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ANALYSIS OF ECONOMIC PERFORMANCES AND FACTORS AFFECTING WELFARE IN CENTRAL JAVA 2010 - 2013

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ABSTRACT

This study aims to describe the economic performances of Central Java province and analyze the effects of economic performances, dependency ratio, employment, and fiscal decentralization to welfare in the region. This study uses panel data between 2010 and 2013. The data is analysed using descriptive analysis and multiple linear regression analysis.

Descriptive analysis of the Economic Performance Index indicates that the economic performance of regencies/cities in Central Java province has improved. The city administrative regions generally show better economic performance than the regency administrative area. The improved economic performance of the region during the study is not consistent with development inequality. The inequality remains the same.

The results of multiple linear regression analysis indicate that the economic performance, the young dependency ratio, and Regional Own-Source Revenue provide positive and significant influence to welfare. The employment in the agricultural sector, the Special Allocation Fund, and Regional Sharing provide negative and significant influence to welfare, while the old dependency ratio, employment in the industry, and General Allocation Fund provide no influence to welfare. It is recommended that local governments reduce the development inequality by directing the regional development towards its main characteristics. Local governments need coherence, consistency, and synchronization between development planning and funding, and between the Local Government Unit in which the accountability of local government performance is based on well-defined indicators and mechanisms rather than simply juridical.

Type of Paper: Empirical

Keywords: *Economic Performance, Development gaps, HDI, Dependency Ratio, Employment, Fiscal Decentralization*

1. Introduction

Indonesia as an archipelagic country possesses unequal distribution of natural resources, where one area is rich in resources such as minerals while another is poor. It is caused by differences in *endowments* factors such as geographic location and the characteristics of its human resources

(Ehtisham *et al.*, 2002: 212). The ability of local governments to manage the development process is tested in their region. They are required to make the appropriate policies in promoting development equality to improve the welfare of the community, increase community participation in local development, improve and manage local financial potentials, and optimize the local economy performance.

Local governments are not simply executing the instructions of the central government, but actually possess the discretion to increase creativity in developing the potential that was largely restricted during the centralization era (Mardiasmo, 2002: 57). This policy is a challenge and an opportunity for local governments to manage their resources effectively and efficiently. For areas with reliable resources, both human resources and natural resources, the policy is welcome, given the nature of autonomy is an indication of the regional authority rather than delegation (Saragih, 2003: 34).

Economic growth is generally the main target in the process of economic development. It reflects the increase in production capacity or *output* of an area in a given time period. This indicator is used to measure the economic progress of national and regional development results and as a basis for development planning. The rate of economic growth in Central Java during 2009 - 2013 increased in line with the increase in GDP per capita. Table 1.1 shows that economic growth in Central Java increased from 5.14 percent in 2009 to 5.81 percent in 2013, and during this period the average economic growth rate of 5.83 percent per year.

Table 1.1 The RGDP, RGDP per capita and Growth Rate of Central Java Province Year 2009 - 2013 (Based on Constant Prices 2000)

Details	Unit Rupiah	Year				
		2009	2010	2011	2012	2013 *
(1)	(2)	(3)	(4)	(5)	(6)	(9)
RGDP	billion	176,673.5	186,993.0	198,270.1	210,848.4	223,099.7
RGDP without oil and gas	billion	166,176.2	176,187.0	187,244.9	199,838.6	212,304.9
RGDP growth	percent	5.14	5.84	6.03	6.34	5.81
RGDP growth without oil and gas	percent	5.66	6.02	6.28	6.73	6.24
RGDP per capita	thousand	5462.2	5773.9	6112.9	6494.4	6909.3
RGDP per capita without oil and gas	thousand	5137.6	5440.2	5770.1	6155.3	6574.9

Source: Central Bureau of Statistics, 2009-2013.

Remarks: *) Preliminary figures

The development goal is to improve the welfare, which can be achieved by, among others, reducing the level of poverty. The percentage of poor people is one of the social indicators frequently used to see the success of regional economic development.

Poverty, as defined by basic needs approach, is economic inability to meet the basic needs of food and non-food measured based on expenditure (CBS, 2008; 29). Poor population is the population with the level of expenditure per capita per month below the poverty line.

Table 1.2 Number of Poor Population in Central Java Province Year 2002 – 2013

Year	Poor Population
(1)	(2)
2002	7.308.330
2003	6.979.800
2004	6.843.800
2005	6.533.500
2006	7.100.600
2007	6.557.200
2008	6.122.551
2009	5.655.412
2010	5.215.403
2011	5.256.000
2012	4.952.056
2013	4.811.343

Source: Central Bureau of Statistics, 2002-2013.

The gap between districts/cities is also shown by a comparison of GDP per capita (current market prices for non-oil) between districts/cities in Central Java.

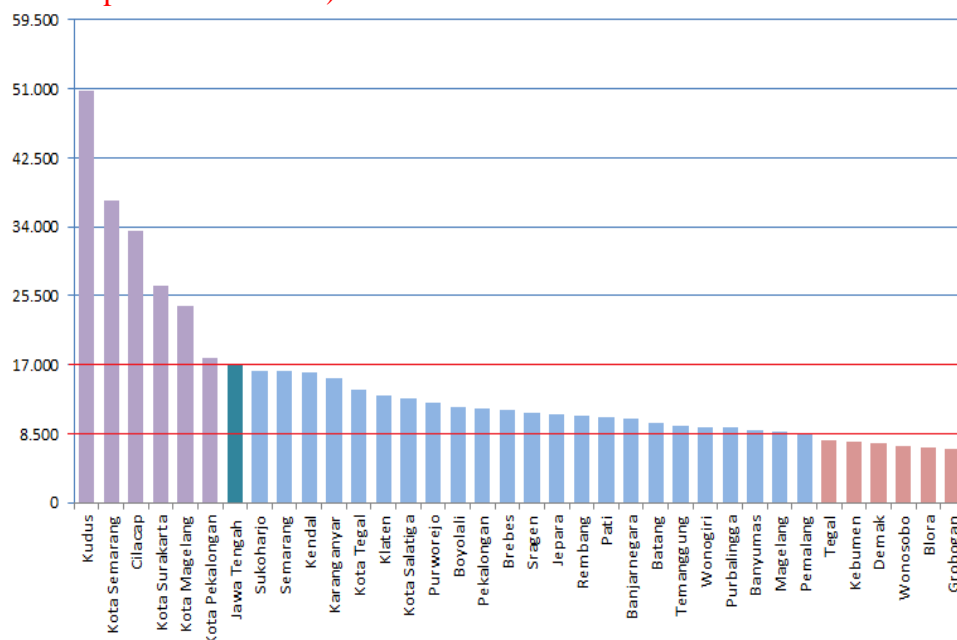


Figure 1.1 GRDP (current market prices for non-oil and gas) per capita by Regency/City in Central Java province in 2013 (Rp. 000)

Source: Central Bureau of Statistics, 2013.

Data processed.

Figure 1.1 shows that out of 35 (thirty five) regencies/cities in Central Java, only 6 (six) districts/cities have higher GRDP per capita than Central Java, namely Pekalongan City, Magelang City, Surakarta City, Cilacap District, Semarang District and Kudus District, whereas the other 29 districts/cities have lower GDRP, six (6) of which have less than half of the GDRP per capita of Central Java.

Differences in resources potential owned by each region lead to different results of development performance between regions. Such differences have an impact on the success of development across the country. Positive economic performance of a region can improve people's welfare, hence local governments need to optimize the economic performance of the region by developing specific programs tailored to the needs and abilities of each region so that development quality can be improved.

The wide per capita income inequality among districts/cities in Central Java province shows that the regional economy performance has not been able to narrow the gap among regions and improve quality economic growth, the economic growth that can improve people's welfare. Bappenas (2008: 5) states that there are two important issues relating to improving the welfare of society: how the government implements it and how it impacts on society.

Referring to the Bappenas statement, the implementation of regional autonomy in districts/cities needs to be evaluated where evaluation 'output' will focus on the main aspects of the public interest in maintaining their life, namely the economic condition. Bappenas (2008: 5) states that if economic conditions improve, it indirectly improves people's access to public services, such as education and health.

2. Methods

2.1. Scope of Research

The research was conducted in all regencies/cities in Central Java province from 2010 to 2013. The research object selection was based on the premises that:

1. Central Java Province is one of the provinces that is not experiencing regional administrative expansion after the implementation of regional autonomy policy. Bappenas and UNDP (2007) states that the evaluation of regional autonomy implementation shall not be performed to regions experiencing expansion area because they show results that do not support the achievement of their people welfare.
2. The center of regencies/cities in Central Java province lies in one expanse of the island of Java. It is expected that transportation and communication do not encounter significant barriers and the differences in resources and culture are not too great, so that all development processes run smoothly.
3. Central Java Province is not a special region.
4. Between 2010 and 2013, regional autonomy policy has been implemented for more than a decade. It is assumed that the policy has run properly and the results of regional development have been felt.

Data collection in this study is intended to obtain relevant and accurate materials. The data used are *time series* and *cross section* secondary data, which has been reprocessed. Secondary data is data that is obtained in the form of ready-made data, collected and processed by the other parties (Supranto, 2000).

The research data is annual data from 2010 to 2013 from all regencies/cities in Central Java province. The data were fully obtained through literature review, so sampling and questionnaires were unnecessary. The data were obtained from literature published by authorities such as the Central Bureau of Statistics and the Directorate General of the Central and Local Fiscal Balance.

2.2. Data analysis techniques

2.2.1 Analysis methods

a. Descriptive Analysis

This is the first part of data analyses in this study. Descriptive analysis is used to analyze the processing results of the Economic Performance Index as indicators for economic performance and Williams Index for development inequality in all regencies/cities in Central Java province.

b. Multiple Linear Regression Analysis

This is the second analysis in this research used to analyze the panel data of regencies/cities in Central Java province from 2010 to 2013. Panel data is a combination of *time series* and *cross section*.

Three approaches are used in the processing of panel data analysis: *common effect*, *fixed effect*, and *random effect*.

1) Common Effect

Common Effect approach combines *time series* and *cross section* data by combining the two types of data so that OLS can be used to estimate the panel data model. This approach does not pay attention to individual and time dimensions, and it can be assumed that the data behavior between individuals is identical in a variety of timescales. These assumptions are far from actual reality, because the characteristics between individuals in terms of territorial are evidently different.

2) Fixed Effect

Fixed effect model assumes that differences between the units of cross-sectional and time unit are shown in the various intercepts of the respective units. In the two-way fixed effects model, the intercept difference results from the two units: the cross-sectional unit and time unit, thus the difficulty of fulfilling consistent intercept and slope assumptions, which can be done by inserting a dummy variable. The fixed effect modelling is generally performed using *Least Square Dummy Variable (LSDV)*, which is the estimation method of linear regression parameter using OLS on models involving dummy variables on one of the explanatory variables (Greene, 2007).

3) Random Effect

The addition of dummy variables will reduce the degree of freedom, which will subsequently reduce the efficiency of the estimated parameters. Error component model or random effect model can be used in data panel model that involves the correlation between error terms due to the changing times because of different observation. This model assumes that the influence of cross-sectional unit and time unit is a random variable that is included in the model as a form of error (Judge et al., 1980).

2.3 Estimation Model

Research on the effect of Economic Performance (EP), Dependency Ratio (DR), Workforce (W_{ind} , W_{farmer}), and Fiscal Decentralization (FDD1, FDD2, FDD3, FDD4) variables on Welfare (HDI) using *time series* data for four years from 2010 to 2013 and *cross section* data of 35 regencies/cities in Central Java with 140 observations.

The model used is:

$$HDI = f (EPI, DR_{young}, DR_{old}, W_{ind}, W_{farmer}, FDD_1, FDD_2, FDD_3, FDD_4)$$

Or translated into:

$$HDI_{it} = \alpha_0 + \beta_1 EPI_{1it} + \beta_2 DR_{young} + \beta_3 DR_{old} + \beta_4 W_{ind} + \beta_5 W_{farmer} + \beta_6 FDD_{1it} + \beta_7 FDD_{2it} + \beta_8 FDD_{3it} + \beta_9 FDD_{4it} + \epsilon_{it}$$

Where:

- HDI = Human Development Index
- EPI = Economic Performance Index
- DR_{young} = Dependency Ratio Young
- DR_{old} = Dependency Ratio Old
- $W_{(ind)}$ = Percentage of Workforce in Industrial Sector
- $W_{(farmer)}$ = Percentage of Workforce Agricultural Sector

FDD1 = Regional Own-Source Revenue/Total Regional Revenue

FDD2 = General Allocation Fund/Total Regional Revenue

FDD3 = Special Allocation Fund/Total Regional Revenue

FDD4 = Revenue Sharing Fund/Total Regional Revenue

α = intercept/coefficient

β = constant/slope

e = error term

i = regencies/cities

t = year

3. Results and Discussions

The economic performance of the region during the study has improved. Regencies/cities in Central Java seek to improve their economic performance in harnessing the potential of their respective regions. This condition is reflected in the rate of economic growth that continues to increase accompanied with an increase in per capita income and a reduction in poverty as shown Table 3.1.

Table3.1 Economic Growth Rate and RGDP contributions of Regencies/Cities in Central Java 2010 - 2013

Kabupaten/kota	LPE (%)				Kontribusi (%)			
	2010	2011	2012	2013	2010	2011	2012	2013
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1 Cilacap	5,65	5,78	5,59	5,75	11,46	11,76	11,78	11,83
2 Banyumas	5,77	5,95	5,88	6,71	3,00	2,97	3,01	3,00
3 Purbalingga	5,67	6,03	6,26	5,66	1,68	1,71	1,71	1,72
4 Banjarnegara	4,89	4,92	5,25	5,28	1,95	1,95	1,94	1,94
5 Kebumen	4,15	4,23	5,59	4,24	1,88	1,86	1,87	1,86
6 Purworejo	5,01	5,02	5,04	4,99	1,88	1,87	1,86	1,84
7 Wonosobo	4,29	4,52	5,14	4,98	1,14	1,13	1,13	1,12
8 Magelang	4,51	4,27	5,84	5,60	2,33	2,30	2,30	2,28
9 Boyolali	3,60	5,28	5,66	5,43	2,35	2,36	2,35	2,36
10 Klaten	1,73	1,96	5,54	5,79	3,27	3,19	3,19	3,21
11 Sukoharjo	4,65	4,59	5,03	5,01	2,88	2,88	2,89	2,90
12 Wonogiri	5,87	2,24	5,87	4,63	1,96	1,88	1,87	1,86
13 Karanganyar	5,42	5,50	5,82	5,38	2,68	2,69	2,71	2,71
14 Sragen	6,09	6,53	6,60	6,64	1,94	1,98	2,02	2,04
15 Grobogan	5,05	3,59	6,16	4,59	1,89	1,87	1,90	1,88
16 Blora	5,19	2,59	4,99	4,93	1,24	1,22	1,20	1,21
17 Rembang	4,45	4,40	4,88	5,03	1,44	1,42	1,40	1,39
18 Pati	5,11	5,43	5,92	5,72	2,72	2,74	2,72	2,72
19 Kudus	4,17	4,21	4,33	4,68	9,14	8,86	8,72	8,69
20 Jepara	4,52	5,44	5,79	5,77	2,65	2,65	2,65	2,64
21 Demak	4,12	4,48	4,64	4,62	1,72	1,71	1,69	1,68
22 Semarang	4,90	5,56	6,02	5,62	3,21	3,23	3,27	3,32
23 Temanggung	4,31	4,65	5,04	5,02	1,47	1,47	1,46	1,46
24 Kendal	5,97	5,99	5,54	5,24	3,13	3,18	3,17	3,15
25 Batang	4,97	5,26	5,02	5,17	1,53	1,54	1,53	1,52
26 Pekalongan	4,27	4,77	5,32	5,45	2,10	2,10	2,11	2,11
27 Pemalang	4,94	4,83	5,28	5,41	2,31	2,32	2,31	2,30
28 Tegal	4,83	4,81	5,25	5,60	2,30	2,30	2,31	2,30
29 Brebes	4,94	4,97	5,21	5,06	4,25	4,30	4,25	4,26
71 Kota Magelang	6,12	5,48	6,48	5,91	0,61	0,61	0,62	0,61
72 Kota Surakarta	5,94	6,04	6,12	5,89	2,89	2,88	2,87	2,87
73 Kota Salatiga	5,01	5,26	5,94	6,14	0,54	0,53	0,53	0,52
74 Kota Semarang	5,87	6,41	6,42	6,20	12,60	12,69	12,83	12,88
75 Kota Pekalonga	5,51	5,45	5,60	5,89	1,10	1,10	1,09	1,10
76 Kota Tegal	4,61	4,58	5,07	4,93	0,77	0,75	0,73	0,72
Jawa Tengah	6,02	6,28	6,73	6,24	100,00	100,00	100,00	100,00
Rata-rata	4,92	4,89	5,55	5,40	2,86	2,86	2,86	2,86
Disparitas	4,39	4,57	2,40	2,47	12,06	12,16	12,31	12,36

Sumber : Badan Pusat Statistik, 2014 data diolah.

administrative areas showed better performance than the regencies. It is influenced by factors such greater number of inhabitants and stagnant contributions to the economy of Central Java. Regencies/cities contributions remained unchanged, and Semarang is the city with the most stable

In general, the city

economic performance among regencies/cities in Central Java, which may be caused by the existence of not one but many dominant sectors.

The improving economic performance has apparently not been able to reduce development inequality between regencies/cities. It can be seen from Williamson Index that remained high throughout the study at approximately 0.69 as presented in Figure 3.1.

Figure 3.1 illustrates that from 2010 to 2013 Williamson Index value decreased so slightly that it can be viewed as stagnant. In 2010, Williamson Index of equality was 0.697 and decreased to 0.695 in 2011 and 0.692 in 2013. The slight decline shows that the improved economic performance was not followed by a decrease in development inequality among regencies/cities in Central Java.

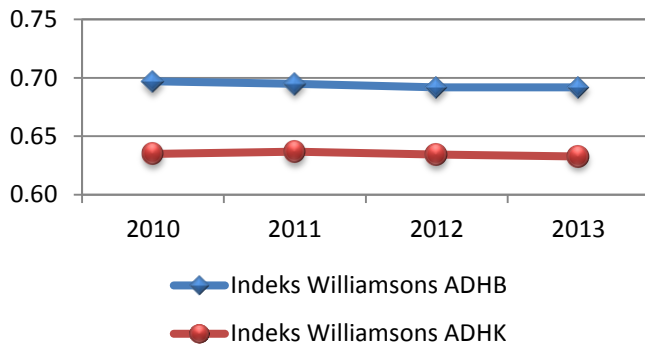


Figure 3.1 Williamson Index Development in Central Java Province 2010 – 2013

Source: Central Bureau of Statistics, 2014.

Data processed.

The city of Semarang has the most stable economic performance during the study. This stability can be seen in all constituent variables of EPI such as economic growth rate, RGDP per capita, poverty level, and the contribution to the economy of Central Java from year to year. The stability of Semarang is the result of multi-sector economy, unlike other regencies/cities that generally focus on only one sector of the economy.

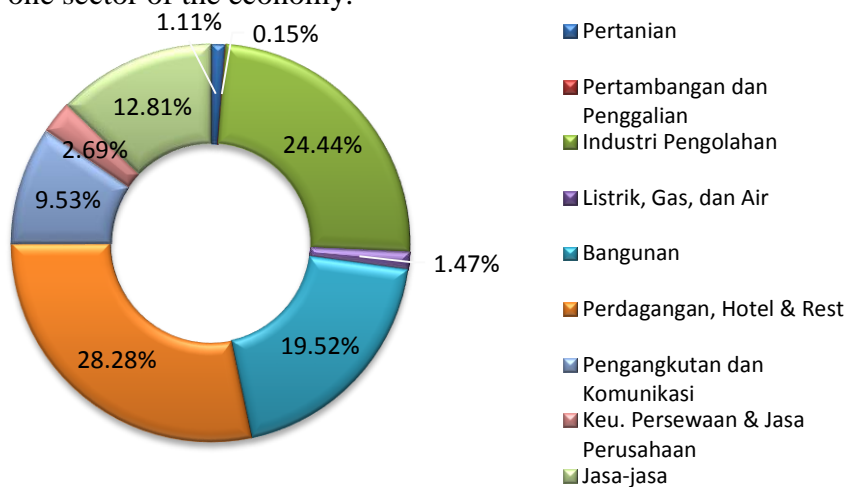


Figure 3.2 The average RGDP contributions of Semarang City based on Economic Sectors in Central Java Province 2010 – 2013

Source: Central Bureau of Statistics, 2014.

Data processed.

The analysis on the correlation between regional economic performance, dependency ratio, employment, and fiscal decentralization and welfare in Java Island using fixed effect model is as follows:

$$\text{HDI}_{it} = 72,82155 + 0,278559\text{EPI}_{1it} + 0,022743\text{DR}_{\text{young}} + 0,007709\text{DR}_{\text{old}} + 0,010664 \text{W}_{\text{ind}} - 2,830820\text{W}_{\text{farmer}} + 2,422754\text{FDD}_{1it} - 1,216373\text{FDD}_{2it} - 13,63182\text{FDD}_{3it} - 4,399037\text{FDD}_{4it} + \varepsilon_{it}$$

The nine independent variables included in the equation are able to explain the variations in HDI or, overall, the influence of the nine independent variables to welfare is 99.49 percent. The remaining 0.51 percent is influenced or explained by other variables outside the model. Of the nine independent variables in the model, six variables show significant influence to welfare. Regional economic performance and fiscal decentralization of Regional Own-Source Revenue show a positive and significant correlation include while the other four variables- workforce in agricultural sector, fiscal decentralization of General Allocation Funds, fiscal decentralization of Special Allocation Fund, and fiscal decentralization of Revenue Sharing Fund- show a negative and significant relationship to welfare.

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ABSTRACT

This study aims to describe the economic performances of Central Java province and analyze the effects of economic performances, dependency ratio, employment, and fiscal decentralization to welfare in the region. This study uses panel data between 2010 and 2013. The data is analysed using descriptive analysis and multiple linear regression analysis.

Descriptive analysis of the Economic Performance Index indicates that the economic performance of regencies/cities in Central Java province has improved. The city administrative regions generally show better economic performance than the regency administrative area. The improved economic performance of the region during the study is not consistent with development inequality. The inequality remains the same.

The results of multiple linear regression analysis indicate that the economic performance, the young dependency ratio, and Regional Own-Source Revenue provide positive and significant influence to welfare. The employment in the agricultural sector, the Special Allocation Fund, and Regional Sharing provide negative and significant influence to welfare, while the old dependency ratio, employment in the industry, and General Allocation Fund provide no influence to welfare. It is recommended that local governments reduce the development inequality by directing the regional development towards its main characteristics. Local governments need coherence, consistency, and synchronization between development planning and funding, and between the Local Government Unit in which the accountability of local government performance is based on well-defined indicators and mechanisms rather than simply juridical.

Type of Paper: Empirical

Keywords: *Economic Performance, Development gaps, HDI, Dependency Ratio, Employment, Fiscal Decentralization*

1. Introduction

Indonesia as an archipelagic country possesses unequal distribution of natural resources, where one area is rich in resources such as minerals while another is poor. It is caused by differences in endowments factors such as geographic location and the characteristics of its human resources

(Ehtisham *et al.*, 2002: 212). The ability of local governments to manage the development process is tested in their region. They are required to make the appropriate policies in promoting development equality to improve the welfare of the community, increase community participation in local development, improve and manage local financial potentials, and optimize the local economy performance.

Local governments are not simply executing the instructions of the central government, but actually possess the discretion to increase creativity in developing the potential that was largely restricted during the centralization era (Mardiasmo, 2002: 57). This policy is a challenge and an opportunity for local governments to manage their resources effectively and efficiently. For areas with reliable resources, both human resources and natural resources, the policy is welcome, given the nature of autonomy is an indication of the regional authority rather than delegation (Saragih, 2003: 34).

Economic growth is generally the main target in the process of economic development. It reflects the increase in production capacity or *output* of an area in a given time period. This indicator is used to measure the economic progress of national and regional development results and as a basis for development planning. The rate of economic growth in Central Java during 2009 - 2013 increased in line with the increase in GDP per capita. Table 1.1 shows that economic growth in Central Java increased from 5.14 percent in 2009 to 5.81 percent in 2013, and during this period the average economic growth rate of 5.83 percent per year.

Table 1.1 The RGDP, RGDP per capita and Growth Rate of Central Java Province Year 2009 - 2013 (Based on Constant Prices 2000)

Details	Unit Rupiah	Year				
		2009	2010	2011	2012	2013 *
(1)	(2)	(3)	(4)	(5)	(6)	(9)
RGDP	billion	176,673.5	186,993.0	198,270.1	210,848.4	223,099.7
RGDP without oil and gas	billion	166,176.2	176,187.0	187,244.9	199,838.6	212,304.9
RGDP growth	percent	5.14	5.84	6.03	6.34	5.81
RGDP growth without oil and gas	percent	5.66	6.02	6.28	6.73	6.24
RGDP per capita	thousand	5462.2	5773.9	6112.9	6494.4	6909.3
RGDP per capita without oil and gas	thousand	5137.6	5440.2	5770.1	6155.3	6574.9

Source: Central Bureau of Statistics, 2009-2013.

Remarks: *) Preliminary figures

The development goal is to improve the welfare, which can be achieved by, among others, reducing the level of poverty. The percentage of poor people is one of the social indicators frequently used to see the success of regional economic development.

Poverty, as defined by basic needs approach, is economic inability to meet the basic needs of food and non-food measured based on expenditure (CBS, 2008; 29). Poor population is the population with the level of expenditure per capita per month below the poverty line.

Table 1.2 Number of Poor Population in Central Java Province Year 2002 – 2013

Year	Poor Population
(1)	(2)
2002	7.308.330
2003	6.979.800
2004	6.843.800
2005	6.533.500
2006	7.100.600
2007	6.557.200
2008	6.122.551
2009	5.655.412
2010	5.215.403
2011	5.256.000
2012	4.952.056
2013	4.811.343

Source: Central Bureau of Statistics, 2002-2013.

The gap between districts/cities is also shown by a comparison of GDP per capita (current market prices for non-oil) between districts/cities in Central Java.

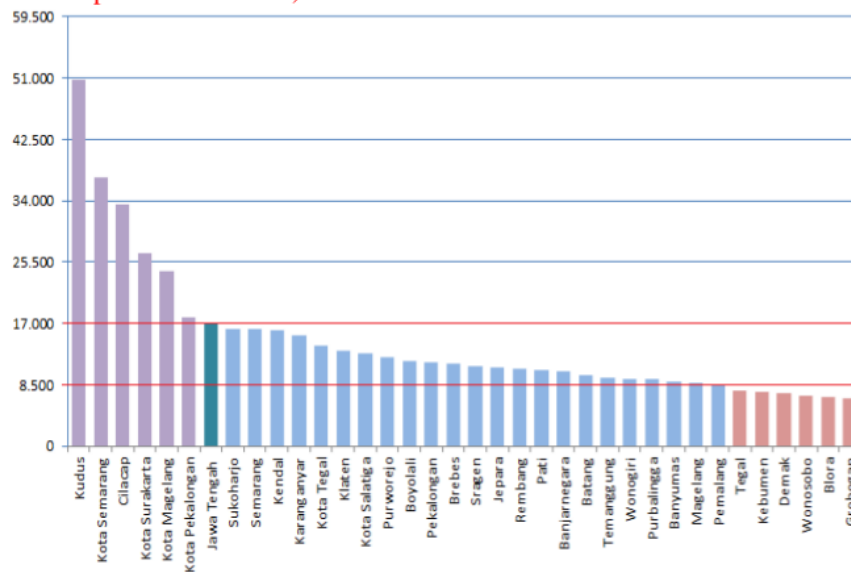


Figure 1.1 GRDP (current market prices for non-oil and gas) per capita by Regency/City in Central Java province in 2013 (Rp. 000)

Source: Central Bureau of Statistics, 2013.

Data processed.

Figure 1.1 shows that out of 35 (thirty five) regencies/cities in Central Java, only 6 (six) districts/cities have higher GRDP per capita than Central Java, namely Pekalongan City, Magelang City, Surakarta City, Cilacap District, Semarang District and Kudus District, whereas the other 29 districts/cities have lower GDRP, six (6) of which have less than half of the GDRP per capita of Central Java.

Differences in resources potential owned by each region lead to different results of development performance between regions. Such differences have an impact on the success of development across the country. Positive economic performance of a region can improve people's welfare, hence local governments need to optimize the economic performance of the region by developing specific programs tailored to the needs and abilities of each region so that development quality can be improved.

The wide per capita income inequality among districts/cities in Central Java province shows that the regional economy performance has not been able to narrow the gap among regions and improve quality economic growth, the economic growth that can improve people's welfare. Bappenas (2008: 5) states that there are two important issues relating to improving the welfare of society: how the government implements it and how it impacts on society.

Referring to the Bappenas statement, the implementation of regional autonomy in districts/cities needs to be evaluated where evaluation 'output' will focus on the main aspects of the public interest in maintaining their life, namely the economic condition. Bappenas (2008: 5) states that if economic conditions improve, it indirectly improves people's access to public services, such as education and health.

2. Methods

2.1. Scope of Research

The research was conducted in all regencies/cities in Central Java province from 2010 to 2013. The search object selection was based on the premises that:

1. Central Java Province is one of the provinces that is not experiencing regional administrative expansion after the implementation of regional autonomy policy. Bappenas and UNDP (2007) states that the evaluation of regional autonomy implementation shall not be performed to regions experiencing expansion area because they show results that do not support the achievement of their people welfare.
2. The center of regencies/cities in Central Java province lies in one expanse of the island of Java. It is expected that transportation and communication do not encounter significant barriers and the differences in resources and culture are not too great, so that all development processes run smoothly.
3. Central Java Province is not a special region.
4. Between 2010 and 2013, regional autonomy policy has been implemented for more than a decade. It is assumed that the policy has run properly and the results of regional development have been felt.

Data collection in this study is intended to obtain relevant and accurate materials. The data used are *time series* and *cross section* secondary data, which has been reprocessed. Secondary data is data that is obtained in the form of ready-made data, collected and processed by the other parties (Supranto, 2000).

The research data is annual data from 2010 to 2013 from all regencies/cities in Central Java province. The data were fully obtained through literature review, so sampling and questionnaires were unnecessary. The data were obtained from literature published by authorities such as the Central Bureau of Statistics and the Directorate General of the Central and Local Fiscal Balance.

2.2. Data analysis techniques

2.2.1 Analysis methods

a. Descriptive Analysis

This is the first part of data analyses in this study. Descriptive analysis is used to analyze the processing results of the Economic Performance Index as indicators for economic performance and Williams Index for development inequality in all regencies/cities in Central Java province.

b. Multiple Linear Regression Analysis

This is the second analysis in this research used to analyze the panel data of regencies/cities in Central Java province from 2010 to 2013. Panel data is a combination of *time series* and *cross section*.

Three approaches are used in the processing of panel data analysis: *common effect*, *fixed effect*, and *random effect*.

1) Common Effect

Common Effect approach combines *time series* and *cross section* data by combining the two types of data so that OLS can be used to estimate the panel data model. This approach does not pay attention to individual and time dimensions, and it can be assumed that the data behavior between individuals is identical in a variety of time scales. These assumptions are far from actual reality, because the characteristics between individuals in terms of territorial are evidently different.

2) Fixed Effect

Fixed effect model assumes that differences between the units of cross-sectional and time unit are shown in the various intercepts of the respective units. In the *two-way fixed effects model*, the intercept difference results from the two units: the cross-sectional unit and time unit, thus the difficulty of fulfilling consistent intercept and slope assumptions, which can be done by inserting a dummy variable. The fixed effect modelling is generally performed using *Least Square Dummy Variable (LSDV)*, which is the estimation method of linear regression parameter using OLS on models involving dummy variables on one of the explanatory variables (Greene, 2007).

3) Random Effect

The addition of dummy variables will reduce the degree of freedom, which will subsequently reduce the efficiency of the estimated parameters. Error component model or random effect model can be used in data panel model that involves the correlation between error terms due to the changing times because of different observation. This model assumes that the influence of cross-sectional unit and time unit is a random variable that is included in the model as a form of error (Judge et al., 1980).

2.3 Estimation Model

Research on the effect of Economic Performance (EP), Dependency Ratio (DR), Workforce (W_{ind} , W_{farmer}), and Fiscal Decentralization (FDD1, FDD2, FDD3, FDD4) variables on Welfare (HDI) using *time series* data for four years from 2010 to 2013 and *cross section* data of 35 regencies/cities in Central Java with 140 observations.

The model used is:

$$HDI = f(EPI, DR_{young}, DR_{old}, W_{ind}, W_{farmer}, FDD_1, FDD_2, FDD_3, FDD_4)$$

Or translated into:

$$HDI_{it} = \alpha_0 + \beta_1 EPI_{it} + \beta_2 DR_{young} + \beta_3 DR_{old} + \beta_4 W_{ind} + \beta_5 W_{farmer} + \beta_6 FDD_{1it} + \beta_7 FDD_{2it} + \beta_8 FDD_{3it} + \beta_9 FDD_{4it} + \varepsilon_{it}$$

Where:

HDI = Human Development Index

EPI = Economic Performance Index

DR_{young} = Dependency Ratio Young

DR_{old} = Dependency Ratio Old

$W_{(ind)}$ = Percentage of Workforce in Industrial Sector

$W_{(farmer)}$ = Percentage of Workforce Agricultural Sector

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FDD1 = Regional Own-Source Revenue/Total Regional Revenue
FDD2 = General Allocation Fund/Total Regional Revenue
FDD3 = Special Allocation Fund/Total Regional Revenue
FDD4 = Revenue Sharing Fund/Total Regional Revenue
 α = intercept/coefficient
 β = constant/slope
e = error term
i = regencies/cities
t = year

3. Results and Discussions

The economic performance of the region during the study has improved. Regencies/cities in Central Java seek to improve their economic performance in harnessing the potential of their respective regions. This condition is reflected in the rate of economic growth that continues to increase accompanied with an increase in per capita income and a reduction in poverty as shown Table 3.1.

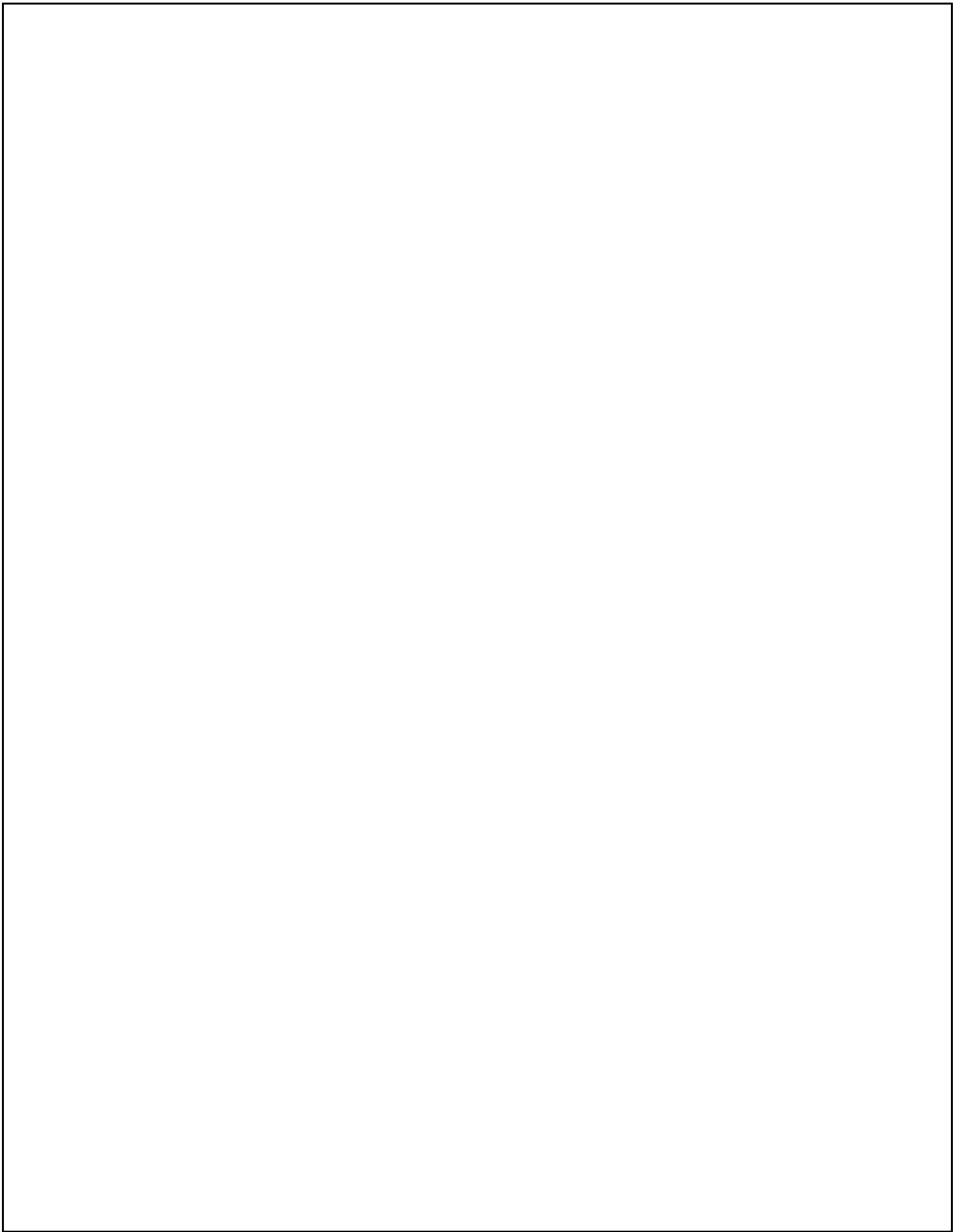


Table3.1 Economic Growth Rate and RGDP contributions of Regencies/Cities in Central Java 2010 - 2013

Kabupaten/kota	LPE (%)				Kontribusi (%)			
	2010	2011	2012	2013	2010	2011	2012	2013
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1 Cilacap	5,65	5,78	5,59	5,75	11,46	11,76	11,78	11,83
2 Banyumas	5,77	5,95	5,88	6,71	3,00	2,97	3,01	3,00
3 Purbalingga	5,67	6,03	6,26	5,66	1,68	1,71	1,71	1,72
4 Banjarnegara	4,89	4,92	5,25	5,28	1,95	1,95	1,94	1,94
5 Kebumen	4,15	4,23	5,59	4,24	1,88	1,86	1,87	1,86
6 Purworejo	5,01	5,02	5,04	4,99	1,88	1,87	1,86	1,84
7 Wonosobo	4,29	4,52	5,14	4,98	1,14	1,13	1,13	1,12
8 Magelang	4,51	4,27	5,84	5,60	2,33	2,30	2,30	2,28
9 Boyolali	3,60	5,28	5,66	5,43	2,35	2,36	2,35	2,36
10 Klaten	1,73	1,96	5,54	5,79	3,27	3,19	3,19	3,21
11 Sukoharjo	4,65	4,59	5,03	5,01	2,88	2,88	2,89	2,90
12 Wonogiri	5,87	2,24	5,87	4,63	1,96	1,88	1,87	1,86
13 Karanganyar	5,42	5,50	5,82	5,38	2,68	2,69	2,71	2,71
14 Sragen	6,09	6,53	6,60	6,64	1,94	1,98	2,02	2,04
15 Grobogan	5,05	3,59	6,16	4,59	1,89	1,87	1,90	1,88
16 Blora	5,19	2,59	4,99	4,93	1,24	1,22	1,20	1,21
17 Rembang	4,45	4,40	4,88	5,03	1,44	1,42	1,40	1,39
18 Pati	5,11	5,43	5,92	5,72	2,72	2,74	2,72	2,72
19 Kudus	4,17	4,21	4,33	4,68	9,14	8,86	8,72	8,69
20 Jepara	4,52	5,44	5,79	5,77	2,65	2,65	2,65	2,64
21 Demak	4,12	4,48	4,64	4,62	1,72	1,71	1,69	1,68
22 Semarang	4,90	5,56	6,02	5,62	3,21	3,23	3,27	3,32
23 Temanggung	4,31	4,65	5,04	5,02	1,47	1,47	1,46	1,46
24 Kendal	5,97	5,99	5,54	5,24	3,13	3,18	3,17	3,15
25 Batang	4,97	5,26	5,02	5,17	1,53	1,54	1,53	1,52
26 Pekalongan	4,27	4,77	5,32	5,45	2,10	2,10	2,11	2,11
27 Pemasang	4,94	4,83	5,28	5,41	2,31	2,32	2,31	2,30
28 Tegal	4,83	4,81	5,25	5,60	2,30	2,30	2,31	2,30
29 Brebes	4,94	4,97	5,21	5,06	4,25	4,30	4,25	4,26
71 Kota Magelang	6,12	5,48	6,48	5,91	0,61	0,61	0,62	0,61
72 Kota Surakarta	5,94	6,04	6,12	5,89	2,89	2,88	2,87	2,87
73 Kota Salatiga	5,01	5,26	5,94	6,14	0,54	0,53	0,53	0,52
74 Kota Semarang	5,87	6,41	6,42	6,20	12,60	12,69	12,83	12,88
75 Kota Pekalonga	5,51	5,45	5,60	5,89	1,10	1,10	1,09	1,10
76 Kota Tegal	4,61	4,58	5,07	4,93	0,77	0,75	0,73	0,72
Jawa Tengah	6,02	6,28	6,73	6,24	100,00	100,00	100,00	100,00
Rata-rata	4,92	4,89	5,55	5,40	2,86	2,86	2,86	2,86
Disparitas	4,39	4,57	2,40	2,47	12,06	12,16	12,31	12,36

Sumber : Badan Pusat Statistik, 2014 data diolah.

administrative areas showed better performance than the regencies. It is influenced by factors such greater number of inhabitants and stagnant contributions to the economy of Central Java. Regencies/cities contributions remained unchanged, and Semarang is the city with the most stable

In general, the city

economic performance among regencies/cities in Central Java, which may be caused by the existence of not one but many dominant sectors.

The improving economic performance has apparently not been able to reduce development inequality between regencies/cities. It can be seen from Williamson Index that remained high throughout the study at approximately 0.69 as presented in Figure 3.1.

Figure 3.1 illustrates that from 2010 to 2013 Williamson Index value decreased so slightly that it can be viewed as stagnant. In 2010, Williamson Index of equality was 0.697 and decreased to 0.695 in 2011 and 0.692 in 2013. The slight decline shows that the improved economic performance was not followed by a decrease in development inequality among regencies/cities in Central Java.

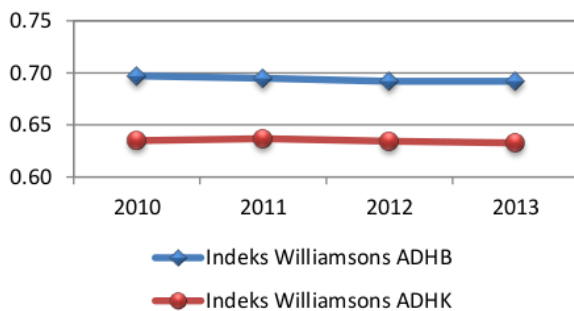


Figure 3.1 Williamson Index Development in Central Java Province 2010 – 2013

*Source: Central Bureau of Statistics, 2014.
Data processed.*

The city of Semarang has the most stable economic performance during the study. This stability can be seen in all constituent variables of EPI such as economic growth rate, RGDP per capita, poverty level, and the contribution to the economy of Central Java from year to year. The stability of Semarang is the result of multi-sector economy, unlike other regencies/cities that generally focus on only one sector of the economy.

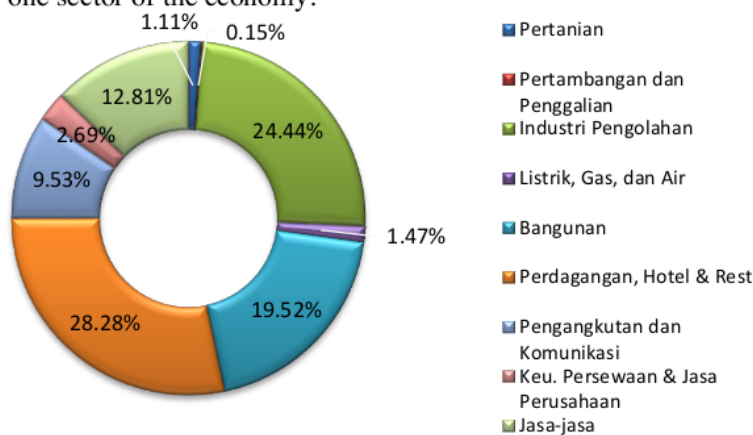


Figure 3.2 The average RGDP contributions of Semarang City based on Economic Sectors in Central Java Province 2010 – 2013

Source: Central Bureau of Statistics, 2014.

Data processed.

The analysis on the correlation between regional economic performance, dependency ratio, employment, and fiscal decentralization and welfare in Java Island using fixed effect model is as follows:

$$\text{HDI}_{it} = 72,82155 + 0,278559\text{EPI}_{1it} + 0,022743\text{DR}_{\text{young}} + 0,007709\text{DR}_{\text{old}} + 0,010664 W_{\text{ind}} - 2,830820W_{\text{farmer}} + 2,422754\text{FDD}_{1it} - 1,216373\text{FDD}_{2it} - 13,63182\text{FDD}_{3it} - 4,399037\text{FDD}_{4it} + \varepsilon_{it}$$

The nine independent variables included in the equation are able to explain the variations in HDI or, overall, the influence of the nine independent variables to welfare is 99.49 percent. The remaining 0.51 percent is influenced or explained by other variables outside the model. Of the nine independent variables in the model, six variables show significant influence to welfare. Regional economic performance and fiscal decentralization of Regional Own-Source Revenue show a positive and significant correlation include while the other four variables- workforce in agricultural sector, fiscal decentralization of General Allocation Funds, fiscal decentralization of Special Allocation Fund, and fiscal decentralization of Revenue Sharing Fund- show a negative and significant relationship to welfare.

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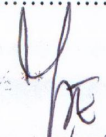
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Fakultas Ekonomi dan Bisnis
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