flypaper effect* is a condition where the response of regional expenditure is greater for transfers.

The phenomenon of *flypaper effect* brings wider implications that the transfer will increase regional government spending which is greater than revenue Local government itself. A *flypaper effect* is not only found on Regional governments with low regional original income but also to the government areas with high regional Original Income and *flypaper effects* also occur in Regency / city areas that are agrarian or non-agricultural. *Flypaper effects* in various the area produces conclusions that are contractive with indications that *flypaper the effect* does not only occur in the research area. Gorodnichenko (2001) states that the *flypaper effect* phenomenon can occur in two versions. First refer to increased regional taxes and excessive government budgets. Second leads to higher expenditure elasticity of transfers than expenditure elasticity for local tax revenues.

Effect of local revenue, balance funds and demographics on *flypaper effect* through regional shopping produces various conclusions different. Mentayani *et al.* (2012) stated that the results of the study were not can be generalized to other regions, because each region has characteristics itself both in terms of geography, people's lives and economic conditions. With the allocation of transfer funds that are different in each local government raises difference (*gap*) between the implementation of decentralization and regional autonomy expected by the fact that happened, this is what later became an attraction to conduct this research.

Based on the above description, the purpose of this study is to analyze Effects of Regional Revenue, Balancing Funds and Demographics on Expenditures Regions, analyze the Effect of Regional Original Income, Balancing Funds and Demographics of *Flypaper Effect*, analyze the Effect of Regional Expenditures on *Flypaper Effect*, and analyze the influence of Regional Original Income, Dana Balance, and Demography of *Flypaper Effect* through Regional Expenditures District / City in East Java Province.

LITERATURE REVIEW

Flypaper Effect

According to Vegh and Vuletin (2015), *effect flypaper* is widely documented as a regulation in public finance that holds the Government's tendency the area to spend funds is higher than spending income of the region itself. Hamilton (1983) also defines

a *flypaper effect* as the tendency of local governments to rely more on transfer funds rather than using local revenue. *Flypaper effect* is considered as a strangeness in behavior that is difficult to rationalize, where the Regional Government use transfers received from the Central Government to improve Regional expenditures that are inconsistent with economic theory (Hines and Thaler, 1995).

Sagbas and Saruc (2008) state that there are two main theories from several studies about the source of the emergence of the *flypaper effect* that is often used is *fiscal illusion* and *the bureaucratic model*. The *fiscal illusion* theory suggests that the *flypaper effect* occurs due to ignorance or ignorance of the local community regarding financing and spending and decisions taken as a result of mistakes that perception. Schwallie (2008) states the essence of *flypaper effect* in the model the *fiscal illusion* effect on Government transfers actually produces output requested by the community, but community demand for public goods is based on misperceptions about how to finance public goods and distribution costs borne by the community. In other words, the local community is indeed see the actual output of Government expenditure on public goods and the benefits obtained but have the wrong perception about the source of the expenditure financing comes from the transfer of the Central Government These costs should also be borne by the regional government such as through Regional taxes to increase the existing regional income as well.

Locally-generated revenue

According to Halim (2002) states that regional original income is all regional revenues from regional economic sources. Income native region is one component of revenue in the area beside balance funds and other legitimate regional income. As for types of income that can be classified as regency / city regional income are as follows: regional taxes, regional levies, the results of wealth management Areas that are separated, and others that are legitimate local revenues.

Balance Funds (Grants)

Reality shows that not all regions are able to escape from the government center, because the level of needs of each region is different, which in the end the government transfers funds. This fund transfer is in the form of a Balancing Fund. In accordance with the provisions of Law No. 32 of 2004 concerning Government regions, then in the context of funding the implementation of decentralization the distribution is regulated finance as a balance fund (*grants*) between the government and the government the regions are fair, proportional, transparent and responsible. Balancing fund consists of: (1) general allocation funds aimed at equitable financial capacity

between regions that are intended to reduce inequality in financial capacity between regions through the application of formulas that consider needs and regional potential. The total number of general allocation funds is set at least 26% (twenty six percent) of Net Domestic Revenues determined in the state expenditure budget. General allocation fund for a region determined on the size of the fiscal gap (*fiscal gap*) of a region, which is difference between regional needs and regional potential (*fiscal capacity*); (2) Allocation funds specifically intended to help finance special activities in certain areas which is regional affairs and in accordance with national priorities, especially for finance the needs of basic community service facilities and infrastructure that have not achieve certain standards or to accelerate regional development; (3) Revenue-sharing funds are funds sourced from revenue from income state expenditures that are divided into regions based on percentage numbers certain. Profit sharing funds originating from taxes and natural resources.

General Allocation Fund

General allocation funds are *grants* that are authorized its use is fully handed over to the recipient local government. UU no. 33 2004 concerning financial balance between the central and regional governments gives the understanding that general allocation funds are funds sourced from revenue from state revenues and expenditure allocated for purpose for equitable financial capacity among regions, to fund needs regions in the context of implementing decentralization. General allocation funds are means for even distribution of financial capabilities between regions intended for reduce inequality in financial capacity between regions through implementation formula that considers the needs and potential of the area. Funding general allocations are prioritized in regions that have low fiscal capacity where the area has not been able to maximize the local revenue because of something. For regions that have high fiscal capacity precisely will get a smaller amount of general allocation funds, so it is expected to be able to reduce fiscal imbalances between regions in undergoing the autonomy era at this time. General allocation funds prioritize their use to fund salaries and employee benefits, employee welfare, operations and maintenance activities as well physical construction of facilities and infrastructure in order to improve basic services and public services needed by the community. Budgets occur at the executive level and the legislature.

Demographics

Demography is a term derived from two Greek words, namely *demos* which means people or residents and *graphein* which means drawing or writing. Bogue (1973) defines demography is the study of statistics and mathematics about the size, composition and distribution of population and changes changes over time through

the work of 5 demographic components, namely fertility, mortality (mortality), marriage, migration and social mobility. Demography can be interpreted as or a description of the population, especially about birth, marriage, death and migration. Demography also includes scientific studies about the number, geographical distribution, composition of the population, and how the factors this factor changes from time to time. This term was first put forward by Archille Guillard in 1855 in his work entitled "*elements de statistique humaine, ou demographie comparee*" or *elements of human statistics or comparative demography*. Demographics are also expressed as "formal demographics" who pay attention to size or population, distribution or distribution population, population structure or composition, and population dynamics or changes. The size of the population states the number of people in a region at a time certain, both based on geography and concentration of residential areas. The population structure states the composition of the population by sex or age group. Demographics also pay attention to various individual characteristics and groups that cover social, cultural and economic levels. Characteristics social can include family status, place of birth, level of education and so on. Economic characteristics include economic activity, type of work and income.

Regional Expenditures

According to UU No. 33 of 2004 article 1 paragraph 14, regional expenditure is all regional obligations recognized as a deduction from net worth in the period related fiscal year. Expenditure expenditure differs from expenditure financing. The difference lies in whether or not there is a refund which has been issued. Local governments will not get payment returns to expenditure incurred, both in the current fiscal year and in the next fiscal year. While financing expenses is the expenditure that will be repaid in year current budget or in the next fiscal year. According to Government Regulations number 71 of 2010 concerning Government Accounting Standards, regional expenditure structures used in regional income and expenditure budgets are classified according to economic classification, namely: operating expenses; capital expenditure, and shopping is not unexpected. Operational expenditure is the expenditure of the budget for daily activities local governments that provide short-term benefits. Shopping operations consist from: employee expenditure, goods shopping, interest shopping, subsidy spending, grant spending, and social assistance spending. Capital expenditure is budgeted expenditure for purchase or procure fixed assets and other assets for use in activities Governments that have the following criteria: the useful life of more than 12 month, is an object of maintenance, the amount of the rupiah value of the material is in accordance with accounting policy. Capital expenditure consists of land expenditure, equipment

expenditure and machinery, shopping for buildings and buildings; road shopping, irrigation and networks, asset shopping fixed and other, and other asset expenditure. Unexpected shopping is expenditure the budget for activities that are unusual and unexpected is repeated like disaster management, social disasters and other unexpected expenses very much needed in the context of implementing the authority of the central government or local government. Unexpected expenditure includes handling expenses disasters and spending on implementation of authority.

Hypothesis

The research hypothesis is as follows:

- H₁: Regional Original Income (PAD), Balancing Fund, Demogarfi, has an effect significant for Regional Expenditures.
- H₂: Local Revenue (PAD), Balancing Funds, Influential Demographics significant to *Flypaper Effect*
- H₃: Shopping area has a significant effect on *Flypaper Effect*.
- H₄: Regional Original Income (PAD), Balancing Fund, Demogarfi, has an effect significant to *Flypaper Effect* through Regional Expenditures.

RESEARCH METHODS

Research design

According with the subject matter and objectives of the study, this study included explanatory research (*explanatory research*) is the research intending explain the relationship or influence between two or more variables. The influence of that revealed in this study is the influence of Regional Original Income, Balance Funds and Demographics Against *Effect Flypaper* and Regional Expenditures.

Research Population and Samples

The population of this study is all regencies / cities that are in scope East Java Province which consists of 29 Regencies and 9 Cities. Retrieval method The sample used in this study uses a census, namely technique sampling if all members of the population are used as samples, with thus the samples taken in this study amounted to 38 Regencies / Cities in East Java Province.

Operational Definition of Variables

Based on conceptual definitions and empirical studies, operational definitions of variables The research is as follows:

a. Regional Original Income (PAD)

Regional original income is the realization of regional revenues sourced from regional taxes, regional levies, the results of separated regional wealth management

and other other receipts of legitimate Regional Revenue. Locally-generated revenue in this study using the following formulations:

$$PAD = PD + RD + HPKD + LPAD$$

Information :

PAD : Regional Tax

RD : Regional Retribution

HPKD : Results of Regional Wealth Management

LPAD : Others Legitimate Local Revenue

b. Balancing Fund (DP)

Balancing Fund is a source of regional income originating from the APBN to support the implementation of regional government authority in achieving the purpose of giving autonomy to the regions, especially to improve services and community welfare is getting better.

In this study, balancing funds are sourced from funds general allocation constitutes total transfers from the central government in the general form, Special allocation funds are also total transfers from the central government in the form specifically, as well as revenue sharing funds from the central government in the form of profit sharing tax and non-tax collection. Balancing funds in this study were measured using the following formulations:

$$DP = DAU + DAK + DBH$$

Information :

DP : Balancing funds

DAU : General allocation funds

DAK : Special allocation funds

DBH : Fund for profit sharing

c. Demography (DM)

Demographics are the population of East Java Province.

d. Regional Expenditure (BD)

Regional expenditures are all regional cash expenditures that are directly direct or indirectly related to the program or activity carried out Local government. Regional expenditure in this study uses formulations as follows :

$$BD = BL + BTL$$

Information :

BD : Regional Expenditures

BL : Shop directly

BTL: Indirect shopping

e. Flypaper Effect

Flypaper effect is a condition that occurs when the regional government respond (shopping) more or wasteful by using transfer funds (*grants*) proxied by the

General Allocation Fund, Special Allocation Funds, Funds Profit Sharing rather than using one's own abilities, proxied by Locally-generated revenue. *The flypaper effect* in this study is proxied fiscal autonomy (DOF) with the following formulations:

$$\text{DOF} = \frac{\text{Regional Original Income}}{\text{Total Income}}$$

Data analysis technique

Path analysis (*path analysis*) is used in research to find out direct dependency relationship between a set of variables. *Path analysis* is models similar to multiple regression models. In the path analysis (*Path Analysis*) at the beta value that forms the structure. Regression equation models and analysis images pathway to analyze the influence of PAD, balance funds, demographics on *flypaper effects* and regional shopping, with the following formulations:

1) Structure of model 1

$$\text{BD} = \rho_{\text{BD.PAD}} \text{PAD} + \rho_{\text{BD.DP}} \text{DP} + \rho_{\text{BD.DM}} \text{DM} + \varepsilon_1$$

2) Structure of model 2

$$\text{FE} = \rho_{\text{FE.PAD}} \text{PAD} + \rho_{\text{FE.BD}} \text{BD} + \rho_{\text{FE.DM}} \text{DM} + \rho_{\text{FE.BD}} \text{BD} + \varepsilon_2$$

Where :

Z = *Flypaper Effect*

Y = Regional Expenditures

PAD = Regional Original Income

DP = Balancing Funds

DM = Demography

$\rho_{\text{BD.PAD}}$ = contribution coefficient of Regional Original Income to *Flypaper Effect*

$\rho_{\text{BD.DP}}$ = coefficient of contribution of the Balancing Fund to *Flypaper Effect*

$\rho_{\text{BD.DM}}$ = Demographic contribution coefficient on *Flypaper Effect*

$\rho_{\text{FE.PAD}}$ = coefficient of contribution of Local Revenue to Expenditures Area

$\rho_{\text{FE.DP}}$ = coefficient of contribution of the Balancing Fund to Regional Expenditures

$\rho_{\text{FE.DM}}$ = Demographic contribution coefficient for Regional Expenditures

$\rho_{\text{FE.BD}}$ = Regional Expenditure contribution coefficient on *Flypaper Effect*

ε_1 = the remaining value of model 1

ε_2 = the remaining value of model 2

RESULTS AND DISCUSSION

Descriptive Analysis

The data used in this study are secondary data in the form of reports APBD District / City Government in East Java Province, namely data Regional revenue, regional expenditure and balance funds in the form of allocation funds general, special allocation funds, revenue sharing funds originating from the APBD realization report, submitted by the Regional Government to the Directorate General of Balance Finance of the Ministry of Finance, as well as demographic data obtained from the central agency statistics of all Regencies / Cities in East Java Province during the period 2015-2017. The following are presented descriptive statistics regarding local revenue, funds balance, demographics, regional shopping and *flypaper*.

Table 1. Descriptive statistics

Variabel	Minimum	Maximum	Mean	Std. Deviation
PAD	104.233.584.925	4.212.569.176.921	382.073.247.702	641.961.093.386
Balancing Fund	457.456.088.791	2.750.148.976.272	1.302.187.289.270	467.773.164.595
Demographics	120.623	2.848.583	1.008.978	636.160
Regional Expenditures	706.783.751.689	8.561.848.147.400	2.166.778.629.761	1.159.018.091.120
<i>Flypaper Effect</i>	1,61	14,97	8,29	2,91

Source: Secondary data processed.

In table 1 it is known that PAD ranges from Rp. 104,233,584,925 to Rp. 4,212,569,176,921 with an average of Rp. 382,073,247,702 indicates that the Regional Government under study has local revenue which varies. Regional revenue is the realization of regional revenues sourced from regional taxes, regional levies, the results of regional wealth management separated and other other receipts of legitimate local revenue. Original income the area in this study was assessed using an indicator namely original tax Regency / city area in East Java Province that has been realized.

Balancing funds range from Rp. 457,456,088,791 to Rp. 2,750,148,976,272 with an average of Rp 1,302,187,289,270 which shows that the company under study has varying balance funds. Research using balance funds sourced from general allocation funds represents total transfers from the central government in the general form, allocation funds specifically which is also the total transfer from the central Government in a special form, and profit sharing funds from the central government in the form of revenue sharing tax and non-tax. The indicator of balance funds in this study is realization Regency / city general allocation funds in East Java Province, realization of allocation funds specifically regencies / cities in East Java Province and realization of revenue sharing funds Regency / city in East Java Province for three consecutive years namely year 205-2017.

Demographics ranged from 120,623 to 2,848,583 with an average amounting to 1,008,978 people indicating that the company studied had population varies. The population structure states the composition of the population by sex or age group. Implicit population changes declare a population increase or a partial decline in population or overall as a result of changing the three main components of change population: birth, death and migration.

Regional expenditure ranges from Rp. 706,783,751,689 to Rp. 8,561,848,147,400 with an average of Rp 2,166,778,629.76 which shows that the companies studied have

varied regional expenditures. Regional shopping it is very important to evaluate whether the local government has using APBD economically, efficiently, and effectively (*value for money*). So far where Regency / City governments in East Java Province have made efficiency budget, avoid unnecessary expenses and improper spending target. Regional expenditure is important because with shopping harmony, this is related to the function of the budget as a means of distribution, allocation and stabilization.

Flypaper effects range from 1.61 to 14.97 with an average of 8.29 which suggests local governments studied had variation of *flypaper effects*. This shows that there is a *Flypaper Effect* in the regions which is the object of research, which means that the area becomes an object research has not been optimal in exploring potential income to finance the area so that it is still dependent on the Central Government.

Path Chart Model (Path Diagram)

In order to complete path analysis, it is necessary to know the path coefficient (*path coefficients*) and path diagram (*path diagram*). Path coefficients and parameters the model is presented in Table 2 below:

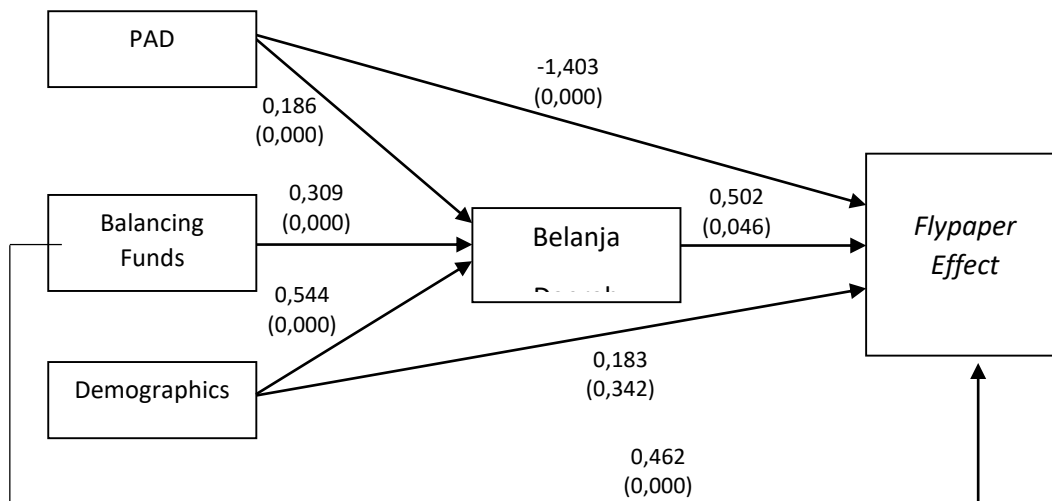
Table 2. Summary of Model Parameter Results

Model	Coefficient Lane	T	P Value	R	Adjusted R ²
Sub Structural 1					
PAD	0,186	4,459	0,000		
Balancing Funds	0,309	8,539	0,000	0,975	0,949
Demographics	0,544	10,401	0,000		
Sub Structural 2					
PAD	-1,403	11,906	0,000		
Balancing Funds	0,462	3,798	0,000	0,814	0,650
Demographics	0,183	0,954	0,342		
<i>Flypaper Effect</i>	0,502	2,018	0,046		

Source: SPSS Report , 2019.

Furthermore, based on the data in Table 2 a diagram can be constructed path based on a predetermined model. Empirical path diagram presented as follows:

Figure 1
 Empirical Path Chart Study of *Flypaper Effect*



Source: Data processed, 2019

Based on Table 2 and Figure 1 above, direct effects can be described as follows:

- 1) PAD has a positive direct effect on regional expenditure indicated by path coefficient of 0.186 and a significant level of $0.000 < 0.05$.
- 2) Balance funds have a significant positive direct effect on spending the area is indicated by the path coefficient of 0.309 and a significant level of $0,000 < 0.05$.
- 3) Demographics have a direct positive effect on regional expenditure indicated with a path coefficient of 0.544 and a significant level of $0.00 < 0.05$.
- 4) PAD has a significant negative direct effect on the *flypaper effect* indicated with a path coefficient of -1.403 and a significant level of $0.000 < 0.05$.
- 5) Balance funds have a significant positive direct effect on the *flypaper effect* indicated by the path coefficient of 0.462 and a significant level of $0.000 < 0.05$.
- 6) Demographics do not have a direct positive effect on the *flypaper effect* shown with a path coefficient of 0.183 and a significant level of $0.342 > 0.05$.
- 7) Regional expenditure has a significant positive direct effect on the *flypaper effect* indicated by the path coefficient of 0.502 and a significant level of $0.0406 < 0.05$.

Table 3. Inter Variable Path Coefficients

Influence	Direct Influence	p-value	UnDirect Influence	Total Influence	Information
PAD → Regional Expenditure	0,186	0,000	-	-	Significant
Balancing Funds → Regional Expenditure	0,309	0,000	-	-	Significant
Demographic → Regional Expenditure	0,544	0,000	-	-	Significant
PAD → <i>flypaper effect</i>	-1,403	0,000	-	-	Significant
Balancing Funds → <i>flypaper effect</i>	0,462	0,000	-	-	Significant
Demographic → <i>flypaper effect</i>	0,183	0,342	-	-	UnSignificant
Regional Expenditure → <i>flypaper effect</i>	0,502	0,046	-	-	Significant
PAD → Regional Expenditure → <i>flypaper effect</i>	-1,403	-	0,093	-1,310	-
Balancing Funds → Regional Expenditure → <i>flypaper effect</i>	0,462	-	0,155	0,617	-
Demographic → Regional Expenditure → <i>flypaper effect</i>	0,183	-	0,273	0,456	-

Source: Data Table 2 and analysis of Figure 1.

Indirect effects are explained as follows:

- 1) PAD directly affects the *flypaper effect* through regional spending significant is indicated by the path coefficient of the multiplication of the PAD coefficient against *flypaper effect* with regional shopping coefficient value on *flypaper effect*, namely: $0.186 \times 0.502 = 0.093$ smaller than the direct effect of PAD on *flypaper effect* = -1.403 and a significant level < 0.05 .
- 2) Balancing funds have a direct effect on the *flypaper effect* through shopping significant area is indicated by the path coefficient of the multiplication of values

coefficient of balance funds towards regional expenditure with the value of the shopping coefficient the area of the *flypaper effect* is: $0.309 \times 0.502 = 0.155$ smaller than the direct effect of balancing funds on *flypaper effect* = 0.462 and level significant <0.05.

- 3) Demographics have an indirect *effect* on the *flypaper effect* through shopping significant area is indicated by the path coefficient of the multiplication of values demographic coefficient on *flypaper effect* with regional shopping coefficient values the *flypaper effect*, namely: $0.544 \times 0.502 = 0.273$, and the total value is greater than the direct effect of balancing funds on *flypaper effect* = 0.183 and level significant > 0.05.

Hypothesis Results

Hypothesis testing is done by testing the significance of individual parameters each path to ensure the influence of independent variables on variables bound.

a. Testing the First Hypothesis

The first hypothesis which states that Regional Original Income (PAD), Balancing Fund, Demogarfi, has an effect on Regional Expenditures. Analysis results shows that directly PAD has a significant effect on spending area. The amount of direct influence of PAD on regional expenditure is equal to 0.186 with a significance value of 0,000 less than 0.05. That is, PAD has a significant influence on regional expenditure.

Balancing funds have a significant effect on regional expenditure. Magnitude the direct effect of the balance fund on regional expenditure is 0.309 with a significance value of 0,000 less than 0.05. That is, funds balancing has a significant effect on regional expenditure.

Demographics have a significant effect on regional expenditure. Magnitude of influence direct demographics of regional expenditure are 0.544 with values significance of 0,000 less than 0.05. That is, demographics have significant influence on regional expenditure. Thus the hypothesis the first is statistically tested.

b. Testing of the Second Hypothesis

The second hypothesis which states that Regional Original Income (PAD), Balancing Funds, Demographics affect the *Flypaper Effect*. Analysis results shows that directly PAD has a significant effect on *flypaper effect*. The magnitude of the direct effect of PAD on the *flypaper effect* is as big as - 0.403 with a significance value of 0,000 less than 0.05. That is, PAD has a significant *effect* on the *flypaper effect*.

Balancing funds have a significant effect on the *flypaper effect*. Magnitude the direct effect of the balance fund on the *flypaper effect* is 0.462 with a significance value of 0,000 less than 0.05. That is, funds balancing has a significant *effect* on the *flypaper effect*.

Demographics have no effect on the *flypaper effect*. Magnitude of influence the direct demographic of the *flypaper effect* is 0.183 with a value significance of 0,000 less than 0.05. That is, high and low demographics no effect on the *flypaper effect*. Thus the second hypothesis not tested.

c. Testing of the Third Hypothesis

The third hypothesis states that regional expenditure has an effect on *Flypaper Effect*. The results of the analysis show that regional spending is directly significant effect on *Flypaper Effect*. The magnitude of the direct influence of shopping the area of the *Flypaper Effects* is 0.502 with a significant value of 0.046 smaller than 0.05. That is, regional expenditure has an influence on *Flypaper Effect*. Thus the third hypothesis is statistically untested.

d. Testing of the Fourth Hypothesis

The fourth hypothesis which states that Regional Original Income (PAD), Balancing Funds, Demogarf, affects the *Flypaper Effect* through Regional Expenditures. Analysis of the effect of PAD through regional expenditure on *flypaper effect*, it is known the direct effect of PAD on the *flypaper effect* amounting to -1.403 with a significance value of 0,000 less than 0.05, while the effect of regional expenditure on the *flypaper effect* is 0.502 with significance value of 0.046 smaller than 0.05. These results show that Regional Original Income (PAD) affects the *Flypaper Effect* through Regional Expenditures.

Analysis of the effect of PAD through regional spending on *flypaper effects*, it is known that the direct effect given by the balance fund on *flypaper effect* is 0.463, while the total effect is 0.617, so the effect is total is greater than direct influence. These results indicate that Balancing Funds affects the *Flypaper Effect* through Regional Expenditures.

Analysis of the influence of demographics through regional spending on *flypaper effects*, it is known that the direct effect of the demographics on the *flypaper effect* amounting to 1.183 with a significance value of 0.342 greater than 0.05, while the effect of regional expenditure on the *flypaper effect* is 0.502 with significance value of 0.046 smaller than 0.05. These results show that Demogarf has no effect on *Flypaper Effect* through Shopping area. Thus the fourth hypothesis is statistically untested.

DISCUSSION

Effect of Regional Original Income, Balancing Funds and Demography on District / City Expenditures in East Java Province

Regional Original Income has an effect on regional expenditure, this show that local revenue is an important source of income for a region in fulfilling shopping. Regional Original Income can also be obtained shows the level of independence of a region. More and more PAD is obtained can allow the area to meet its own shopping needs without must depend on the Central Government, which means this shows that local governments have been able to be independent, and vice versa. Income Regional origin originating from Regional Taxes, Regional Management Results and others Legitimate Local Revenue in the Regency / City in East Java Province. Purpose from the government to optimize all revenues / revenues that originate from local economic sources aiming to provide flexibility to regions in digging up funding in the implementation of regional autonomy as the realization of the principle of decentralization. Based on the data examined throughout 2015-2017 PAD in regencies / cities in East Java Province experienced dynamics, namely rising and down, however the results of this study have an influence on Regional

Expenditures are positive, meaning that Regional Original Income increases, then Regional Expenditures in Districts / Cities in East Java Province also experienced enhancement. The results of the Regional Original Revenue have an effect on spending regions, for regional governments is a source of funding in carrying out its authority, while the lack of funding is expected to be explored through own funding source, namely Regional Original Income. PAD is expected to get creating better utilization to help fund activities that are regional affairs and in accordance with national priorities.

Regional Original Income revenue shows the ability of an area through the system his government in collecting sources of funds to finance activities development of the area. So that local revenue is income routine received by the regional government from efforts to utilize the potential financial resources to finance tasks in each region, with thus PAD is needed to support Regional Expenditures. Increased spending regions to accelerate the pace of development and economic growth regions, local governments can seek to increase PAD, each element in it are elements that need to be improved. In line with (Mardiasmo, 2002), that the optimization of regional income revenue should be supported by local government efforts to improve the quality of public services. The government can identify local sources of income in a way research, determine and determine which source actually is local revenue by researching and managing and managing resources the income is large so as to provide maximum results. Role government in development is a catalyst and facilitator of course requires various supporting facilities and facilities, including the budget in the framework of implementing sustainable development, PAD in each region different. Regions that have advances in industry and own abundant natural wealth tends to have much better PAD compared to other regions, and vice versa. The results of this study are consistent with Masdjojo and Sukartono (2009) which state regional original income to regional shopping.

The results of the study indicate that there is an influence of the Balancing Fund towards Regional Expenditures in Districts / Cities in East Java Province. Fund Balancing can encourage regional spending for priority activities National development. This indicates that the local government still has great dependence on the central government in financing expenses and regional expenditure. However, in the long run, this kind of dependency this must be smaller.

Various investments made by the regional government are expected to provide positive results, so that more independent local governments can exploit their potential and resources in the area to be able to fulfill regional expenditure and not depend on the central government in terms of financing spending and spending local government. Alfani (2009). Wahyuni and Pryo, (2009) mention that "Revenue Sharing Funds (DBH) are a potential source of regional income and is one of the basic capital of the local government in obtaining funds development and fulfill regional expenditures other than those originating from Original Income Regions, General Allocation Funds and Special Allocation Funds. Research conducted by Indra (2010), states that the results made show that Regional Original Income, Profit Sharing Funds and General Allocation Funds simultaneously and partial positive effect on regional expenditure.

Balancing Funds are funds originating from the state budget revenues allocated to regions by taking into account the potential of producing regions based on certain percentage numbers to fund regional needs in order implementation of decentralization (Deddi, 2007). Balance Funds are intended for overcome vertical imbalances between levels of government (revenue sharing and funds) general allocation) equates the fiscal capacity of regional governments to encourage spending regions for national development priority activities, encouraging achievement of services and minimum standards, and stimulate income mobilization. Balancing funds, one of which is profit sharing funds is a source regional income which is quite potential and is one of the basic capital local government in obtaining development funds and fulfilling spending area. Carol (2005), with a positive influence, this is in line with Iskandar (2012) that these conditions indicate *flypaper* for with the stimulus of regional expenditures caused by changes in the amount of transfers from the Central Government greater than that caused by changes in Regional income. Likewise, Masdjojo and Sukartono (2009), analyze the effect of Regional Original Income and Balancing Funds on Regional Expenditures, and analyze the *effect of Regency / City flypaper* in Central Java. Balancing Funds used are General Allocation Funds, Special Allocation Funds, and Revenue Sharing Funds. This research was conducted in the period 2006 to 2008, with the object of research as many as 35 districts / cities in Central Java that have been submit financial statements. The results of this study are supported by studies empirical that has been proposed so that there is an influence of the Balancing Fund towards Regional Expenditures in Districts / Cities in East Java Province.

The results showed that there was a demographic influence on Regional Expenditures in Districts / Cities in East Java Province. Projection demographics with the population showing a positive effect which means if the demographics increased, regional spending also increased. Total the population plays an important role because it provides labor, experts, company leaders and business people needed to create economic activity. In addition, population growth has resulted increasing and increasingly complex needs, on the one hand as suppliers on the side others are also users of both goods and services themselves. Home sector the ladder and the production sector do have to be mutually beneficial in various ways combination of the flow of goods and services. Development activities carried out by the region is a demand from the community, this will affect both increased or reduced number of activities and budgets for regional expenditures, expenditure on the implementation of compulsory affairs can be prioritized to protect and improve the quality of life of the community in an effort to fulfill regional obligations manifested in the form of improving basic services, education, health, decent social facilities and public facilities and develop a guarantee social system.

The relationship between the two variables is positive due to along with increasing government demographic factors also increase spending The area. Distribution that has not been evenly distributed and is not on target, Regional Expenditures it only focuses on urban areas while in remote areas / not yet development is still minimal, resulting in infrastructure, facilities and infrastructure, the level of education and health has not been evenly distributed. GRDP that every

year experiences increase during the 2015-2017 period, thus per capita income as well increase every year. In general this shows success efforts to increase the number of gross regional domestic products and controlling population. One measure of economic growth according to Todaro (2004: 92) is the process of increasing output per capita which is proxied by Gross Regional Domestic Product (GRDP) per Capita which is defined as the amount added value generated by all business units in a region, or is the sum of all final goods and services produced by all units economy in an area. Capital accumulation used for implementation development can be influenced by a balance fund which is one development capital, from here comes the *flypaper effect*, GDP as one indicators of demographics show a good influence so with the increase in indicators in demographics, regional spending also experiences enhancement.

Effects of Regional Original Income, Balancing Funds and Demographics Against Regency / City Effect *Flypaper* in East Java Province

The results of the study show that there is an influence of local revenue against *flypaper effects* in regencies / cities in East Java Province. In other words the discovery of *flypaper effects* on expenditure allocation, it is expected that the government can decreased possible excessive response to regional spending. This matter in line with Wulansari (2015) shows that there is a *flypaper effect* on Government expenditure in East Java, Central Java and West Java provinces, this happened because the influence of DAU on Regional Expenditures is higher than that of the influence of PAD on Regional Expenditures. Tresch (2002: 920), further stated that *Flypaper Effect* itself is a response that is not symmetrical or asymmetrical towards increasing and decreasing use of transfer funds from the central government, transfer funds are given for a certain period of time with an indication of existence parties that benefit from inclined transfers (*grants*) increase. Along with the increase in Regional Expenditures this will also be raises *Flypaper Effect*. This is consistent with the opinion of Hines and Thaler (1995) that *flypaper effects* are considered an oddity in difficult behavior rationalized, where the Regional Government uses the transfers received from Central Government to increase Regional expenditures that are inconsistent with economic theory.

Increased Regional Expenditure signifies an increase in quality of life society is realized through work performance in achieving service standards at a minimum based on obligatory functions of regional government in accordance with regulations legislation. The policies stipulated in accompanying financing regional expenditure that can be taken is the optimization of sources of revenue the most likely funding can be done quickly, besides that too used to meet the needs of financing expenses arising from capital participation and payment of principal debt due. Development source of regional revenue will have an impact on the amount of transfer funds received by the region, this is very much needed by regions to develop according to own ability. Implications of increased ability the region in financing its shopping needs is

the fiscal area able to meet their expenditure needs so that the fiscal gap between regions can be overcome.

Demographics have no effect on *flypaper effects*, which means that it is high the low demographics that are proxied by the population do not have an impact on *flypaper effect*. *Wallpaper effect* as a result of more flexible bureaucrat behavior spending transfers rather than raising taxes.

Regional Expenditure Influence on Regency / City Flypaper Effect in Province East Java

The results of the study indicate that there is an influence of regional expenditure on *Flypaper Effect* in Regency / City in East Java Province. The occurrence of a *flypaper effect* influenced by the tendency to increase regional spending or in other words that the Regional Government determines regional expenditure policies in the year runs more determined by the DAU that has been received in the previous year period than PAD received in the previous year period. The results of this study are consistent with Baskaran (2012) also in line with other studies conducted in America Unions (Clark and Whilford, 2011), Argentina (Vegh and Vuletin, 2015), China (Liu and Zhao, 2011), Denmark (Kjaergaard, 2015), Italy (Bracco *et.* 2015), Japan (Kakamu *et al.*, 2014), Canada (Mehiriz and Marceau, 2014), Slovenia (Pevcin, 2014) and Sweden (Dahl-berg *et al.*, 2008).

Regional Expenditures include all expenses from the regional general cash account reduce the equity of funds, is a regional obligation in one fiscal year and the payment will not be obtained by the region. Shopping the area used in the framework of funding the implementation of government affairs that become the authority of the province or district / city which consists of obligatory affairs, matters of choice and affairs that handle it in certain parts or fields that can carried out jointly between the government and regional government or between governments regions stipulated by statutory provisions. Shopping the implementation of business must be prioritized to protect and improve the quality of life of the community in an effort to fulfill regional obligations manifested in the form of improving basic services, education, health, facilities social and public facilities that are feasible and develop social security systems. *Flypaper effects* occur because of the superiority of bureaucrat knowledge about transfers. More information that is owned by bureaucrats allows it to provide expenses the excess.

Effect of Regional Original Income, Balancing Funds and Demography on Flypaper Effect through Regency / City Regional Expenditures in East Java Province

The results of the study indicate that there is an influence of Regional Original Income and balance funds for the *Flypaper Effect* through Regional Expenditures, however Demography does not affect the *Flypaper Effect* through Regional Expenditures District / City in East Java Province. Direct and indirect effects of PAD For *Flypaper Effect*, PAD has a very strong direct effect but with the value of indirect influence is also very strong, meaning more PAD increases, regional spending also increases and both are increasingly raises the existence of *Flypaper Effect*. PAD which consists of Regional Tax, Retribution Regions, Regional Wealth Management Results

and other Regional Original Income Legitimate will cause *Flypaper Effect*. Regional Original Government is an indicator regional independence as mandated by Law Number 32 of 2004 about Regional Autonomy. Regional taxes and regional levies are sources regional revenues that are significant enough to be able to finance regional expenditures.

This result leads to Chang and Ho (2002), that income relations and extensive regional spending since the late 1950s. Aziz (2000) and Doi (1998) explain that various hypotheses about the relationship have been tested empirical. Some studies state that income affects spending and others state that spending affects income. Holtz-Eakin et al (1985) states that there is a very close relationship between transfers from the government with regional expenditure. Legrensi and Milas Studies (2001) in Prakosa (2004), using a *sample of municipalities* in Italy, found empirical evidence that in the long run the transfer from the government affects regional spending.

Generally, the annual increase in the absorption of Regional Expenditures shows acceleration of development in the area, but if the growth of this expenditure moving up every year can indicate a *flypaper effect*, because most of the regional revenue sources come from transfer funds. Response that excessive use of transfer funds will result in the area tend to depend on the central government, for that the central government should make the performance of monitoring and evaluation on local government in order monitor, control and evaluate. Specifically they assert that policy variables, this indicates a *flypaper effect*, this study also in line with Maimunah (2006), *flypaper effect* is a condition that occurs when the local government responds to spending more / wastefully with use transfer funds (*grants*) that are proxied by DAU (Allocation Funds) General) rather than using one's own abilities, proxied by (PAD) Locally-generated revenue. The phenomenon of *flypaper effect* has broader implications that transfers will increase regional government spending which is greater than on receipt of the transfer itself.

The results of this study also sharpen that the *flypaper effect* increases regional government expenditure is greater than the receipt of the transfer itself (Turnbull, 1998: 18) and the tendency to wait for help from the center rather than manage the area's own resources. Implicitly there are several implications from the occurrence of a *flypaper effect* on district / city expenditure such as: cause the *fiscal gap* (*Fiscal gap*) will remain. *Fiscal gap* is a framework central government policies in providing DAU to the regions, then if they occur *flypaper effect* means that the achievement of transfer funds is not optimal. This is visible in analyzing DAU development and regional expenditure. Excessive response in the use of transfer funds where the central government should make a performance monitoring and evaluation of local governments in order to monitor, control and evaluating the use of DAU funds, this is needed to prevent the response excessive disclosure of DAU revenues in the resulting area lack of regional financial independence in districts / cities concerned (Walidi, 2008: 35).

CONCLUSION AND SUGGEST

Conclusion

This study aims to analyze local revenue, funds balance and demographics of the *flypaper effect* through regional spending at Regency / City of East Java Province. The results of the study show:

1. Local revenue originates from regional taxes, regional levies, yields management of separated regional wealth and other income receipts legitimate native area. The biggest regional income is taxable area. Balancing funds come from general allocation funds, special allocation funds, and revenue sharing funds from the central government. General allocation funds provide the biggest contribution to the balance fund. Demographics that are proxied by the total population in the Regency / City in East Java Province can generally be said to increase slowly.
2. Regional Original Income, Balancing Funds and Demographics affect Regional Expenditures in Districts / Cities in East Java Province. Positive influence where if Regional Original Income, Balancing Funds and Demography increase, it will increase the Expenditure of Regency / City Region in the Province East Java or otherwise.
3. Regional Original Income and Balancing Funds affect *flypaper effect* in Regency / City in East Java Province, while Demography is not affect the *flypaper effect* in regencies / cities in East Java Province. Regional Original Income lower than balance funds can increase Regency / City *flypaper effect* in East Java Province or otherwise.
4. Regional Expenditures affect the *flypaper effect* in the Regency / City in the Province East Java. Positive influence where if Regional Expenditure increases, it will increase the *effect of* Regency / City *flypaper* in East Java Province and vice versa.
5. Regional Original Income and Balancing Funds have an effect on *Flypaper Effect* through Regional Expenditures in Districts / Cities in East Java Province, while Demography does not affect *Flypaper Effect* through Shopping Regions in Regencies / Cities in East Java Province. If Regional Original Income and balanced funds increase, can increase Regional Expenditures, this too will increase the Regency / City *Effect Flypaper* in East Java Province or otherwise.

Suggest

Based on the results of the study, and some conclusions that have been stated the suggestions submitted in this study are as follows:

1. Practically
 - a. From the results of this study can be used as a source of information to The Central Government and the Regional Government recognize the effect of Revenue Original Region, Balancing Funds, and Demography on *Flypaper Effect* Through Regional Expenditures and can encourage the independence of the Region within the implementation of regional autonomy, especially at the Regency / City Government in East Java Province.
 - b. Demography is a change in population dynamics caused by fertility (birth), mortality (death), and migration (displacement). The public does not understand the decrease in costs that occur is at cost average or marginal cost. The

community only believes in the price of public goods will decrease. If the demand for public goods is not elastic, then the transfer resulting in a tax increase for the community. This means a *flypaper effect* is a result of ignorance of the public on the government budget area.

- c. In an effort to increase regional original income, the Central Government should be better and the Regional Government conducts related policy making with planning, control and evaluation of the Revenue Budget State Expenditures and Regional Expenditure Budget, as well as Accompanying Government Laws and Regulations.
 - d. The results of this study were also used as a basis for increasing original income Regions so that Local Governments Don't Always Hang Funds transfer from the Central Government.
2. Theoretically
- a. In the study of Regional Revenue, Balancing Funds and demographics as well Regional Expenditures, in order to include other components of regional revenues which are valid as a research variable because it is a component of regional income.
 - b. In the study of regional spending and analysis of the *flypaper effect*, we can find out more detailed, so that the next researcher provides clearer indicators, so that clearer in taking data and more valid.

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