Human Development Index, Capital Expenditure, Fiscal Desentralization to Economic Growth and Income Inequality in East Java Indonesia

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History Article	Abstract
	This study aims to determine the effect of the Human Development Index, Capital Expenditure, Fiscal Decentralization Against Economic Growth and Income Inequality in East Java in Indonesia. This study applied a quantitative approach using a combination between time series and data between place and space (cross-section), to determine whether there is a relationship between two variables or better direct or indirect influence. The findings indicated that the index of human development (HDI) and capital expenditure have a positive and significant impact on economic growth. The higher Human Development Index and capital expenditure affect the greater economic growth rate. However, the degree of fiscal decentralization does not influence economic growth, while economic growth has a positive effect and significant effect on income inequality. Inter-regional economic growth showed varies, in increasing per capita income in some areas of high economic growth, while some other regions have low economic growth, resulting in increased income inequality.

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INTRODUCTION

Development is a multidimensional process involving fundamental changes in social structure, social behaviour, and social institutions, as well as accelerated economic growth, reduced inequality of income, and poverty alleviation (Todaro, 2000). The development of the economy is intended to improve the welfare of society which is shown an increase in economic growth followed by distribution of income evenly. Economic growth and economic equity are the two development goals that should be achieved simultaneously in the process of economic development. Besides the purpose of development is to focus on the level of welfare of every moral society and material which can also be referred to as depauperization (Adelman, 1975).

Development, in particular, the economic field is placed in the first order of all development activities. In the framework of economic development as well as related to equity efforts and in the form of income increase. It is gradually attempted to reduce the problems of economic inequality, unemployment, poverty, and underdevelopment. Economic development is defined as a process that causes per Gross National Product per capita increase over a long period of time. Economic development, therefore, has three important characteristics namely a process that means continuous change, an effort to raise the income per capita of society, and the increase in income per capita society that occurs in the long term. Economic

development is seen as an increase in per capita income and the pace of economic development is aimed at increasing the rate of gross domestic product at the national and regional gross domestic product levels.

Development in the region is implemented based on regional autonomy and fiscal decentralization, which has been regulated in Law No. 32 of 2004 on Central and Regional Government. The implementation of fiscal decentralization has been conducted in Indonesia since January 1, 2001. Through regional autonomy, each region is expected to be independent in regulating and managing the affairs of government households and community interests in the regions in accordance with the prevailing laws and regulations, Central government. With the existence of regional autonomy and fiscal decentralization can better state development in accordance with the wishes of the region to develop the region according to the potential of each region.

Regional economic development is a process whereby local governments and all components of the community manage various existing resources and form a partnership pattern to create a new job field that stimulates the development of economic activity within the area. Economic development tends to occur at the local level where interactions between economic agents are particularly dense Ascani (2012). The occurrence of development in a country or region is characterized by several economic activities such as increased productivity and rising regional revenues, income per capita of the population resulting in improved welfare.

However, the development of economy should manage the existence of local wisdom. Barca et al. (2011) stated that the traditional growth policies which have paid little or no attention to forces and features such as agglomeration, physical distance, learning, innovation, and institutions appear no longer adequate to respond to economic development needs of the region in an area of increasing globalization.

Economic growth is an illustration of economic development to achieve a better level of prosperity. Economic growth is used as a benchmark of economic performance of a region, but not necessarily high economic growth shows the high level of welfare of the people. Economic growth is a reflection of the acquisition of an area. One source of local revenue is from community work activities in generating output or returns in the form of income. Growth should coexist and plan, seeking equitable distribution of employment and sharing of development outcomes. Economic growth can only be enjoyed by a small number of people in a region, the effect will lead to structural poverty with high economic growth but enjoyed by a small percentage of rich people, while most of the people remain not prosperous.

It is indeed the cause of the problem of inequality and uneven development because not all locations have the same characteristics. In every country, there is always one city that is as a leader of a development where the city can grow big and innovative. Not surprisingly, welfare areas are only concentrated in a number of places which can lead to social injustice. This is similar to research that says that innovation is highly geographically concentrated in a limited number of locations. Carlino et al. (2001); Crescenzi et al. (2007). It shows that the characteristics underlying an innovation and development are uneven. The problem besides that in the case of developing countries where most information actually comes from external parties and is imported from exogenous sources, of course, this is precisely what causes outsiders to be the main role (Pietrobelli & Rebellotti, 2009).

The implementation of fiscal decentralization provides opportunities for relatively lagging regions to pursue and align themselves with developed regions through increasing GRDP and per capita income. Equity of inter-regional development is an indicator of success in economic development, but in fact, with

the decentralization of fiscal or regional autonomy, several regions are varying to promote regional economic growth, but there are still many problems of economic development that can not be overcome such as the welfare of their people. With the inequality of income, it will be known whether or not the spread of economic development.

Since the regional autonomy implemented, local governments have a wider opportunity to develop the regional economy. Areas increasingly have the freedom to develop their territories according to the needs of local communities. But not all regions are experiencing the same economic development process. Some areas achieved rapid development, while some other areas experienced slow development. This creates an imbalance in economic development and income inequality between one region and another. The research results of Vazquez & Rider (2006) showed that the implementation of fiscal decentralization which is done simply and gradually better than those performed complicated.

The existence of fiscal decentralization is to increase the independence of regions to cultivate their own regional economies. The degree of regional independence can be studied by looking at the magnitude of a region's fiscal decentralization and its measurements can be made using the degree of fiscal decentralization. The degree of fiscal decentralization is a very important aspect in the implementation of regional autonomy as a whole to promote growth and development. Research form Cassette & Paty (2010) showed that fiscal decentralization leads to increased economic growth and democratic governance but also affects the institutional weakness and inefficiency of local government.

Regional economic development has several influencing factors, such as reducing poverty, reducing unemployment, rising human development index, increasing per capita income, and increasing economic growth in an area. The existence of income inequality between small areas can be said that the equitable distribution of economic development in the region is close to success. The spirit of regional autonomy that has been voiced is for efficiency, effectiveness, and accountability of government and public services in the area (Badrudin et al., 2012; Fadilah et al., 2018).

East Java is one of the provinces in Java Island with an area of 46,428.57 km^2, divided into 38 districts/cities, due to differences in natural, economic, social and cultural characteristics. Where the distribution of these resources is uneven and the growth of trade and industry growth centers is concentrated in only a few places. This makes the development of regional economies that have advantages in one area to be higher than other areas, so the level of inequality between regions to be high, Fitriyah & Rachmawati (2013). East Java Province is one of the provinces in Indonesia which has economic growth with 5 per cent economic growth range. On achieving high and increasing economic growth does not automatically eliminate the most obvious economic development imbalances seen in the aspect of income that gives rise to the rich and poor, the spatial aspects that result in the existence of advanced and underdeveloped regions. Development inequality is often a serious problem and if it is not able to minimize it can lead to more complex crises such as population, economic, social and environmental issues. It is very harmful to the process and the results of development to be achieved.

Aspects of economic inequality and economic indicators to measure the level of economic disparities include viewing the Gini Index. The Gini index is an indicator of the income distribution level shown by the coefficient of zero to one, which means that the higher the coefficient, the more uneven distribution of the income of the population. This certainly raises the question, why the income distribution level indicates an inequality that is almost half as severe as the economy is said to be in

fairly good numbers. Decomposition by sources assumes that income is the number of different components, such as wages, salaries, entrepreneurial income, capital income, cash transfers. Among the first proposals decomposition by sources, we mention here Rao (1969); Fei et al. (1978); Field (1979); Pyatt et al. (1980) and Lerman & Yitzaki (1985).

Development is directed to reduce the gap between regions and among income groups. The level of income inequality between cities and districts in East Java Province which is indicated by the Gini index value from 2013-2015 has a tendency to increase. The cause of economic and social imbalance in East Java is the economic structure in different districts and cities in East Java. Some areas are industrial areas and urban areas are quite advanced while other areas are rural areas whose economic activities are dominated only by agriculture (Seri analysis Pembangunan Wilayah Jawa Timur, 2015).

Factors that cause bias such as biophysical characteristics of the region (natural resources), artificial resources (availability of socio-economic facilities and infrastructure), human resources, social resources, characteristics of regional economic structures and local government policies. Judging from the factors of inequality, in East Java province can be seen the difference of development in the district and city. Each district of the city in East Java province has different natural resources. The city of Surabaya as the capital of the province, the economy is very visible in the field of services, trade, and education. It is not surprising that people enjoy high per capita income, good quality of human resources leads to higher human development index, high capital expenditure flows, and increased local revenue. Some districts in East Java have abundant natural resources and are indispensable to increase their development, but there is still a lack of human resources mastering the technology to cultivate the existing natural resources. In this case, the human development index also contributes to the economic development in terms of human resources, so that if the human resources increase it will be able to increase economic development in terms of processing existing natural resources.

Basically in carrying out the necessary development of funding sources. To achieve the success of a development program is very dependent on the utilization of available resources. However, the potential and utilization of such resources vary between regions. Therefore, there is a need for central government intervention for equitable development among regions, by providing capital assistance funds to regions to accelerate regional development. Funds from the central government to the local government are capital expenditures from the central government to regencies/municipalities.

The central government allocates funds in the form of capital expenditure in the Regional Revenue and Expenditure Budget (APBD) to increase fixed assets. The allocation of capital expenditure is based on regional needs for facilities and infrastructure, both for the smooth implementation of government and for public facilities. Increase in fixed assets ie equipment, buildings, infrastructure and other fixed assets are expected to improve the quality of public services. As a result of capital expenditure is the main thing in capital investment of fixed assets, to improve the economy in the form of local revenue.

METHOD

This study applied a quantitative approach using panel data which a combined between time series and data between place and space (cross section) to determine whether there is a relationship between two variables or better direct and indirect influences. In this study using cross-section with 38 districts/cities in

East Java Province and time series period of 2013-2016. The implementation of the research is based on the theories on which the research is based and attempts to explain a problem in this regard concerning the influence of human development index, capital expenditure, the degree of fiscal decentralization on economic growth, and economic growth on income inequality in East Java, Indonesia. The data of the index of economic development, capital expenditure, the fiscal decentralization, economic growth and income inequality in the districts and cities of East Java Province were collected from the Central Bureau of Statistics (BPS) of East Java Province.

RESULTS AND DISCUSSION

The result of the obtained analysis is described by using the following descriptive analysis:

Table 1. Descriptive Statistics Test Results

	IPM	BM	DDF	PE	KP
Mean	69.78191	382.1118	14.32616	5.024605	0.321776
Median	69.52000	329.2775	11.75550	4.799500	0.320000
Maximum	81.46000	2059.459	60.96900	10.95300	0.430000
Minimum	57.45000	67.64600	5.931000	2.061000	0.230000
Std. Dev.	5.422182	295.4095	9.341915	1.227552	0.039013
Skewness	0.308555	3.372521	2.866250	1.635722	0.104902
Kurtosis	2.473464	17.79561	12.17138	8.725329	2.945113
Jarque-Bera	4.167748	1674.569	740.8462	275.3843	0.297861
Probability	0.124447	0.000000	0.000000	0.000000	0.861629
Sum	10606.85	58080.99	2177.576	763.7400	48.91000
Sum Sq. Dev.	4439.408	13177283	13177.98	227.5396	0.229820
Observations	152	152	152	152	152

Source: Authors (2018)

Table 1 provides information about that the number of the sample used in this study as much as 38 districts/cities studied for 4 years. It is known that the index of human development on 38 samples District/City period 2013-2016 has the highest value of 81,46 obtained by Malang and the lowest value is equal to 57.45 obtained by Sampang Regency, an average of Regency/Municipality HDI 38 samples from the year 2013-2016 amounted to 69.78191. Based on Table 1, it is known that the number of the sample used in this study as many as 38 districts/cities studied for 4 years. It is known that capital expenditure in 38 samples of districts/cities for the period of 2013-2016 has the highest value of 2059,459 obtained by Surabaya City and the lowest value is 67.646 obtained by Mojokerto, while the average of capital expenditure of Regency/Municipality 38 samples from 2013-2016 amounted to 382.1118.

The value of fiscal decentralization degree in 38 samples of districts/cities for the period of 2013-2016 has the highest value of 60.969 obtained by Surabaya and the lowest value is 5.931 by Pacitan, while the economic growth rate of Regency/city of 38 samples from 2013-2016 amounted to 14.32616. It is known that the value of Economic Growth (Z) in 38 samples of districts/cities in the period 2013-2016 has the highest value of 10.953 obtained by Bojonegoro regency and the lowest value is 2.061 obtained by Sampang regency, while the average of regency/city economic growth 38 samples from the year 2013-2016 amounted to 5.024605.

The value of income inequality has the highest value of 0.43 obtained by Madiun and the lowest value is 0.23 by Lumajang, while the average disparity of economic development of Regency/city of 38 samples from the year 2013-2016 amounted to 0.321776. The result of panel regression model selection with Chow 1 test shows that Probability value. Cross-section Chi-square is 0.0000 whose value is less than 0.05. So it can be concluded that H0 rejected which means the fixed effect model is more precise than the common effect model. From the above test results, it can be concluded that a more appropriate model used to analyze the influence of human development index (HDI), capital expenditure, the degree of fiscal decentralization on economic growth is fixed effect model. The Chow 2 test shows that the prob. Cross-section Chi-Square of 0.0000 whose value is less than 0.05. Therefore, it can be concluded that H0 rejected which means the fixed effect model is more precise than the common effect model. From the test results can be concluded that the more appropriate model used to analyze the economic growth of income inequality is a fixed effect model.

The result of a panel regression model with Hausman 1 test shows that the value of Prob. Random cross-section of 0.0438 whose value is less than 0.05. So it can be said that H0 is rejected which means the fixed effect model is more appropriate than the random effect model. From the above test results, it can be concluded that a more appropriate model used to analyze the influence of human development index (HDI), capital expenditure, the degree of fiscal decentralization on economic growth is fixed effect model. The Hausman 2 test shows that the value of Prob. Cross-section random of 0.2804 whose value is greater than 0.05. So it can be said that H0 accepted which means the random effect model is more precise than the fixed effect model. From the above test results can be concluded that a more appropriate model used to analyze economic growth to income inequality is a random effect model.

The results of multiple linear regression analysis showed the first regression equation,

$$Z_{it} = -14{,}33098 + 0{,}263359 X1_{it} + 0{,}002147 X2_{it} + 0{,}010994 X3_{it} + e_{it}$$

The second regression equation, $Y_{it} = 0{,}287022 + 0{,}006917 Z_{it} + e_{it}$

Classic Assumption Test

The first classical assumption test is the Jarque-Bera normality test. Test Jarque-Bera 1 of 1348.262 and probability value of $0.000000 < 0.05$. Taking decision rules can use probability values. The probability value of 0.000000 is smaller than 0.05, it can be stated that the data is not normally distributed. Although normally distributed data does not need to be normalized because all parts of the population are used for the sample. The value of the Jarque-Bera 2 Test is 0,560628 and the probability value is $0.755546 > 0.05$. Taking decision rules can use probability values. The probability value of 0.755546 is greater than 0.05, it can be stated that the data is normally distributed. The second class assumption test is multicollinearity test with the correlation number between the independent variables in this study are all less than 0.85. Can be concluded that the assumption can be fulfilled which means the independent variables of multicollinearity disorder. The third classical assumption test is a heteroscedasticity test. The result of heteroscedasticity test in model 1 shows that the probability value for all independent variables is above 0.05. Model 2 shows probability value for economic growth variable is above 0.05. This means that the data in this study is free from symptoms of heteroscedasticity. The fourth classical assumption test is an autocorrelation test. The autocorrelation test 1 shows Durbin Watson of 1.782690.

The dL value is 1.6948 and the dU value is 1.7752. Viewed from table 4.12 then use the assumption dU <d <4 dU, which means 1.7752 <1.782690 <2.2248. Then it can be concluded that the model is not autocorrelated. The autocorrelation test 2 shows Durbin Watson of 1.795455. The dL value is 1.7216 and the dU value is 1.7481. Viewed from table 4.13 then use the assumption dU <d <4 dU, which means 1.7481 <1.795455 <2.2519. Then it can be concluded that the model is not autocorrelated.

Significance Test

The coefficient of determination on model 1 shown by the R square value between the human development index, capital expenditure, the degree of fiscal decentralization on economic growth (PE) is 0.769308. This means that the variable PE (Z) is explained by 0.769308 by the variables IPM (X1), BM (X2), DDF (X3). Meanwhile, the rest is explained by other variables not included in this study. While the coefficient of determination on model 2 shown by the value of R square between economic growth to income inequality is 0.664861. This means that the income inequality variable (Y) is explained at 0.664861 by the variable of economic growth (Z). While the rest is explained by other variables not included in this study.

Simultaneous test results (Test F) show that the value of Prob. F statistic with a p-value of 0.000000 is smaller than 0.05 which means H0 is rejected. Thus, IPM, BM, DDF together affect economic growth.

Simultaneous test results (t-test) showed that the human development index (HDI) has a probability value of 0.0169 which means less than 0.05. It shows that HDI significantly affects economic growth. Capital expenditure (BM) variable has a probability value of 0.0013 which means less than 0.05. It shows that BM has a significant effect on economic growth (PE). The degree of fiscal decentralization has a probability value of 0.6017 which means greater than 0.05. It shows that DDF has no significant effect on economic growth. Economic growth has a probability value of 0.0072 which means more than 0.05. It shows that economic growth significantly affects income inequality.

Human Development Index on Economic Growth

The estimation result between index of human development on economic growth in East Java Province shows that index of human development have a significant positive effect to economic growth. Coefficient value indicates that index of human development have positive effect to economic growth. The higher the HDI, the higher the rate of economic growth, because in the management of existing natural resources to be absorbed with the maximum required high-quality human resources, HDI is one measure of how the level of human resources in each region. With the higher HDI, it will lead to increase economic growth in every regency/city in East Java Province.

According to the United Nations Development Program (UNDP) the relationship between economic growth and human development is influential. The performance of economic growth is influenced by human development through income levels in society, including the role of government. Whereas human development through good education and health can determine the ability to absorb and manage the existing resources for economic growth.

Aloysius in BPS (2009), also said that human capital is one important factor in the process of economic growth, therefore in order to trigger economic growth should also be done human development. This is in accordance with the results of the analysis in this study, that with the increase of human development index able to influence increase economic growth.

Based on the above opinion says that the human development index is quite influential on economic growth, and the results in this study are in line with the above opinion. This research is in line with research conducted by Susetyo (2011) entitled analysis of the influence of investment level, agglomeration, labor and human development index on economic growth of regency/municipality in Central Java, that the influence of independent variable has positive and corresponding effect to the increase of economic growth.

Capital Expenditure on Economic Growth

Based on the estimation of capital expenditure on economic growth in East Java Province shows that capital expenditure has a significant positive effect on economic growth. Coefficient value indicates that capital expenditure has positive effect to economic growth. It can be interpreted if high capital expenditure has positive effect to increase economic growth rate.

It is also supported by Harrod-Domar theory and Smith's opinion is quite true, because statistically in this research theory and opinion proved, this research explains that the higher capital expenditure then economic growth will be higher. In addition, this study also indicates that the amount of capital spending allocated by the Province of East Java became one of the decisive factors in increasing economic growth, meaning that the high capital expenditure has enough implications on the magnitude of economic growth in a region.

District/City Government in East Java is very necessary to pay attention to the amount of allocation for capital expenditure in APBD each region because capital expenditure is very important for economic activity in the region. Economic growth that becomes one of the development goals in the region depends on the availability of adequate infrastructure to support economic activity. This research is in line with research conducted by Setiawan (2017) entitled the influence of DAU, PAD, capital expenditure and investment on economic growth in East Java in 2012-2014, that capital expenditure has a positive effect on economic growth.

Fiscal Decentralization on Economic Growth

Based on the estimation of the degree of fiscal decentralization on economic growth in East Java Province shows that the degree of fiscal decentralization has a positive but not significant impact on economic growth. The coefficient value indicates that the degree of fiscal decentralization has a positive effect on economic growth. The fiscal decentralization rate indicator is by looking at the percentage of the fiscal decentralization degree. With fiscal decentralization, it is expected that each region is required to be self-sufficient in its regional financing. The level of regional fiscal independence can be studied by looking at the magnitude of fiscal decentralization. The degree of fiscal decentralization is a description of regional capability to increase local revenue such as local taxes, regional levies, and others. The degree of Fiscal Decentralization is a tool used to determine the ability of regions to increase PAD.

Local revenues are the main source of local revenue to finance local budgets, as the ability or contribution of local revenues to APBD will be a benchmark for the region's economic growth. Supposedly with the increase of original income of area will increase economic growth empirically, this research proves that the increase of original regional capability able to increase economic growth of Regency/City in East Java Province. Theoretically, to get the value of the degree of fiscal decentralization is the value of local revenue divided by total regional income, so it will be known how much independence of the region.

115

Increasing the degree of fiscal decentralization, it can be said that the increase of regional independence, the level of fiscal dependence of the area to the center is decreasing. Furthermore,, the area is more flexible and flexible in planning allocations in accordance with its economic agenda. Through routine expenditure, development/infrastructure expenditure, or other expenditures, the increasing degree of fiscal decentralization, namely increasing PAD as a source of regional financing, is expected to create a number of new economic activities in the community. With the increase of economic activity in the community, there will be an increase in the number of output of goods/services followed by an increase in the money supply in terms of regional spending by the local government. In addition, it will increase the value of GRDP that can increase economic growth and welfare level of society. Further, it can be described, that increasing the degree of fiscal decentralization will encourage increased government spending for public services that will encourage increased income per capita community which is an indicator of regional economic growth. Fiscal decentralization applied to 38 districts/cities in East Java Province shows a positive but insignificant effect of encouraging economic growth of these areas is increasing.

This research is in line with research conducted by Sianturi (2011) entitled the impact of fiscal decentralization on income inequality among regions (case study of North Sumatera Province) that fiscal decentralization has a positive effect on economic growth.

Economic Growth on Inequality of Income

Based on the estimation between economic growth to income inequality in East Java Province shows that economic growth has positive and significant effect on income inequality. The coefficient value indicates that economic growth has a positive effect on income inequality so that the increase of economic growth value makes the higher inequality in East Java Province. Economic growth is the long-term process of output per capita, where the emphasis is on three things: process, output per capita and long term. Economic growth is a process, not an economic picture at a time. Here we see the dynamic aspect of an economy, which is to see how an economy develops or changes over time. A country's economy is said to experience growth if the real service to the use of factors of production in a given year is greater than that of the previous year, which will lead to an increase in per capita income.

According to Adam Smith, the principal element of a country's production system is that three, including the available natural resources, constitute the most basic container of the production activities of a society. Human resources are shown by population. Human resources play a passive role in the process of output growth. the population will adjust to the needs of the workforce of a community. The accumulation of capital owned because the stock of capital plays an important role in economic development. The capital stock can be identified as a development fund, which means that the rapid pace of economic development depends on the availability of the development fund.

Economic growth with income inequality has considerable influence. Simon Kuznets has examined the relationship between economic growth and income distribution in developed countries. The result of time series data processing shows the pattern of relationship between economic growth with income distribution. The initial stage of economic growth will be followed by a worsening distribution of income. It happens at a point where economic growth is followed by improved income distribution. So when presented in a curve, this relationship pattern will form U-upside down. That the stages of enhancement and then decrease income

inequality raised Kuznets can not be avoided, but all depends on the development process run by each region.

In the analysis of this study, economic growth has a positive and significant impact on income inequality, indicating that the theory of Simon Kuznets is already prevailing in East Java Province, that the rate of economic growth in the early stages is still deteriorating the value of income inequality in each region. This research is in line with research conducted by Wahyuni, et al (2014) entitled the influence of government spending and investment on economic growth and income gap of Regency/City in Bali Province that economic growth has positive and significant impact to income inequality so that growth has not been able to reduce inequality in the Regency/City of East Java Province, but on the contrary economic growth increasingly makes the value of income inequality increase.

CONCLUSION

Human development index variable has a positive and significant effect on economic growth. In the other word, the higher the Human development index enhances the rate of economic growth, due to the increase of human resources will maximize the absorption of the existing resources in the region, thus developing and growing the regional economy. Capital expenditure variable has positive and significant influence on economic growth. It means that the higher the capital expenditure affect to greater an economic growth rate because capital expenditure is used to increase the availability of infrastructure in areas sufficient to support economic activity. Meanwhile, Fiscal decentralization does not influence economic growth. The result of this study also found that economic growth has a positive effect and significant effect on income inequality. It can be concluded that the higher economic growth hence increasing the income inequality, due to the inter-regional economic growth is different, and the increase in income per capita is in the districts/cities with high economic growth compared to districts/municipalities with low economic growth, which will lead to increased income inequality.

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