

THE EFFECT OF REGIONAL INDEPENDENCE TOWARDS HUMAN DEVELOPMENT AND HAPPINESS INDEXES IN INDONESIA

¹Lucky Rachmawati, ²Prayudi Setiawan

¹Universitas Negeri Surabaya, luckyrachmawati@unesa.ac.id

²Universitas Negeri Surabaya, Prayudi.setiawan@gmail.com

ABSTRACT

The level of regional independence in Indonesia is on average still in the low category. The level of regional independence, it is suspected will affect the index of human development and happiness. The research objectives are described as follows: To analyze the effect of regional independence on the human development index and happiness indexes in Indonesia. This type of research is explanatory research using quantitative methods. Ordinary least square (OLS) analysis techniques are used to answer problems. Based on the results of data analysis, it is evident that regional independence has a significant and positive effect on the human development index. In contrast, regional independence has no significant and negative effect on the happiness index.

Keywords: Regional independence, Human development, Happiness index, Indonesia.

INTRODUCTION

The current economic structure in Indonesia is decentralized. The efficiency and effectiveness of regional government administration need to be improved by paying more attention to aspects of relations between the Central Government and regions and between regions, the potential and diversity of regions, as well as the opportunities and challenges of global competition in the unified system of state governance. Law Number 23 of 2014 states that "the implementation of regional government is directed to accelerate the realization of public welfare through improving services, empowerment, and community participation, as well as increasing regional competitiveness by taking into account the principles of democracy, equity, justice and peculiarities of a region".

The measure of regional autonomy is seen from the amount of local revenue compared to the

balancing fund. The amount of the balancing fund depends on the ability of the local government to obtain local revenue from each region. Areas that have a lot of resources have the potential to generate high local revenue, so the balance funds transferred to the area are getting smaller. In contrast to regions that have little resources, they can generate low-income local revenues, thus increasing the balance of funds transferred to the area. It can be concluded that the greater the original regional income generated, the smaller the transfer of balance funds to the regions.

Central Bureau of Statistics (2017) categorizes regional independence level into 4 categories, including 1) The level of regional independence is very low, this means that the central government has a dominant role than the regional government itself; 2) The level of independence is low, this means that the intervention of the central government has begun to decrease, because the regions are considered to be slightly more able to implement regional autonomy; 3) Medium level of independence, this means that the area is close to being able to implement regional autonomy; and 4) The level of independence is high, this means that the local government is capable and independent in carrying out its regional autonomy affairs.

Table 1: Distribution of Provinces in Indonesia According to the Level of Independence in 2014- 2017

Independence Categorizes	2014	2015	2016	2017 *)
(1)	(2)	(3)	(4)	(5)
Very Low (0-25%)	7	7	8	10
Low (>25-50%)	15	15	19	17
Medium (>50-75%)	11	10	7	7
High (>75%)	0	1	0	0
Jumlah	33	33	34	34

Source: Central Bureau of Statistics, 2017

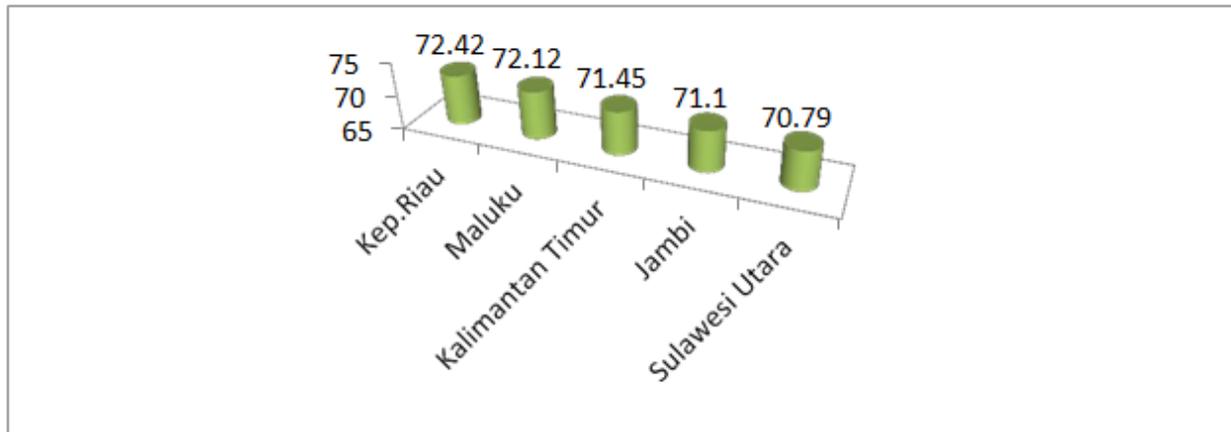
Based on Table 1, the average level of regional independence in Indonesia is still in the low category. The level of regional independence is expected to contribute to the welfare of the community. The more independent an area is, it is hoped that it can improve the welfare of the community. Based on welfare theory, people tend to maximize their utility. Both utilities in the activities of consuming and producing. Regional autonomy indicates that the area can produce goods or services that are a lot of potential resources in the area and will contribute to the

region's original revenue. In the end, local revenues provide high per capita income to the community and improve community welfare.

Decentralization theory, Wu (2002), Badrudin (2011), Usman (2002), Daud (2012), Czike et.al. (2002), Krémer et.al. (2002), Azfar et.al. (1999), Serrano and Pose (2014) explain how the influence of decentralization on public welfare. This study has a slightly different variable compared to some previous studies. The research directly examines decentralization in general, while this research focuses on regional independence as a result of decentralization. Community welfare is measured by different indicators because the indicators of community welfare are quite a lot. Some economists measure the welfare of the community with several indicators, including income earned by the community, expenditure/consumption, human development index, purchasing power, and the newly developed index of happiness.

In addition to the previous theories and research that have been mentioned, there are also some researchers who have examined the variables related to the independence of the area that affects the human development index and happiness index, including Siregar and Pratiwi (2017); Gousario and Dharmastuti (2015); Sari, Saputra and Siahaan (2017); and Kim, Chun and Sohn (2015). This study focuses on examining the impact of regional independence on two variables, namely the human development index and the happiness index as a measure of community welfare. The level of regional independence, it is suspected will affect the human development index and happiness index. The human development index is a measure of community welfare based on education, health and purchasing power variables. While the happiness index is measured through several indicators of happiness.

The human development index reaches 70.18 and DKI Jakarta Province has the highest human development index compared to other provinces, which is 79.60. Nevertheless, it turns out that there is a gap in the human development index in the western and eastern regions (Central Bureau of Statistics –Jakarta: 2017 a). In addition to influencing the human development index, it is suspected that regional independence also affects the happiness index.



Source: Central Bureau of Statistics- Jakarta, 2017b

Figure 1: Five Provinces with the Highest Happiness Index in Indonesia in 2016

Based on Figure 1, Riau Islands Province has the highest happiness index compared to other provinces. The influence of regional independence on the human development index and happiness index needs to be further examined and verified. This proposal aims to establish a human development index model and happiness index and test the hypothesis of the relationship between these variables.

This research is expected to be able to contribute to the acceleration of economic development in Indonesia as measured through the human development index and happiness index. The research objectives are described as follows: To analyze the effect of regional independence on the human development index and happiness index in Indonesia.

RESEARCH METHODS

This type of research is explanatory research using quantitative methods. The research design is illustrated in Figure 2.

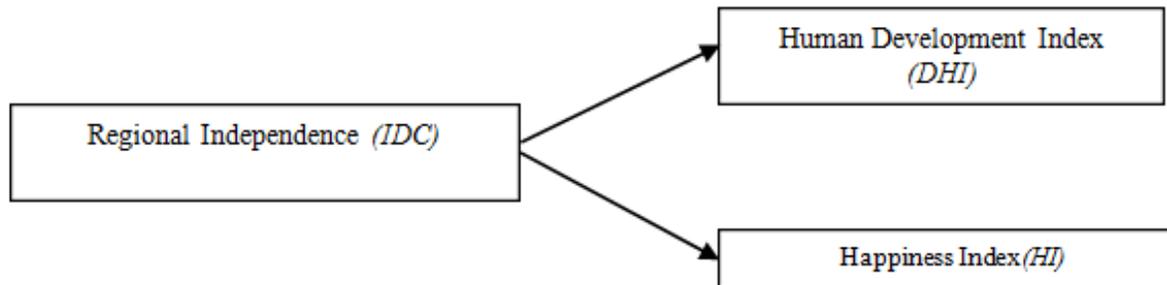


Figure 2: Research Design

Based on the research design, an economic model can be formulated the influence of regional independence on the human development index and happiness index in Indonesia is investigated using the following two models:

$$HDI_r = b_0 + b_1 IDC_r + e_{1r}$$

$$HI_r = b_2 + b_3 IDC_r + e_{2r}$$

where HDI_r is the provincial human development index r in 2017; HI_r is the province's happiness index r in 2017; IDC_r is the provincial autonomy r in 2017; b_0 and b_2 are constants; b_1 and b_3 are regression coefficients of regional independence variables; e_{1r} and e_{2r} are standard errors.

In this study, the population is all provinces in Indonesia. All provinces in Indonesia in 2017 in this study were used as research samples or using saturated sampling with a total sample of 34 provinces. The method used in the data collection of this research is the documentation method. The documentation method in this study is data collection which is secondary data taken from the Central Bureau of Statistics (BPS). The data obtained will be processed and analyzed to answer the problems in the study. Ordinary least square (OLS) analysis techniques are used to answer problems. Besides testing hypotheses, the classic assumption test is also done to get a good, linear, unbiased bias model of human development index estimation and happiness index. The estimated value of the human development index and the happiness index is determined by regional independence.

RESULTS AND DISCUSSION

1. Regional Independence Effect on the Human Development Index

Based on the hypothesis test, the results show that regional independence has a significant and

positive effect on the human development index, with the following models:

$$HDI = 65.998216565 + 5.86502148019 * IDC$$

t stat	68.2832	4.7043
Prob.t stat	0.0000	0.0000
R ²		40.88%
F stat		22.13
Prob. F stat		0.000047

The classic assumption test that has been done gives results that the model passes the heteroscedasticity, linearity and normality test. The estimation model states that the regional independence parameter coefficient is positive and is 5.865, this means that if the regional independence increases by 0.1, the human development index will increase by 0.5865. Variations in the value of the human development index are explained by regional independence of 40.88%, the remaining 59.12% is explained by other variables not examined in this study.

The results of this study support the theory of decentralization proposed by Wu (2002), Badrudin (2011), Usman (2002), Daud (2012), Czike et.al. (2002), Krémer et.al. (2002), Azfar et.al. (1999), Serrano and Pose (2014) which explains how the influence of decentralization on public welfare. It also supports the previous research proposed by Siregar and Pratiwi (2017); and Gousario and Dharmastuti (2015) which explained that regional independence affects the human development index. However, in contrast to Sari, Saputra, and Siahaan (2017) which revealed that the level of regional independence had no significant effect on the human development index.

2. The Effect of Regional Independence on the Happiness Index

Based on the hypothesis test, the results show that the independence of the region has no significant and negative effect on the happiness index, with the following models:

$$HI = 71.7600066314 - 0.448088046273 * IDC$$

t stat	137.310	-0.664705
Prob.t stat	0.0000	0.5110
R ²		1.36%
F stat		0.44183
Prob. F stat		0.51100

The classic assumption test that has been done gives results that the model passes the heteroscedasticity, linearity and normality test. The estimation model states that the regional independence parameter coefficient is negative and is 0.44808, this means that if the regional independence increases by 0.1 then the happiness index will decrease by 0.044808. Variations in happiness index values are explained by regional independence of 1.36%, the remaining 98.64% is explained by other variables not examined in this study.

The results of this study do not support the decentralization theory proposed by Wu (2002), Badrudin (2011), Usman (2002), Daud (2012), Czike et.al. (2002), Krémer et.al. (2002), Azfar et.al. (1999), Serrano and Pose (2014) which explains how the influence of decentralization on public welfare. Likewise, it does not support the previous research of Kim, Chun, and Sohn (2015) which reveals how the influence of regional independence on the happiness index. According to them the community happiness index is not only influenced by personal characteristics but also regional characteristics.

CONCLUSION

Based on the results of data analysis, obtained results that regional independence has a significant and positive effect on the human development index. It can be concluded that regional independence is good for creating a human development index. This can happen because regions can understand the needs of their regions so that they can determine the best policies for their regions in improving human development. The more independent an area they are, the more they have the authority and confidence in managing their funds and can improve human development.

In contrast, regional independence has no significant and negative effect on the happiness index. It can be concluded that regional independence is less able to create a human development index. The happiness index describes the level of happiness of the population as measured by ten indicators of population satisfaction 1) health, 2) education, 3) family harmony, 4) availability of free time, 5) social relations, 6) environmental conditions, 7) security conditions, 8) work, 9) household income, 10) housing conditions and assets. Regional autonomy has not been able to satisfy the population regarding the ten indicators of population satisfaction that have been mentioned. It is hoped that for future policies, the government will not only focus on improving human development but also how to provide happiness for the population.

REFERENCES

- Azfar, O., Kähkönen, S., Lanyi, A., Meagher, P., Rutherford, D., 1999, *Decentralization, Governance and Public Services The Impact of Institutional Arrangements: A Review of the Literature*, IRIS Center, University of Maryland, College Park.
- Central Bureau of Statistic, 2017a, Indonesian Statistics in Infographics 2017, Central Bureau of Statistic –Jakarta.
-, 2017b, Indonesian Statistic 2017, Central Bureau of Statistic –Jakarta.
- Badrudin, R., 2011, Effect of Fiscal Decentralization on Capital Expenditure, Growth and Welfare, *Economic Journal of Emerging Markets*, December 2011 3(3) 211-223.
- Czike, K., Krémer, B., Tausz, K., 2002, *The Impact of Decentralization on Social Policy in Hungary, Latvia and Ukraine*, ISBN: 963 9419 34 6, Local Government and Public Service Reform Initiative, Open Society Institute Budapest.
- Daud, N., 2012, The Influence of Economic Growth on the Degree of Autonomy of the Regions and the Absorption of Labor and Social Welfare: Regencies and Cities of Maluku Province, *International Journal of Economics and Finance; Vol. 8, No. 2; 2016, ISSN 1916-971XE- ISSN 1916-9728, Published by Canadian Center of Science and Education.*
- Gousario, F., Dharmastuti, C., F., Regional Financial Performance and Human Development Index Based on Study in 20 Counties/Cities of Level I Region, *JournalThe Winners, Vol.16 No.2, September 2015:152-165.*
- Kim, K., H., Chun, J., H., Sohn, H., S., 2015, The Influence of Regional Deprivation Index on Personal Happiness Using Multilevel Analysis, *Epidemiology and Health, Volume 37, Article ID: e2015019, <http://dx.doi.org/10.4178/epih/e2015019>.*
- Krémer, B., Sziklai, I., Tausz, K., 2002, *The Impact of Decentralization on Social Policy in Hungary*, ISBN: 963 9419 34 6, Local Government and Public Service Reform Initiative, Open Society Institute Budapest.
- Oates, W., 1999, An Essay on Fiscal Federalism, *Journal of Economic Literature*, XXXVII, 3.
- Pressman, S., 2000, *Fifty World Economic Thinkers*, PT. Raja Grafindo Persada, Jakarta.
- Sari, A., K., Saputra, H., and Siahaan, A., P., U., 2017, Effect of Fiscal Independence and Local Revenue Against Human Development Index, *International Journal of Business and Management Invention, ISSN (Online): 2319-8028, ISSN (Print): 2319-801X, www.ijbmi.org, Volume 6 Issue 7, July 2017, PP-62-65.*

Serrano, L., D., and Pose, A., R., 2014, Decentralization and the Welfare State: What Do Citizens Perceive?, *MPRA Paper No. 54123, posted 7. March 2014 07:48 UTC.*

Siregar, B., dan Pratiwi, N., 2017, The Effect of Local Government Characteristics and Financial Independence on Economic Growth and Human Development Index in Indonesia, *Jurnal Manajemen dan Kewirausahaan, Vol.19, No.2, September 2017: 65-71.*

Usman, S., 2002, Regional Autonomy in Indonesia: Field Experiences and Emerging Challenges, *Smeru Working Paper, A Paper Prepared for The 7th PRSCO Summer Institute/The 4th IRSA International Conference: "Decentralization, Natural Resources, and Regional Development in The Pacific Rim", Graduate Program in Economics, University of Indonesia, Pacific Regional Science Conference Organization.*

Wu, X., Perloff, J. M., and Golan, A., 2002, Effects of Government Policies on Income Distribution and Welfare, *Institute for Research on Labor and Employment (IRLE) Working Paper No. 86-02. <http://irle.berkeley.edu/workingpapers/86-02.pdf>.*