

# The Effect of Pure Regional Income on Flypaper Effect through Government Expenditures of District/City in East Java Province

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**Abstract:** This study aimed to analyze the influence of Pure Regional Income to Government Expenditures, to analyze the influence of pure regional income to flypaper, analyze the influence of Government Expenditures to flypaper effect and analyze the impact of Pure Regional Income to flypaper through Government Expenditures. The sample in this study amounted to 38 districts / cities in East Java province. Data were analyzed using path analysis. The analysis showed that Pure Regional Income affect the Government Expenditures. Pure regional income on flypaper effect. Government Expenditures affect flypaper effect. Pure regional income on flypaper effect through Government Expenditures.

**Keywords:-** Pure Regional Income, Government Expenditures, Flypaper Effect.

## I. INTRODUCTION

Independence of a region in national development is an inseparable part of the success of policies decided by the central government. Real effort in measuring the level of independence that is by comparing the magnitude of the realization of Pure Regional Income to total pure regional income. Regional autonomy is a challenge that is not easy, because of regional autonomy it should be based on the realization that regional autonomy is an opportunity for the regions to prove their independence. This means that autonomy can not be regarded as a failure. Implementation of regional autonomy should be directed to accelerate the realization of public welfare through the empowerment of community participation bigger and increase regional competitiveness. Through the implementation of regional autonomy, implementation of the Government are effectively and efficiently can be created with regard to the aspects of the relationship between the composition of central government and inter-government regions, the potential and diversity of the regions, as well as the opportunities and challenges of global competition through the granting of authority to the widest area accompanied by the granting of rights and obligations organize regional autonomy in the implementation of the Government. regional autonomy should be directed to success with adequate funding support through financial balance between central and local (Marothia, 2010). Therefore, local government decisions can not be denied again should focus on improving the quality of service to the community

(Regulska, 2009). Then through the financial area management.

Pure regional income is all regions Government revenue derived from economic resources native to the area. Optimization of revenue Own-source revenue should be supported by the local government to improve the quality of public services (Mardiasmo, 2009). Local government financing is done at the expense of budget revenue and expenditure. In respect of the local government and public service area are given the authority to levy taxes or levies and manage natural resources. Local native ability largely reflected in pure regional income is only able to collect no more than 15% the value of the Regional Budget. Therefore, its shortcomings should be assisted by the Central Government through the mechanism of balancing fund consists of revenue-sharing, the general allocation fund,

The local government allocated funds in the form of capital spending in the budget revenue and expenditure to increase fixed assets. The allocation is based on a regional Government Expenditures requirement for facilities and infrastructure, for the convenience of the Government as well as for public facilities. In an effort to improve the quality of public services, the local government should change the composition of spending. During this time more Government Expenditures used for routine spending relatively less productive. Utilization of spending should be allocated for productive things, which is useful for development activities. Reception districts should be used for public service programs to improve the welfare of the community.

In fact, most regions in Indonesia have not been able to maximize the potential of the area that is still very dependent on equalization funds, especially DAU. According to data from the Ministry of Finance Directorate General of Fiscal Balance, balance funds reached 73% where the majority of grants (67%) is a general allocation funds. It is seen that the local government is still very dependent on the transfer of funds. This phenomenon is called as flypaper. According to Melo (2002) in Rokhanyah and Nugroho (2011) flypaper effect is a condition in which the larger Government Expenditures response to the transfer.

The phenomenon flypaper wider implications that the transfer would increase local government expenditure which is greater than the acceptance of local government itself.

The occurrence of flypaper not only found in the local government revenue lower areas but also in local government areas with high revenue and flypaper also occurred in the district / municipal agrarian and non-agrarian. Flypaper effect in various regions produce contradictory conclusions indicating that the flypaper do not only occur in the area of research. Gorodnichenko (2001) stated that the phenomenon of flypaper can happen in two versions. The first refers to the increase in local taxes and excessive government spending.

This study aimed to analyze the Influence of Regional Income to Government Expenditures, analyze Effect Against Pure regional income flypaper, analyze the influence of government expenditures on flypaper and analyze the influence of pure regional income to flypaper through Government expenditures District/City in the province of East Java.

## II. LITERATURE REVIEW

### ➤ *Flypaper Effect*

*Flypaper effect* is a condition in regional spending stimulus caused by the change in the number of transfers (unconditional grants) from central government is greater than that caused by changes in regional income (Iskandar, 2012). Flypaper by Oates (1999: 129) is a phenomenon to a condition when the Local Government responds to the government expenditures region comes from more of transfers / grants or specific to the transfer is not conditional or unconditional grants than pure regional income so that it will result in waste in government expenditures. According Vegh and Vuletin (2015), flypaper-effect is extensively documented as a rule in public finances that hold local government tendency to spend funds transfer is higher than the revenue spend their own areas. Hamilton (1983) also defines flypaper as a tendency for the local government more dependent on transfers of funds rather than use the original revenue of Regions. Flypaper regarded as an oddity in behavior that is difficult to be rationalized, where the regional government uses transfers received from the central government to increase spending on areas not consistent with economic theory (Hines and Thaler, 1995). Hamilton (1983) also defines flypaper as a tendency for the local government more dependent on transfers of funds rather than use the original revenue of Regions. Flypaper regarded as an oddity in behavior that is difficult to be rationalized, where the regional government uses transfers received from the central government to increase spending on areas not consistent with economic theory (Hines and Thaler, 1995).

### ➤ *Pure Regional Income*

Pure Regional Income according to Halim (2007: 96) is the income received by the local government for all the sources or potential in that area should be managed by the local government in the area earn income. Pure Regional Income is one component of income reception area next to the equalization fund and the other - the other legitimate income areas. The type - the type of income that may be classified as original revenues of the District/City is tax, retribution, regional wealth management results were separated, and the other - the original earnings area is legitimate.

### ➤ *Government Expenditures*

According to Halim (2007:73), Government Expenditures are all local government spending in the current budget period in the form of assets in order to carry out the obligations, authority and responsibility to the community and the central government. According to Law No. 33 of 2004 article 1, paragraph 14, the Government Expenditures are all obligations that area recognized as a reduction in the net asset value of the relevant fiscal year period. Different expenditures with financing expenses. The difference lies in whether or not the refund has been issued. The local government will not get a refund of expenditure that occurs, both the current year and the budget year berikutnya. Sedangkan financing expenses are expenses that will be received back payments for the current year or the next fiscal year. According to Government Regulation No. 71 of 2010 concerning the Government Accounting Standards, structure used Government Expenditures in the budget revenue and expenditure is classified by economic classification, ie: operating expenditures; capital expenditures and unexpected expenditures. Operating expenditure is the expenditure budget for the daily activities of local governments that provide short-term benefits. Operating expenses consist of: personnel, goods expenditure, interest expenditure, subsidies, grant expenditures, and social assistance spending. The capital expenditure is budgeted expenditure for the purchase or acquisition of fixed assets and other assets to be used in government activities that have the following criteria: useful life of more than 12 months, is the object of maintenance, the amount of material rupiah value in accordance with accounting policies. Capital expenditure consists of expenditure ground, expenditures on equipment and machinery, building and construction expenditure; government expenditures street, irrigation and networking, government expenditures and other fixed assets, and other assets expenditures. Unforeseen expenditure is expenditure budget for activities that are unusual and are not expected to recur as penanggulangan disasters, social upheavals and other unexpected expenses that are necessary in connection with implementation of the central government or local governments. Unexpected expenditures include expenditures include expenditures on disaster management and exercise of authority. social disasters and other unexpected expenses that are necessary in connection with implementation of the central government or local governments. Unexpected expenditures include

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➤ *Hypothesis*

The hypothesis of this study was formulated as follows

H<sub>1</sub> : Pure Regional Income (PRI) affects government expenditures.

H<sub>2</sub> : Pure Regional Income affects flypaper effect

H<sub>3</sub> : Government Expenditures of influence on flypaper effect.

H<sub>4</sub> : Pure Regional Income affects flypaper through government expenditures.

**III. RESEARCH METHODS**

*A. Population and Sample Research*

The study population was all district/city that exist within the scope of East Java province which is composed of 29 districts and 9 Cities. The sampling method used in this study using the census sampling technique when all members of the population used as a sample, thus the samples taken in this study amounted to 38 District / City in East Java province.

*B. Operational Definition of Variables*

➤ *Pure Regional Income (PRI)*

Pure regional income is realization of pure regional income derived from local taxes, levies, results are separated regional wealth management and other revenues other legitimate pure regional income.

➤ *Government Expenditures*

Government Expenditures are all cash expenditures budget areas, either directly or indirectly associated with the program or activity conducted local government.

➤ *Flypaper Effect*

*Flypaper* is a condition that occurs when the local government responds (government expenditures) more or wasteful by using funds transfers (grants) are proxied by the General Allocation Fund, Special Allocation Fund, DBH rather than using its own capabilities, proxied by pure regional income.

*C. Data Analysis Technique*

Data analysis techniques used in this research is path analysis. Path analysis (path analysis) were used in the study to determine the relationship of direct dependence between a set of variables. Path analysis is a model similar to the multiple regression model. In the path analysis (path analysis) on the value of beta that form the structure. Regression model and the image path analysis to analyze the effect of PRI to flypaper and Government Expenditures in this study can be formulated as follows:

$$GE = \rho_{GE.PRI} \cdot PRI + \varepsilon_1$$

$$FE = \rho_{FE.PRI} \cdot PRI + \rho_{FE.GE} \cdot GE + \varepsilon_2$$

Where :

FE = *flypaper Effect*

GE = Government Expenditures

PRI = Pure Regional Income

$\rho_{GE.PRI}$  = Pure regional income contribution coefficient against *flypaper Effect*

$\rho_{FE.PRI}$  = Pure regional income contribution coefficient against Government Expenditures

$\rho_{FE.GE}$  = coefficients contributions Government Expenditures on flypaper effect

$\varepsilon_1$  = residual value model 1

$\varepsilon_2$  = residual value model 2

**IV. RESEARCH RESULT**

*A. Descriptive Analysis*

The following are descriptive statistics on Pure Regional Income, Government Expenditures and flypaper effect during the period 2015-2017.

Variables	Minimum	Maximum	Mean	Std. deviation
Pure Regional Income	104 233 584 925	4,212,569,176,921	382 073 247 702	641 961 093 386
Government Expenditures	706 783 751 689	8,561,848,147,400	2,166,778,629,761	1,159,018,091,120
<i>flypaper Effect</i>	1.61	14.97	8.29	2.91

Table 1:- Descriptive Statistics

Source: Secondary data is processed, 2019.

Based on Table 1, it can be explained that Pure regional income ranges from Rp. 104,233,584,925 to Rp. 4,212,569,176,921 with an average of Rp. 382,073,247,702 which indicates that the Regional Government understudy has varying regional income. Pure regional income is the realization of regional revenues originating from local taxes, regional levies, the results of the management of separated regional wealth and other legitimate revenues from local revenues. The original regional income in this study was assessed using an indicator that was realized by

the original Regency / City Region in East Java Province. The amount of Pure regional income realized in the district/city in East Java Province is presented in the appendix. Regency / City Government expenditures in East Java Province range from Rp. 706,783,751,689 to Rp. 8,561,848,147,400 with an average of Rp 2,166,778,629.76 which indicates that the companies studied have varied Government expenditures. Regional expenditure is very important to evaluate whether the regional government has used the APBD economically, efficiently and effectively

(value for money). The extent to which district/city governments in East Java Province have made budget efficiency, avoiding unnecessary expenditures and expenditures that are not on target. Regional expenditure is important because, with the harmony of expenditure, this is related to the function of the budget as a means of distribution, allocation, and stabilization. The Flypaper Effect ranges from 1.61 to 14.97 with an average of 8.29 indicating that the local government studied has a varied

flypaper effect. This shows that there is a Flypaper Effect in the areas that become objects.

**B. Model Line Diagram (Path Diagram)**

To complete the analysis of the path it is necessary to know the path coefficients (path coefficients) and the path diagram (path diagram). The path coefficients and parameters of the model of appendix 4 and appendix 5 are presented in Table 2 below:

Model	Coefficient Line	T	P	R	adjusted R <sup>2</sup>
<b>Structural Sub 1</b>					
Pure Regional Income	0.863	18.109	0.000	0.863	0.745
<b>Structural Sub 2</b>					
Pure Regional Income	-1.535	-13.186	0.000	0.786	0.617
Government Expenditures	1,194	10.258	0,000		

Table 2:- Summary of Results Parameter Model  
Source: Report SPSS, 2019.

Furthermore, based on the data in Table 2 can be constructed path diagram based on predetermined models. Empirical path diagram is presented as follows:

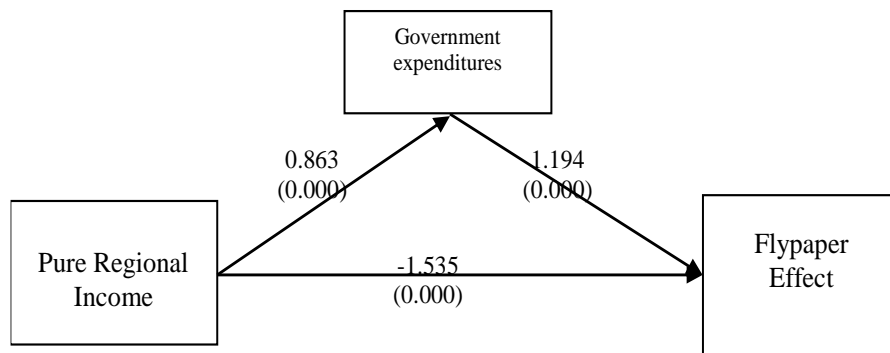


Fig 1:- Influence of Regional Income to flypaper through the Government Expenditures  
Source: Data processed, 2019

Based on Table 1 and Figure 1 above, the direct influence can be described as follows:

- 1) Pure Regional Income positive direct effect on the Government Expenditures indicated by the path coefficient of 0.863 and a significant level of 0.000 <0.05.

- 2) Pure Regional Income significant negative direct impact on flypaper indicated by the path coefficient of -1.535 and a significant level of 0.000 <0.05.
- 3) Government Expenditures significant positive direct impact on flypaper indicated by the path coefficient of 1.194 and a significant level of 0.000 <0.05.

Influence	Direct Effect	p-value	Indirect effect	Effect of Total	Information
Pure Regional Income → Government Expenditures	0.863	0.000	-	-	Significant
Pure Regional Income → flypaper	-1.535	0.000	-	-	Significant
Government Expenditures → flypaper	1.194	0.000	-	-	Significant
Pure Regional Income → Government Expenditures → flypaper	-1.535	-	1.030	-0.505	-

Table 3:-Path Between Variable Coefficient  
Source: Data Tables 1 and analysis of Figure 1.

The indirect effect is described as Pure Regional Income direct on flypaper effect through spending significant area of the track indicated by coefficient multiplication coefficient Pure Regional Income to flypaper with coefficient against flypaper Government Expenditures,

namely: 0.863x 1,194 = 1,030 less than the direct effect of Pure Regional Income to flypaper = -1.535 and significant level of <0.05.



### C. Result Structural Equation Model Test

Examination to validity models in inee the analysis lane lit is necessary do so that could know valid or whether an analysis already do. Tests on the validity of the model in the path analysis, there are two indicators that need to be seen, the total determination coefficient ( $RM^2$ ).

In this case, the interpretation of the coefficient of determination ( $RM^2$ ) same by interpretation coefficient determination ( $R^2$ ) on analysis regression.

$$\begin{aligned}
 Rm^2 &= 1 - Pe_1^2 - Pe_2^2 - \dots - Pe_i^2 \\
 Pe_1 &= \sqrt{1 - R_1^2} = \sqrt{1 - 0,745} = 0.505 \\
 Pe_2 &= \sqrt{1 - R_1^2} = \sqrt{1 - 0,617} = 0.619 \\
 Rm^2 &= 1 - (0.505)^2 - (0.619)^2 \\
 &= 1 - (0.225) - (0.383) \\
 &= 1 - 0.098 \\
 &= 0.902
 \end{aligned}$$

Value total determination coefficient of 0.902 shows diversity data, which can be explained by models mentioned amounted 90.2%lor with lother word information that be contained in the data 90.2%l could be explained by models Thu while 9.8% may be explained by variable other and error.

### D. Hypothesis Test Results

Hypothesis testing is done by testing the significance of the individual parameters of each track to ensure the independent variables on the dependent variable.

#### ➤ First Hypothesis Testing

The first hypothesis is stating that the Pure Regional Income affects government expenditures. The analysis shows that directly affect significant revenue to the Government Expenditures. The magnitude of the direct influence of the Pure Regional Income to the Government Expenditures amounted to 0.863 with significance value 0.000 less than 0.05. That is, Pure Regional Income has a significant impact on regional spending. Thus the first hypothesis is statistically proven.

#### ➤ Second Hypothesis Testing

The second hypothesis which states that the revenue Pure Regional Income affects flypaper. The analysis shows that directly Pure Regional Income significant impact on flypaper. The magnitude of the direct effect of Pure Regional Income to flypaper amounted -1.535 with significant value 0,000 less than 0.05. That is, Pure Regional Income has a significant impact on flypaper. Thus the first hypothesis is statistically proven.

#### ➤ Third Hypothesis Testing

The third hypothesis which states that its budget was influential on flypaper. The analysis shows that direct local spending significant on flypaper effect. The magnitude of the direct influence of the flypaper Government Expenditures amounted to 1,194 with significant value 0,000 less than 0.05. That is, Government Expenditures have an influence on flypaper Effect, Thus statisti third hypothesis is untested.

#### ➤ Fourth Hypothesis Testing

The fourth hypothesis which states that Pure regional income (PRI) affects flypaper through government expenditures. Analysis of the effect of PRI through a Government Expenditures on flypaper, known to directly influence the given PRI to the flypaper of -1.535 with a significance value of 0.000 is less than 0.05, while the influence of regional spending on flypaper for 1,194 with a significance value of 0.000 of 0.05. These results indicate that Pure regional income (PRI) affects flypaper through the Government Expenditures, Thus the fourth hypothesis is statistically proven.

## V. DISCUSSION

#### ➤ Influence of Regional Income to Government expenditures district/city in East Java Province

Pure regional income affect the Government Expenditures, it is indicating that the pure regional income is a major earner for a region to meet the expenditure. Pure regional income can simultaneously showed the level of independence of a region. The more revenue gained could allow the region to meet the needs of their government expenditures without having to depend on the central government, which means it shows that local governments have been able to be independent, and vice versa. Pure regional income derived from Local Taxes, Results of Regional Management and other legitimate pure regional income in district/city in East Java province. The aim of the government to optimal all receipts / income derived from economic resources native to the area aims to provide flexibility to the regions in mobilizing funding in the implementation of regional autonomy as the realization of the principle of decentralization. Based on data from 2015-2017 were studied throughout the year PRI in district/city in East Java Province experienced the dynamics that go up and down, however the results of this study have an influence on government expenditures positively, the meaning when pure regional income increases, the Government Expenditures in District/City in East Java province also increased. Pure regional income research results influence the Government Expenditures, the sources of funding local government in exercising its authority, while the lack of funding is expected to be explored through its own funding sources are pure regional income. PRI is expected to create a better utilization to help fund activities that are regional affairs and in accordance with national priorities.

Pure Regional Income shows the ability of a region through the system of government in mobilizing financial resources to finance the development activities of the area. So that the pure regional income is a regular income to local governments of efforts in exploiting the potential of financial resources to finance the tasks in each area, and is therefore much needed revenue to support government expenditures. Improved Government Expenditures to accelerate the growth rate of economic development and growth, local governments may seek to increase revenue, every element in it is an element that needs to be improved. In line with the (Mardiasmo, 2002), that revenue

optimization Pure Regional Income should be supported by the local government to improve the quality of public services. The government can meakukan identification of sources of pure regional income by examining, define and specify where in fact the source of pure regional income by assessing and commercialize and manage the revenue source with a large so as to provide maximum results. The government's role in development is a catalyst and facilitator would need a variety of facilities and support facilities, including the implementation of the budget in the context of sustainable development, PRI each different region. Areas that have advances in the industry and has abundant natural resources tend to have a much better revenue greater than other areas, and vice versa. The results of this study are consistent with Masdjojo and Sukartono (2009) which stated that the pure regional income of the Government Expenditures.

➤ *Influence of Regional Income Against Flypaper Effect District/City in East Java Province*

The results showed that there are significant Pure Regional Income to flypaper in district/city in East Java Province, In other words, the discovery of flypaper on the allocation of expenditure, it is expected that the government will be minimum minimize excessive response to the Government Expenditures. This is in line with Wulansari (2015) indicate that there are flypaper on Government spending in the province of East Java, Central Java and West Java, this happens because of the influence of the DAU to government expenditures is higher than the influence of the PRI to the Government Expenditures. Tresch (2002: 920), further stated that the flypaper is itself a response is not symmetric or asymmetric to the increase and decrease in the use of funds transfers from the central government, the transfer of funds is given for a specified period with an indication of the parties gain from reception transfers (grants) are likely to increase. Along with the increase in government expenditures this will also lead to flypaper. This is in accordance with the opinion of Hines and Thaler (1995) that the flypaper regarded as an oddity in behavior that is difficult to be rationalized, where the regional government uses transfers received from the central government to increase spending on areas not consistent with economic theory.

➤ *The influence of government expenditures on flypaper District/City in East Java Province*

The results showed that there are significant regional spending on flypaper in district/city in East Java province. The occurrence of flypaper influenced by the increasing trend of Government Expenditures or in other words that the regional government in setting policy areas in the current year expenditure is determined by the DAU has been received in the period a year earlier than the revenue earned prior year period. The results of this study are consistent with Baskaran (2012) is also consistent with other studies conducted in the United States (Clark and Whilford, 2011), Argentina (Vegh and Vuletin, 2015), China (Liu and Zhao, 2011), Denmark (Kjaergaard, 2015), Italy (Bracco et al. 2015), Japan (Kakamu et al., 2014), Canada (Mehiriz and Marceau, 2014), Slovenia (Pevcin,

2014) and Sweden (Dahl-berg et al., 2008). Local government expenditures includes all expenditures from the general treasury account areas that reduce equity funds, the duty area in one fiscal year and will not be earned back by the local payment. Government Expenditures are used in order to fund the implementation of government affairs under the authority of the provincial or District/City which consists of affairs shall, affair choice and handling matters in a certain part or area that can be implemented jointly by the government and local governments or between local governments established by statutory provisions. Government expenditures affairs tasks shall be prioritized to protect and improve the quality of life of people in order to meet the obligations of the region through improving basic services, education, health, social services and public facilities as well as developing a viable social security system. Flypaper occur because of the superiority of knowledge regarding transfers of bureaucrats. More information owned by bureaucrats enable it to provide the excess expenditure. health, social services and public facilities as well as developing a viable social security system. Flypaper occur because of the superiority of knowledge regarding transfers of bureaucrats. More information owned by bureaucrats enable it to provide the excess expenditure. health, social services and public facilities as well as developing a viable social security system. Flypaper occur because of the superiority of knowledge regarding transfers of bureaucrats. More information owned by bureaucrats enable it to provide the excess expenditure.

➤ *Influence Pure regional income terhadap flypaper through district/city in East Java Province*

The results showed that there are significant pure regional income to flypaper through government expenditures. Direct and indirect influence PRI to flypaper is, PRI has a direct influence is very strong, but with the value of indirect influence is also very strong, it means increased revenue, Government Expenditures is also increasing and both are increasingly gave rise to flypaper. PRI consisting of Local Taxes, Levies, Regional Wealth Management results and other Authorized Pure regional income will cause *Flypaper effect*. Original Regional Government is an indicator of the region's autonomy as mandated by Law No. 32 of 2004 on Regional Autonomy. Local taxes and levies is the source of a significant amount of revenues to be able to finance their spending. In general, the increase in the absorption of government expenditures annually shows the acceleration of development in the region, but if spending growth is moving up each year may indicate the occurrence of flypaper, because most source of revenue derived from fund transfers. Excessive response in the utilization of funds will result in the transfer of the area tend to rely on the central government to the central government should make the performance monitoring and evaluation of local governments in order to monitor.

## VI. CONCLUSION

Based on the research results can be summarized as follows:

1. Pure regional income affect the Government Expenditures The District/City in East Java, which means that the PRI, it will increase the Government expenditures District/City in the province of East Java and vice versa.
2. Pure regional income affect the *flypaper* in district/city in East Java province, pure regional income is lower than the balance funds can increase the *flypaper* District/City in East Java province and vice versa.
3. Government expenditures influence on *flypaper* in district/city in East Java province. Positively influence which if government expenditures increases, it will increase the *flypaper* District/City in East Java province and vice versa.
4. Pure regional income affect the *flypaper Effect* through government expenditures in district/city in East Java province. If the pure regional income increase, to improve government expenditures, this will also increase the *flypaper effect* District/City in East Java province and vice versa.

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