

Abstract

In the autonomy era, the local authorities' own-source revenue (pendapatan asli daerah/PAD) should be the main income for local authority. But apparently, local expenditure is much more responsive to increases in the central government transfers, especially general allocation fund (dana alokasi umum/DAU), than it is to increases in the local authorities' own-source revenue. This phenomenon has come to be known as flypaper effect. This research aims to give empirical evidence on the effects of PAD and DAU, both simultaneously and partially, to the local government expenditure of municipalities/regencies in Banten Province along with flypaper effect that follows it. This empirical evidence of the presence of flypaper effect is achieved using data from 6 municipalities and regencies covering period 2008-2012. The model that was used to analyze the data or to test the hypotheses is the multiple linear regression model. Empirical result shows that PAD and DAU are simultaneously and significantly affecting the local government expenditure. Moreover, when the test was held partially, it is known that each of those factors has significant impact on the local government expenditure. The result of the analysis shows the effects of DAU on local government expenditure is greater than the effect of PAD. It indicates the existence of the flypaper effect in municipal/regency financing in Banten Province.

Keywords: local authorities' own-source revenue, general allocation fund, local government expenditure, flypaper effect.