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Fiscal Illusion Detection and the Effect on Capital Expenditure, Fiscal Decentralization, Economic Growth, and Human Development Index for District/Cities in Bali Province

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Abstract
Fiscal decentralization has increased the Local Revenue but allegedly still many governments prefer to suspend the local expenditure financing at matching grant. This study purpose is to obtain empirical evidence the phenomenon of fiscal illusion with income approach (revenue enhancement), and also to obtain empirical evidence the effect of Fiscal Decentralization on Capital Expenditure, Economic Growth, and Human Development Index for district/cities in Bali Province. Multiple regression analysis with SPSS V.20 software was used to test the phenomenon of fiscal illusion and research hypotheses. The results showed that there is no fiscal illusion in expenditure financing for district/cities in Bali Province. Also found that: 1) Fiscal Decentralization has no effect on Capital Expenditure, Economic Growth, and Human Development Index, 2) Fiscal Decentralization affect on Capital Expenditure, Economic Growth, and Human Development Index for districts/cities with level of financial independence below the average in Bali Province, 3) Fiscal Decentralization affect on Capital Expenditure, Economic Growth, and Human Development Index for districts/cities with financial independence level above average in Bali Province.
Keywords: fiscal illusion, local revenues, general allocation fund, local expenditure, capital expenditures, economic growth, human development index

INTRODUCTION

Indonesia has come into new round of government management system from centralized to become decentralized system. It is consistent with issuance of Law No. 22 year 1999 on Local Government and Law No. 25 year 1999 on Financial Balance between the Central Government and Local Government I regulating local autonomy and fiscal decentralization (Adi, 2006). Local autonomy has been implemented in early 2001.

Fiscal decentralization policy as a derivation of local autonomy in financial management is accepted with enthusiastic by some local governments (districts and cities) and some others are less enthusiastic because of low fiscal capacities of their local (Adi 2007 and Nanga, 2005). Low and unequal local fiscal capacities encourage government to create balance through the provision of transfer (fund balance) for the local, the one form is General Allocation Fund. Intergovernmental transfers are a common phenomenon in all countries regardless of government system (Kuncoro, 2007). The provision of fund transfer is aimed to address fiscal disparities between central and local government (vertical disparity) and fiscal disparities among local governments. The local is expected to optimize the management of these resources to increase fiscal capacities, reducing dependency to central government and become more independent (Sidik et al, 2004).

In the process, the independence level of local government tends to increase. The local government even more depends on General Allocation Fund than strive to increase revenue from Local Revenue. Alderete in Adi (2006) asserts that when the central government provides assistance through the fund transfer (as grants) to locals to improve the local expenditure, there is speculation that local government expenditure will responds to changes in asymmetric transfer. Such a phenomenon is indicated as a fiscal illusion (fiscal illusion) by Dollery and Worthington (1995).

Some researchers have detect fiscal illusion phenomenon, both internationally and in Indonesia. Gemmel et al (1998) showed a significant increase in central government transfers, but it was not matched by local revenue receipts. Research of Picur (2003) in Canada showed the separation federal government taxes and local government expenditure (state) can lead to perception of tax reductions and higher government expenditure. Separation of federal government tax and local government expenditure can minimize the possibility of fiscal illusion to increase revenue and reduce expenditure.

Adi dan Ekaristi (2009) examined the phenomenon of fiscal illusion for districts/cities in Central Java and Wuriasih (2013) for district/cities in West Papua. They discovered the phenomenon of fiscal illusion before decentralization (the period 1999- 2014) and after local autonomy (period 2001-2004). Furthermore, Rusydi (2010) confirmed the existence of fiscal illusion phenomenon for provinces in Indonesia from 2005-2008. Siregar (2012) also found fiscal illusion for districts/cities in Sumatra

For 2007-2009 period, Bhakti (2013) examine the fiscal illusion for districts/cities in Jambi Province at period 2007-2011, Dude et.al. (2014) for districts/cities in North Sulawesi Province from 2003 to 2012 period, and Calvin and Lia (2016) in districts/cities in NTT Province for period 2008 to In 2013. They also found fiscal illusion phenomenon. This fiscal illusion phenomenon has some indication. Allocation Fund and/or other matching grant have positive and significant effect on local expenditure, while the effect of Local Revenue to Local Expenditure are: 1) positive and significant, but the elasticity's effect is lower than the effect of General Allocation Fund, 2) positive but insignificant, 3) negative and significant, and 4) negative but insignificant.

This study wants to provide additional empirical evidence the fiscal illusion phenomenon. The differences with previous research can be explained as follow. First, the scope of this study is all regencies/cities in Indonesia. Previous studies use regencies/cities in a particular province. Second, same as the study of Adi, et al (2010) and Wuriasih (2013), this study also want to detect the phenomenon of fiscal illusion not only at district/cities as a whole but also for district/cities level at financial independence above average and below average.

Fiscal illusion phenomenon is not only a form of asymmetric behavior for local in addressing the behavior of public funds and potentially derail the fiscal decentralization policy, but it is also reasonably suspected to have implications for Capital Expenditure, Economic Growth and Human Development Index. Therefore, in contrast to previous research, this study also wants to determine the effect of Fiscal Decentralization on Capital Expenditure, Economic Growth, and Human Development Index for district/cities at above and below average financial independence.

This study purpose is to obtain empirical evidence the phenomenon of fiscal illusion with income approach (revenue enhancement), and also to obtain empirical evidence the effect of Fiscal Decentralization on Capital Expenditure, Economic Growth, and Human Development Index for district/cities in Bali.

THEORY REVIEW AND DEVELOPMENT HYPOTHESIS

Effect of General Allocation Fund and Local Revenue effect local expenditure and detection of Fiscal Illusion

General Allocation Fund comes from State Budgeting and Expenditure allocated to each autonomous local (province or district/cities) in Indonesia every year as development funds. Special Allocation Fund is largest local receipt. Local revenues and local receipt has a functional relationship where General Allocation Fund is a function of local receipt. Maimunah (2005) prove the effect of General Allocation Fund to local expenditure where a large proportion of General Allocation Fund will increase local expenditures.

Special Allocation Fund comes from the state budget allocated to a particular local with aim to fund special activities of local affairs and in accordance with national priorities (Act No. 33 of 2004 article 1, paragraph 23). Same as General Allocation Fund, Special Allocation Fund will improve the local's ability to fund the program/activities for local affairs in national priorities.

Profit Sharing Fund is a fund sourced from State Budgeting allocated to locals based on finance percentage of local needs in decentralization implementation (Law No. 33 of 2004 article 1, paragraph 20). The funds allocation for state budget is the result of income earned from national resources in form of taxes and natural resources profit. The transfer of Profit Sharing Fund will enhance the district/cities ability to increase local expenditure capacity.

Other Authorized Local Income, in accordance with Law No. 33 of 2004 section 43, consists of income and revenue grant emergency funds. Law No. 33 of 2004 article 44, explained that revenue grant is an aid in form of money, goods and/or services from the government, society and business entities in country or abroad. This fund is transferred to districts/cities to increase the capacities of local expenditure.

Local revenue is defined as income local based on local economy in general and potential sources of local. Under article 6 of Law No. 32 of 2004, it includes revenue from local taxes, retribution, company owned by local and separated local wealth management, receipt from official and other lawful local income. Fiscal decentralization policy provides adequate space for local government initiatives to explore local resources to increase revenue. The implication is the revenue will increase, and certainly increased the funds for local expenditure.

Some related studies have been conducted and the results can be described as follows. Studies conducted by Adi, et al (2010) showed that Gross Domestic Product, Gross Domestic Product ratio of capability to meet expenses, the number of residents, the Local Tax and Retribution, has a positive relationship with government expenditure. While the income ratio used for expenditure and Indirect Taxes have a negative and significant effect. Furthermore, research by Rusydi (2010) found that General Allocation Fund and Profit Sharing Fund have positive and significant effect on Local Expenditure for provinces in Indonesia while the Local Revenue has a positive effect but insignificant.

Siregar (2012) found that General Allocation Fund and Special Allocation Fund has significant positive effect on Local Expenditure for districts/cities in North Sumatra, while LPDS has significant negative effect on local expenditure, and Profit Sharing Fund has positive effect but insignificant on local expenditure. Meanwhile, Wuriasih (2013) found that Gross Domestic Product, the ratio of Gross Domestic Product ability to meet expenses, the number of residents, local taxes and levies have positive and significant effect on Local

Expenditure for districts/cities in West Papua, while indirect taxes and enrollment ratios for expenditure have a significant negative effect on Local Expenditure. These results are achieved both before and after decentralization for districts/cities in West Papua. In the same year, Bhakti (2013) found that Gross Domestic Product, General Allocation Fund and Profit Sharing Fund have positive and significant effect on government expenditure, while local tax (TAX) has a significant negative effect on government expenditure. Dude, et al (2014) found that Gross Domestic Product, General Allocation Fund and Profit Sharing Fund has positive and significant effect on Local Expenditure, Local Tax has positive effect but insignificant on Local Expenditure, while levies has significant negative effect on Local Expenditure. Based on framework previous studies, the research hypothesis can be formulated as below.

Ha.1a: General Allocation Fund has positive and significant effect for districts/cities expenditure in Bali Province.

Ha.1b: Local Revenue has positive and significant effect on expenditure for district/cities in Bali Province.

Ha.1c: Fiscal illusion phenomenon occurred on funding for district/cities expenditure in Bali Province.

Dollery and Worthington (1995) states that if central government transfer has a negative correlation with the income, it mean there is fiscal illusion. Not optimal transfer recipient is indicated in expenditure allocation to encourage the public's willingness to pay taxes (willingness to pay). Wagner (1976) gives an overview of fiscal illusion into a model to explain that local government budgeting decrease tax revenue than the tax revenue that can be obtained. It is alleged there is fiscal illusion General Allocation Funds allocated to meet the expenditure needs that are not in accordance with local needs. This causes an excess tax receipt than budgeted by local governments (the misinterpretation of tax revenue) and central government allocate general funds greater than local government requirement.

Central government transfer to local government is an incentive for local governments to finance their expenditure. Transfer is an educational tool for local governments to increase revenue collection efforts. Local revenue collection is then spent on local governments. An increase in local expenditure (such as public infrastructure) will increase local revenue in taxes, so that gradually the central government can reduce the funds transfer. However, the reality is the amount of central government transfers to local governments is increasing every year.

Adi, et al (2010), Rusydi (2010), Siregar (2012), Wuriasih (2013), Bhakti (2013, Dude, et al (2014) detect the phenomenon of fiscal illusion for Local Expenditure funding. The dependence of local government on transfer of government funds is very high, and characteristics of political process the elections so far have not produced many local heads that creative and innovative to increase Local Revenue so that phenomenon of fiscal illusion allegedly still occur despite the local fiscal autonomy more than 15 years.

Fiscal Decentralization and the effect on Economic Growth and Human Development Index

Local Revenue is earned income based on Local Regulation in accordance with legislation (Act No. 33 year 2004). Local Revenue has the goal to give authority to local governments to fund the implementation of autonomy in accordance with affluent local potential. This means that local government has the right to explore the local potential to run the government and public needs, so that local's economy and social welfare can run well. The use of revenue to fund the implementation of local autonomy in accordance with an embodiment decentralized local potential, Law No. 33 of 2004 on Financial Balance between the Central Government and Local Government said that the source of Local Revenue are:

1) Local taxes.
2) Retribution.
3) The results of local-owned company and separated local wealth management.
4) Other Legitimate Local Revenue.

Decentralization and local autonomy should give local government's greater independence in local finance. Local Revenue can be used to finance all their obligations to run the government, including to improve the local's infrastructure. Adi (2007), Darwanto and Yulia (2007), Solikin (2007) and Putro dan Pamuji (2011) provides empirical evidence that Local Revenue affects on local government in capital expenditure allocation for next year. The increase in capital investment (capital expenditures) is expected to increase public services quality which in turn can increase the level of public participation (contribution) towards development reflected in higher revenue (Mardiasmo, 2002b). Higher revenue is consistent with fiscal decentralization policy that will improve the local's ability to provide funds to be allocated to various programs/activities that can improve the local DS and Human Development Index. Regencies/cities with higher revenue coupled with ability to explore the local potential will also can increase the inequality between the locals. Based on framework previous studies, the research hypothesis can be formulated as below.

Ha.2a: Fiscal Decentralization has positive and significant effect on Economic Growth for districts/cities in Bali Province.

Ha.2b: Fiscal Decentralization has positive and significant effect on Human Development Index for districts/cities in Bali Province.

Effect of Fiscal Decentralization on Economic Growth and Human Development Index for districts/cities with high and low financial autonomy in Bali Province.

Regency/Cities Fiscal Decentralization with above the average mean have significant financing source for local expenditure and relatively use more Local Revenue compared to districts/cities with Fiscal Decentralization below average. Normatively, districts/cities with above average Fiscal Decentralization will be monitored by local public because they want to know and feel the benefits on taxes and fees they pay. Highway infrastructure, access roads, bridges, public market, health centers, playground arenas and open green spaces, and will become the public's attention. This situation will encourage local head to use optimally the Local Revenue into local expenditure and even capital expenditures. Therefore, the Local Revenue at district/cities for above average Fiscal Decentralization will more likely to encourage the allocation of Economic Growth and Human Development Index compared to districts/cities with below average Fiscal Decentralization. Based on framework previous studies, the research hypothesis can be formulated as below.

Ha.3a: Fiscal Decentralization has positive and significant effect on Economic Growth for districts/cities with local financial independence above average in Bali Province.

Ha.3b: Fiscal Decentralization has positive and significant effect on Human Development Index for districts/cities with local financial independence above average in Bali Province.

RESEARCH METHODS

The study population is nine districts/cities in Bali Province. The research sample is determined by purposive sampling method with following criteria:

1. The financial statements for Regency/Cities has been audited by Financial Audit Agency
2. The District/cities have financial report with budget realization for five consecutive years.

This research use the following quantitative data: budget realization data (Local Revenue, General Allocation Fund, Local Expenditure, Capital Expenditure), the Gross Domestic Product per capita and Human Development Index for districts/cities in Bali five consecutive years.

The these secondary data are from browsing on official website of Directorate General of Fiscal Balance Finance Department (www.djpk.depkeu.go.id) and Central Statistics Agency (BPS) for district/cities and Bali Province.

Exploration to detect fiscal illusion in this study uses multiple linear regression analysis with SPSS V.20 software. This research uses revenue enhancement to detect fiscal illusion trough multiple regression analysis.

This study uses the income approach (revenue enhancement) with Local Expenditure as dependent variable effected by independent variables of Local Revenue and General Allocation Fund. Income approach assumes that independent variable (Local Revenue and General Allocation Fund) has a positive effect on Local Expenditure, since Local Expenditure is essentially a function of local receipt (Adi dan Ekaristi, 2009). Then, the detection of fiscal illusion existence can be done in following way:

1) The fiscal illusion does not occur when the independent variable (General Allocation Fund) has positive and significant effect on dependent variable Local Expenditure.
2) The fiscal illusion is occurred:
   - when the independent variable (Local Revenue) has negative or positive effect but insignificant on dependent variable (Local Expenditure), or
   - If the positive effect of independent variable (General Allocation Fund) is dominant than the positive effect of independent variable (Local Revenue) on dependent variable (Local Expenditure).
     Statistically, it can be stated below.
   - If the p-value $< \alpha$ (5%) with a beta coefficient has positive direction, then there is no fiscal illusion;
   - If the p-value $< \alpha$ (5%) with a beta coefficient has negative direction or p-value $\geq \alpha$ (5%) with a beta coefficient has positive direction, then there is fiscal illusion.

The data analysis technique to test the effect on Economic Growth and Human Development Index, Local Financial Independence is multiple linear regression analysis with SPSS V.20 software. Indicators of statistical hypothesis testing are below.

1) If the p-value $< \alpha$ (5%), the independent variable (Local Financial Independence) have a significant effect on dependent variable (Human Development Index) and vice versa,
2) If the p-value $\geq \alpha$ (5%), the independent variable (Local Financial Independence) has no effect on dependent variable (Economic Growth and Human Development Index).

RESEARCH RESULT AND DISCUSSION

Classic assumption test

The research data indicate good quality. This is evidenced by test results that meet all the classical assumptions. Data normality test is met, the results of Kolmogorov-Smirnov test, Asymp value. Sig (2-tailed) was 0.938 greater than $\alpha = 0.05$. Multicolinearity also not visible, it is seen from the value of tolerance above 0% and variance inflation factor (VIF) of less than 10. The data also does not show heteroskedastisity symptoms, Glejser method results indicate significant value of absolute residual of independent variable respectively: 0.097 to Local Revenue , 0.519 to general allocation fund, 0.689 to Profit Sharing Fund, and 0.863 for Local Revenue, all are greater than the significance $\alpha = 0.05$. Finally, the data does not show autocorrelation, the test results showed Durbin test show DW is 1.417 for regression model with Human Development Index dependent variable 1.351 for regression models with dependent variable.

Feasibility Test and Analysis Model Coefficient of Determination

Feasibility test for multiple regression models is F test. The result shows significant value is 0,000 smaller than $\alpha = 0.05$. It can be said that multiple regression model meet the feasibility model test.

Furthermore, analysis of determination coefficient $R^2 = 93.3\%$. It means the ability of independent variables in model to explain variance of dependent variable is 93.3%, while the remaining 6.7% is explained by other variables outside the model.

Hypothesis Testing Results

Multiple Regression Test is used to test the hypothesis. This test will be determined the presence or absence of fiscal illusion phenomenon in districts/cities in Bali Province. T test results are presented in Table 1.

Table 1. Result of t test the effect of Local Revenue and General Allocation Fund on Local Expenditure

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.992E10	5.157E10		.968	.336
	Local revenue	.942	.029	.904	32.493	.000
	General All. Fund	1.363	.113	.335	12.045	.000
a. Dependent Variable: Local Expenditure						

Table 1 shows the results of research hypothesis testing. This can be explained below.

Hypothesis Testing Ha.1a

General allocation fund has positive and significant effect on districts/cities expenditure in Bali Province. The effect of Local Revenue on local expenditure has p-value of 0.000 smaller than $\alpha = 0.05$ with beta coefficient of 0.942. It means Local Revenue has positive and significant effect on local expenditure. The results of these tests cannot reject the Ha.1a hypothesis that Local Revenue has positive and significant effect on local expenditure.

Hypothesis Testing Ha.1b

Local Revenue has positive effect and significant on districts/cities expenditure in Bali Province. Test result of Local Revenue on local expenditure has p-value of 0.000 smaller than $\alpha = 0.05$ with a beta coefficient of 1.363. It means Local Revenue has positive and significant effect on local expenditure. This means that results of these tests cannot reject the Ha.1b hypothesis which states that Local Revenue has positive and significant effect on local expenditure.

Hypothesis Testing Ha.1c

Fiscal illusion phenomenon is occurred at financing of districts/cities in Bali Province. Hypothesis testing for Ha.1b and Ha.1a show that both Local Revenue and general allocation fund has positive and significant effect on local expenditure. However beta standardized coefficients shows the effect of Local Revenue on local expenditure is 0.904 while general allocation fund on local expenditure is 0.335. It means the effect of Local Revenue on local expenditure is more dominant than the effect of general allocation fund on local expenditure. It can be concluded not there is no fiscal illusion financing of districts/cities expenditure in Bali Province.

Test Results the effect of Fiscal Decentralization on Economic Growth and Human Development Index

Multiple Regression Test is conducted to determine the effect of Local Revenue and Economic Growth on dependent variable Human Development Index. The scope of testing this hypothesis is all regencies/cities in Bali Province, district/cities with Local Financial Independence above average, and district/cities with Local Financial Independence below the average.

Hypothesis Test the effect Fiscal Decentralization and Economic Growth on Human Development Index at districts/cities in Bali Province.

Test results the effect of Economic Growth and Human Development Index and Local Financial Independence at all regencies/cities in Bali Province respectively presented in Table 2 and Table 3. Table 2 show p-value of 0.000 smaller than α = 0.05 with a beta coefficient of 1.195E-12. It means Fiscal Decentralization has positive and significant effect on Economic Growth. These tests cannot reject the hypothesis Ha.2a who stated that Fiscal Decentralization has positive and significant effect on Economic Growth. So it can be said that high level of Fiscal Decentralization with parameters of local revenue will boost economic growth in local.

Table 2. Effect of Local Revenue on Economic Growth

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.769	.101		56.988	.000
	Local revenue	1.195E-12	.000	.648	7.978	.000

a. Dependent Variable: Economic Growth

Table 3. Effect of Local Revenue on Human Development Index

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	69.671	.513		135.895	.000
	Local revenue	3.731E-12	.000	.464	4.916	.000

a. Dependent Variable: Human Development Index

Table 3 shows the value p-value of 0.000 smaller than α = 0.05 with a beta coefficient of 3.731E-12. It means Fiscal Decentralization has positive and significant effect on Human Development Index. These tests cannot reject the hypothesis Ha.2b who stated that Fiscal Decentralization has positive and significant effect on Human Development Index. Therefore, it can be said that high level of Fiscal Decentralization with parameters of Local Revenue will increase the Human Development Index.

The effect of Fiscal Decentralization on Economic Growth and Human Development Index for districts/cities with Local Financial Independence above the average in Bali Province.

The tests are conducted to determine the whether the effect of Fiscal Decentralization on Economic Growth and Human Development Index but the scope is the district/cities with Local Financial Independence above average in Bali Province, as shown in table 4.

Table 4. Effect of Local Revenue on Economic Growth

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.950	.172		34.540	.000
	Pend.Asli Daerah	3.698E-12	.000	.852	6.896	.000

a. Dependent Variable: Economic Growth

Table 4 shows the p-value of 0.000 smaller than α = 0.05 with a beta coefficient of 3.698E-12. It means Fiscal Decentralization has positive and significant effect on Economic Growth. These tests cannot reject the hypothesis Ha.2a who stated that Fiscal Decentralization has positive and significant effect on Economic Growth. High level of Fiscal Decentralization with parameters of Local Revenue will boost economic local growth at districts/cities with Local Financial Independence above average in Bali Province.

Table 5. Effect of Local Revenue on Human Development Index with Local Financial Independence above average

Coefficients[a]						
Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	69.087	1.237		55.836	.000
	Pend.Asli Daerah	2.018E-11	.000	.777	5.239	.000
a. Dependent Variable: Human Development Index						

Table 5 shows the effect of Local Revenue in Human Development Index at districts/cities with Local Financial Independence above average. The p-value of 0.000 is smaller than α = 0.05 with a beta coefficient of 2.018E-11. High level of Fiscal Decentralization with parameters of Local Revenue will increase the Human Development Index of districts/cities with Local Financial Independence above average in Bali Province.

The effect of Fiscal Decentralization on Economic Growth and Human Development Index for districts/cities with Local Financial Independence below the average in Bali Province.

The tests are conducted to determine the effect of Fiscal Decentralization on Economic Growth and Human Development Index. The scope is district/cities with Local Financial Independence below the average in Bali Province. The test results are presented in Table 6 Economic Growth and effect of Fiscal Decentralization on is presented at table 7.

Table 6. Effect of Local Revenue on Economic Growth for district/cities with Local Financial Independence below average

Coefficients[a]						
Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	5.550	.099		56.174	.000
	Pend.Asli Daerah	1.177E-12	.000	.733	8.891	.000
a. Dependent Variable: Economic Growth						

Table 6 shows the p-value 0.000 smaller than α = 0.05 with a beta coefficient of 1.177E-12. It means Fiscal Decentralization has positive and significant effect on Economic Growth. These tests cannot reject the hypothesis Ha.2a who stated that Fiscal Decentralization has positive and significant effect on Economic Growth. High level of Fiscal Decentralization with parameters of Local Revenue will boost economic growth at districts/cities with Local Financial Independence below the average in Bali Province.

Table 7. Effect of Local Revenue on Human Development Index for district/cities with Local Financial Independence below average

Coefficients[a]						
Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	68.778	.471		145.912	.000
	Pend.Asli Daerah	3.489E-12	.000	.557	5.526	.000
a. Dependent Variable: Human Development Index						

Table 7 shows value of 0.000 smaller than α = 0.05 with a beta coefficient of 0.026. It means high level of Fiscal Decentralization with parameters of Local Revenue will increase the Human Development Index at districts/cities with Local Financial Independence below average in Bali Province.

Effect of local revenue and General Allocation Fund on Expenditure and Fiscal Illusion Detection

The results showed that Local Revenue and general allocation fund have positive and significant effect on local expenditure. Higher Local Revenue and general allocation fund will increase the expenditure local. However, due to effect of Local Revenue on local expenditure is dominant than general allocation fund, it can be concluded that there is no fiscal illusion on total financing at districts/cities in Bali Province.

This study results different from previous studies fiscal illusion of fund expenditure. Priyo Hari Adi, et al (2010) found the phenomenon of illusion fiscal at regencies/cities in Central Java, and Anik Wuriasih (2013) found the phenomenon of illusion fiscal at districts/cities in West Papua, before the local autonomy (1999 -2000 period) and after local autonomy (2001-2004 period). Furthermore, Bahr Ulum Rushd (2010) confirmed the existence of fiscal illusion phenomenon at provinces in Indonesia from 2005-2008. Fiscal illusion phenomenon also is shown by Hara Rizky Siregar (2012) at districts/cities in North Sumatra for 2007-2009 period, Adi Bhakti (2013) at districts/cities in Jambi Province for 2007-2011 period, Dewi Purwanti, Dude Anderson Kumenaung and Debby Rotinsulu (2014) at districts/cities in North Sulawesi Province for 2003-2012 period.

The difference this study results with previous research would indicate that district/municipal in province has reduced its dependence on equalization fund to fund public expenditures. It is consistent with expectations of fiscal decentralization, especially for district/cities with Local Financial Independence below average.

Effect of Local revenue on economic growth for districts/cities in Bali Province

The results show that Local Revenue has positive and significant effect on Economic Growth for all districts/cities in Bali Province, as well as districts/cities with Local Financial Independence above average, and for districts/cities with Local Financial Independence below average. This condition should be appreciated, especially for districts with Local Financial Independence below average. District/municipal in Bali Province has been allocated Local Revenue in a program that relevant to Economic Growth.

Effect of Local revenue on Human Development Index for districts/cities in Bali Province

The results show that Local Revenue has positive and significant effect on Human Development Index good for all districts/cities in Bali Province, as well as to districts/cities with Local Financial Independence above average, and for districts/cities with Local Financial Independence below average. These conditions are very conducive, especially when associated with expectation of fiscal decentralization for districts with Local Financial Independence below average. District/municipal in Bali Province has been allocated Local Revenue programs that relevant to improve the Human Development Index.

CONCLUSIONS AND SUGGESTIONS

Based on above discussion, it can be concluded below.

1. Local revenue and General Allocation Fund has positive and significant effect on local expenditure for districts/cities in Bali Province;
2. The effect of Local Revenue on local expenditure is dominant than general allocation fund. It can be concluded fiscal illusion does not occur for districts/cities expenditure in Bali Province;
3. Fiscal decentralization has positive and significant effect on economic growth and human development index for districts/cities in Bali Province;
4. Fiscal Decentralization has positive and significant effect on Economic Growth and Human Development Index districts/cities in Bali Province for level of Local Financial Independence above average. Fiscal Decentralization effect on Human Development Index is dominant than Fiscal Decentralization;
5. Fiscal Decentralization has positive and significant effect on Economic Growth and Human Development Index for districts/cities in Bali Province with local financial independence. Fiscal Decentralization effect on Economic Growth is dominant than Fiscal Decentralization effect on Human Development Index.

Suggestions that can be recommended as below.

1. The absence of fiscal illusion to finance local expenditure is a good condition but districts/cities with Local Financial Independence below average need to make the funds allocation to relevant programs to make the effect of fiscal decentralization on Human Development Index become more dominant than the effect of fiscal decentralization on Economic Growth.
2. Future researchers should to examine effect local expenditure financing without fiscal illusion in inequality between regencies/cities in Bali Province.

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