ABSTRACT

This research aims to analyze strategic interaction among local governments and yardstick competition mechanism. Since competition among local governments which induced by migration of citizens (Tiebout Model) is not applicable, yardstick competition is believed as an alternative mechanism. Yardstick competition is defined as a condition where citizens-voters are able to benchmark the performance of the incumbent using other local jurisdiction performance. It happens when there is information spillover across local jurisdiction. However, it is assumed that there is asymmetric information between citizens-voters and the incumbent. The comparison between jurisdictions will affect the voting decision whether to vote in or to vote out. Incumbent who cares about chance of being reelected by citizens-voters will consider what other local government policies and adopt mimicking behavior. Then, incumbent will interact strategically in order to be reelected by citizens-voters. Using data of local election (pilkada) (2005-2013) and panel data per capita public expenditure (2001-2012) from Central Java Province in Indonesia, we build three models to test yardstick mechanism, Probit (to analyze citizens preference about the incumbent), spatial-autoregressive (SAR) (to investigate strategic interaction), and spatial-autoregressive two-regimes (SAR-TR) (to investigate yardstick competition). Maximum likelihood estimation is employed to estimate the models. The result shows that yardstick competition is not empirically confirmed in the case of local governments in Central Java Province. The interaction among local governments is not driven by yardstick mechanism, but common fiscal shock. We also find that interactions among local governments in the education and health spending happen which is not related to common fiscal shock and yardstick mechanism.

Keywords: decentralization, yardstick competition, Central Java, probit, SAR, two-regimes.