

ABSTRACT

Fiscal decentralization gives more advantages for regions to manage their own fiscal capacities. Regions governments have opportunity to increase economic efficiency because governments have informational advantages concerning resource allocation. The governments are in better position to provide the kind of public goods and services that closely meets the local needs.

This research aims to analyze the impact of the implementation of fiscal decentralization on regional income disparities between 6 provinces in Java for a seven-year implementation period, since 2014 – 2020. Variable studied its influence on region disparity are examined degree of fiscal decentralization, the total work force, tax ratio district, and trade openness using fixed effect model (FEM).

The analysis concluded that simultaneously all independent variables significantly influence in reducing the level of income inequality between regions in Java. However, by using t-test the variables of fiscal decentralization, labor, and the ratio of local taxes have a negative and significant effect on income inequality, while the trade openness variable has a negative and insignificant effect on income inequality between provinces on the island of Java.

Keywords: Regional Disparities, Fiscal Decentralization, Labor, Local Tax, Trade Openness