

ABSTRACT

Fiscal policy is an action taken by the government in the field of state government budget which is related to tax revenue and government expenditure. In the framework of the implementation of fiscal decentralization, there is the giving task and authority to local governments which means that the local government has the right to regulate their tax revenue and expenditure. The greater amount of tax that government received will result in increased revenues to finance government expenditure, and conversely. It basically gives the understanding that discussion of tax revenues closely related to government expenditure.

This research aims to analyze the causality relationship between tax revenues and government expenditure on the cities of Central Java Province during 2001-2014. This research uses Granger Causality Test. Types of data used in this research is secondary data and panel. The data obtained from the Directorate General of Financial Equalization.

The result showed that there is unidirectional causality from tax revenues to the government expenditure on the cities of Central Java Province. This result support tax-spend hypothesis explained by Friedman (1978) that government expenditure will adjust by tax revenues.

Keywords: Granger causality test, tax revenue, government expenditure