

GSAPS THE SUMMARY OF DOCTORAL THESIS

Corruption, Fiscal Decentralization and Economic Growth:

Evidence from Asia-Pacific Countries and Indonesia

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This dissertation investigates the relationships between corruption, fiscal decentralization, and economic growth in Asia-Pacific countries and Indonesia's provinces. The analysis follows a plan of research which begins with broad inquiries and progressively narrows toward more specific questions. This creates the basis for five chapters of analysis. The dissertation provides an overview of the major concepts, their definitions, and the history of research into their relationships. The effects of corruption on economic growth are investigated empirically in Asia-Pacific countries and Indonesia's provinces. Many studies have found evidence that the adverse effect of corruption slower economic growth, increasing risk and uncertainty in investment, and further hinder poverty in linear relationship. Moreover, the mixed findings of literature suggest that countries have different production functions and level of institutional efficiencies that may cause varied corruption effects. Other studies maintain that there is a nonlinear relationship in the corruption and economic growth and they identify corruption thresholds. If the level of corruption is above the threshold, the adverse effects of corruption retard economic growth. However, when the level of corruption is below the threshold it might promote economic development.

With this as background, Chapter 3 examines the effects of corruption on economic growth in Asia-Pacific countries in the period from 1995 to 2014, and Chapter 4 considers Indonesia's provincial governments in the period from 2004 to 2015. These two chapters address two research questions: 1) what are the effects of corruption on economic growth when accounting for different corruption thresholds? 2) Has a given country's or province's corruption level improved or deteriorated over time? Two methods are used for this analysis: the fixed effect threshold model from Hansen (1999) and a two-stage least squares estimator (2SLS). In Chapter 3, the estimation results show that the effect of corruption on economic growth is negative in countries with high corruption, i.e., indices above 80. In Chapter 4, the results show that corruption has a growth-deteriorating effect for provinces with corruption levels below the threshold of 1.765 points. There are even more robust effects in high-corruption provinces—those with a corruption level above the threshold.

The focus on Indonesia continues in Chapter 5, which relates the increasing number of corruption case with the decentralization of the financial system, starting in 2004. That research answers two questions: 1) Does the degree of fiscal decentralization facilitate an increasing number of corruption cases? 2) Does financial independence from of tax revenue encourage regional governments to be more responsible and accountable, thereby, mitigating corruption? The methods were a random effects model and a generalized method of moments (GMM) model. The results show that the degree of fiscal decentralization, on both the expenditure and the tax revenue sides, led to a growing number of corruption cases in local governments.

The discussion of the effect of fiscal decentralization was elaborated from the point of view of the efficiency of government expenditures in Chapter 6. This chapter answers the following research questions. 1) What are the productivity and efficiency scores of government expenditure, particularly in infrastructure, education, health, and social protection? 2) What is the relationship between the degree of fiscal decentralization and

government expenditure efficiency in Indonesia's provinces? A two-stage method is used to explore these research questions. In the first stage, a Malmquist Productivity Index (MPI) is used to obtain efficiency scores for four components of expenditure: infrastructure, education, health, and social protection. In the second stage, a Tobit model is employed in the estimation strategy. Chapter 6 covers 26 provinces in the period from 2004 to 2015. The degree of fiscal decentralization is found to promote the efficiency of government expenditures. Tax revenue collected by regional governments supports this efficiency in the infrastructure, education, and health sectors, but the degree of fiscal decentralization seems to have a negative effect on the efficiency of government expenditures in the social protection sector.

In Chapter 7, some relevant determinants that influence people's perception of corruption in general and particularly in public offices are assessed, using responses to a national survey on corruption in 2014 in Indonesia. Either an ordered logistics model or a cross-tabulation method was used, depending on the hypothesis. Five research questions are addressed: 1) what are the personal characteristics that form people's perceptions of corruption? 2) Are people's perceptions of corruption influenced by their experience of giving a bribe to public officials? 3) Do the media and the source of information shape and frame people's perceptions of corruption? 4) Are money politics or vote-buying practices common and accepted? 5) Has the government played an important role in anti-corruption actions? The results show that urban residents, women, people at all educational levels, and people whose monthly expenditures are above three million IDR believe that corruption is a serious problem in Indonesia.

This dissertation offers several contributions to the academic literature. Chapter 3 offers a new perspective on corruption studies in Asia-Pacific countries by employing a nonlinear approach to measure corruption thresholds. These have rarely been investigated in previous studies despite the large number of corruption studies using the linear approach. In Chapter 4, the number of corruption cases investigated by Indonesia corruption eradication commission (KPK) represents the appropriate data to exercise the corruption and economic growth nexus. This has not been done in earlier research on Indonesia. In Chapter 5, this research creates a corruption measure from the number of corruption cases investigated by KPK and provincial-level government financial data. In Chapter 6, this study provides extensive and internationally comparable data that distinguishes it from other studies on Indonesia. Chapter 7 analyzes citizen's perceptions of corruption empirically using a survey on corruption in Indonesia.

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