

Thesis Abstract

Title of Thesis	Essays on fiscal decentralization, regional income inequality and local public goods provision: a case of Indonesia
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Abstract (within 1,500 words):

This dissertation is based on three essays to explain the fiscal decentralization, regional inequality, and the provision of local public goods in Indonesia. There are three main objectives of this dissertation. First, to explain the effect of social diversity and intra-province income inequality on the provision of public goods, which explained in chapter two. Second, to examine the relationship between intra- province income inequality and fiscal decentralization in chapter three. Finally, to examine the relationship between the provision of local public goods, intra- province income inequality, and fiscal decentralization in chapter 4.

In chapter two, using panel data and dynamic panel data estimation, the estimation

analysis provides evidence that ethnic heterogeneity is positively related to the provision of local public goods. The result also provides no significant evidence that intra-province income inequality has an impact on the provision of local public goods.

Chapter 3 analyses the relationship between regional income inequality and fiscal decentralization by employing the simultaneous equation method on panel data. Based on the estimation result, this chapter concludes that fiscal decentralization is related to lower intra-province inequality and that intra-province inequality has no impact on fiscal decentralization. The estimate result also shows that ethnic diversity is associated with decentralization.

Finally, chapter 4 elaborates on the interaction between the provision of local public goods, intra-province inequality, and fiscal decentralization using panel data and by way of simultaneous equation method. The result confirms that fiscal decentralization leads to lower regional income inequality, but income inequality has no impact on fiscal decentralization. The result proposes that the provision of public goods and income inequalities are jointly determined. The result provides no evidence of a significant relationship between fiscal decentralization and the provision of local public goods. The estimation in this chapter indicates that ethnic diversity is insignificant in the relationship between the provision of local public goods, intra-province inequality, and fiscal decentralization.

Although the ethnic diversity variable was not significant when we used SEM to estimate the link between intra-province inequality, decentralization, and public goods

provision, ethnic diversity is still an important variable in previous estimations. Intuitively, the presence of ethnic diversity pressures the local government to provide public goods that match the local preferences to avoid conflicts. Simultaneously, the provision of local public goods is related to the broadening of inequality within the region. To mitigate the detrimental effect of the provision of public goods on intra-province inequality, the central government should set a minimum standard of local public goods provision which applies to all local governments to guarantee that all citizens regardless of their ethnicity to have an equal opportunity to access essential public goods (especially productive public goods such as education, health, and infrastructure) in order to improve their well-being. To mitigate the potentially harmful effect of local public goods provision on the intra-province inequality, the central government should establish a set of criteria to measure the impact of local public goods provision on the regional and national level by leading a joint coordination between the central government and local governments as well as between all local governments. A stick and carrot approach may motivate local governments to participate in the central government's program regarding the local public goods provision. An additional (reduced) amount of intergovernmental transfer may work as an incentive (punishment) to motivate the local government to partake in this program.