

LEVIATHAN GOVERNMENT BEHAVIOR: THE CASE OF LOCAL GOVERNMENT IN INDONESIA

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Abstract

The role of institutions cannot be overlooked in the analysis of economic policy, since the characteristics of institutions shed some light on regional specific issues that might affect the effectiveness of policy implementation. While literature on fiscal federalism, under the banner of Second Generation Fiscal Federalism (SGFF), acknowledges the critical role of institutions in fiscal federalism policy, there is a lack of literature on implementation. This is the situation with decentralization policy in Indonesia. Regional proliferation has followed the decentralisation policy since 2000. It is argued in this thesis that this is an example of Leviathan government behavior. Rather than encouraging regional competition and efficient government operations as suggested by Tiebout's regional competition theory, regional proliferation has led to increasing size of government and, hence, inefficiency.

This thesis explores the role of institutions in the aftermath of inter-regional fiscal transfer policies in Indonesia. It is argued that Leviathan government behavior is the outcome of fiscal, social and political institutional settings, namely the Balance Funds transfer arrangements that create a flypaper effect, the social institutional setting that is dominated by personal rulership patrimonialism values, and the political institution that fails to produce accountable government. The implication is that the design of a decentralization policy requires a holistic approach that takes into account the characteristics of these institutional settings simultaneously to minimize the possibility of encouraging Leviathan government behavior.

Declaration

I certify that this thesis does incorporate without acknowledgement any material previously submitted for a degree or diploma in any university; and that to the best of my knowledge and belief it does not contain any material previously published or written by another person except where due reference is made in the text.

Ivantia S. Mokoginta
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