Fiscal Illusion Detection Through Measuring the Complexity of Receipts and Expenditure Per Capita at the District/City Level in Indonesia

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ABSTRAK

Government revenue and spending are important factors in government administration. This study identifies whether the complexity of revenues generates fiscal illusions that lead to increased regional spending. Identify fiscal illusions using revenue complexity. In obtaining valid results, this study uses a Fixed Effect Model (FEM) estimate and uses unbalanced panel data obtained from regencies/cities in Indonesia throughout the 2015-2019 period.

The results of the analysis in this study found that there is no fiscal illusion at the district/city level in Indonesia. The application of complexity to revenues originating from local taxes and non-taxes does not lead to an increase in regional spending per capita. Regional governments depend on the central government in regional financing where per capita regional spending tends to be influenced by two balancing fund instruments.

Keywords: Revenue Complexity, Fiscal Illusion, Governance.