

ABSTRACT

The research is intended to prove that there was fiscal illusion in the local districts and cities government expenditures in Central Java in the regional autonomy era between 2002-2017, and to prove that the fiscal illusion that occurred on government expenditure has negatives influence on the economic growth in each district and city.

In the fiscal decentralization in the local autonomy, there was the phenomenon that each local government still has high depending to finance its activities from higher level government transfer funds, rather than revenue from its original regional incomes. Meanwhile, the local government expenditures increase every years but not followed by the local economic growth.

Fiscal illusion can be proven was occured in government expenditures at local districts and cities government in Central Java in the regional autonomy era from 2002-2017 through the negative correlation between the ratio of national incomes which transferred to local governments with the amount of regional revenue to the budget of regional origine local incomes revenue, and the level of government's relative perception to local government to the budget of regional origine local incomes revenue, and a positive correlation between the unemployment rate to the budget of regional origine local incomes revenue.

The results of this study also proved that the fiscal illusion on districts and cities government expenditures in Central Java between 2002-2017 was a negative determinant of regional economic growth in each district and city. The coefficient value of the detected fiscal illusion level is -1,288 shows that every 1%, increase of fiscal illusion then economic growth will decrease by 1,288%.

So, to improve local economic growth, there is much efforts need to do like to improve the fiscal capacity and independency, make a planning and budgeting system improvements, and increase the rates of labor force participation.

Keywords: economic growth, autonomy era, local government, Central Java, government expenditure, fiscal illusion,