

# Regional Autonomy and Economic Development to Foster Growth for a Welfare Society: Empirical Studies in East Java, Indonesia

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Regional autonomy has become increasing for economic development due to its importance for many countries. In theory, regional autonomy should entail welfare and benefits, by bringing local government to society. This research aims to determine regional autonomy policy and the economic development used to foster the economic growth and welfare of society. This is an explanatory research, with data obtained from a total of 350 respondents in East Java through questionnaires and analysed using the regression model. The result shows that regional autonomy policy and development provides a significant and insignificant effect on economic growth, respectively. In conclusion, both factors have the ability to foster the economic growth of a welfare society.

**Key words:** *Regional Autonomy, Economic Development, Growth, Welfare Society.*

**JEL Classifications:** R28, R58.

## Introduction

The policy of regional autonomy in fostering the development and economic growth of a community is expected to improve the welfare of every society. The current regional policy in East of Java aims to promote growth and employment in poorly developed regions to strengthen competition and territorial cooperation. Therefore, adequate balance is needed by the central and local governments to achieve a balanced economic growth. Regional policy also plays an important role in mobilising domestic resources and in concentrating its



economic, social and endogenous development. In addition, it is an integral factor used by the state economy and social policy, which consists of meeting related societal challenges and employment. The appraisal is associated with the implementation of regional policy, which goals and priorities were defined to obtain the general objectives of economic development (Daniela, 2014).

Since the collapse of the Communist system, transition economies have witnessed significant growth in regional autonomy and with policy fiscal decentralisation. According to Aida (2018), in order to meet the needs of the new decentralised system and adapt to new political changes such as the many countries' accession, these countries started to reform their governance systems by devolving greater power to subnational governments. Sound regional policies are essential for balanced and sustained economic growth. Gabriela (2017) says, the interaction of centred and regional policies with cross-regional structural differences affect human and physical capital formation, the business climate, private investment, market depth, and competition. The ongoing inter-governmental fiscal relations and territorial reforms during these twenty-eight years of transition in of several countries have demonstrated that decentralisation in general, and autonomy in particular, is an ongoing process, continually evolving and contributing to democracy, economic efficiency and ultimately economic development. Regional economic policy is an integral part of every nation, used to realise effective, productive and significant economic growth. Therefore, it needs to be developed with contributions from various parties in order to achieve a common goal. According to Herliana (2015), a reliable strategy aimed at achieving economic growth needs to be developed by the regional and national governments. Article 20, No 18 of the 2002 regulation mandated local governments to formulate priorities and framework in the field of economic development in their region.(Law No. 18/2002). Therefore, this study aims to examine the ability of autonomy policy and economic development to foster societal growth in East Java, Indonesia.

## **Literature Review**

### ***Regional Autonomy***

The strategy of socio-economic development of the region in the state, is the main document defining perspectives and target values of the region for a long-term. Nalimov (2015), says the key method for a region developing is the program-target method. This method is expected to include specific target indicators among regions, territories and activities. The process of the implementation must consist of long-term regional target programs, a list of specific actions aimed at achieving in the development of the region and socio-economic indicators.

The basis of the development of a region is and shall continue to be the skilful promotion of

capacities for employment and mobility on the potential of economics, as well as the need for re-education and the improvement of professional, and the qualifications of, human resources. According to Pachura (2013), the regional character, when restructuring traditional sectors, should concentrate on decreasing the negative effects of social and change, in particular lasting unemployment. Activities of scientific research, technological development as well as innovation shall continue to be significant components of the production environment while also leading to its competitiveness. The scientific and research environment should be increasing between potential economic and human resources in the region.

Economies across all regions continue to streamline the formalities for registering a business. Azizov (2017) says, in the 2014/2015 financial year, 45 economies made starting a business easier by reducing the procedures, time or cost associated with the process. According to Subroto (2015), the central concept in this argument is “economies” in the sense of countries, which are free from the political of history, culture, geopolitics and speech acts. This kind of behaviour is inarticulate, free of discursive imagination in terms of how to be part of the progressive or competitive family of states. In this regard, regionalism is a dynamic sectoral process of practising and becoming part of this successful regional autonomy. Generalisations like presence or absence of the regionalisation autonomy, could be misleading in terms of functional regionalisation in the state.

Civil society, however, is more than just the existence, and even the autonomy, of non-governmental organisations. It is how these organisations connect together, in a horizontal fashion, to form something more than a catalogue of distinct endeavours (Salmenkari, 2013). To understand civil society, in other words, one must study not only how the state acts on individual foundations, but also how it interacts with the networks through which these foundations share personnel, information and resources. The infrastructural power the state exercises may be both enhanced, and dissipated, by the vertical connections between the central government and local government.

### ***Economic Development***

In general, the ultimate goal of fiscal decentralisation policy is to achieve the optimal well-being of society. This can be achieved if the management of regional development is not solely the responsibility of the central government, because local governments have better information about the potential and the problems of their region. Thus, if some management responsibilities’ construction is handed over to the local government authority appropriate with its legally authority, then society welfare in the region would be more quickly realised. According to Anvari (2016) governments tend to absorb a sizeable share of society’s resources and, therefore, they affect economic development and growth in many countries.

However, despite its necessity, government intervention is not a sufficient condition for prosperity, if it leads to the monopolisation of the allocation of resources and other important economic decisions, and as such, societies do not succeed in attaining higher levels of income. Subroto (2015) says, the existing literature presents mixed results as to the relationship between government size and economic development. On the one hand, government activities may also have positive effects due to beneficial externalities, the development of a legal, administrative and economic infrastructure, and interventions to offset market failures (Afonso & Jalles, 2011). On the other hand, the society may impact economic growth negatively due to government inefficiencies, crowding-out effects, the excess burden of taxation, the distortion of the incentives systems and interventions to free markets. The rationale behind this argument is that in countries with big governments, the share of public expenditures designed to promote private sector productivity is typically smaller than that in countries with small governments.

### ***Economic Growth***

Economic growth may cause living standards to improve. Growth is the fundamental objective of a society because it lifts people out of poverty and enhances the quality of their lives. In particular, Subroto (2015) says, ensuring steady economic growth is very important to reducing poverty in the long term. Briefly stated, positive improvement in macroeconomic indicators are influenced by positive rates of economic growth. However, economic growth may also erode traditional values and lead to exploitation, environmental destruction and corruption (Case, Fair and Oster, 2011). Therefore, examination of the economic growth across countries has become one of the important subjects of study over the last decades (Deliktas, 2016). Economic growth mainly depends on having: more resources or a policy of macroeconomics; on using available resources or a policy of macroeconomics, more efficiently; technological change (or advancement), and; good governance. Therefore, the main aim is to analyse the relationship between regional autonomy efficiency and economic growth; the input efficiency and its effect on economic growth have recently received a great deal of attention from academia. Input efficiency analyses are generally studied by academics or experts and are aimed to optimise the regional policy and economic growth, which is mutually effective for the welfare society.

The relationship between regional autonomy and economic growth has been theoretically synergistically supported. While conventional wisdom predicts a growth-enhancing effect of autonomy, recent developments suggest that policies' autonomy is not always beneficial to economic growth. Zahanogo (2016) says, to foster economic growth by policies, the diffusion of resources and economic potential in the regional economics growth. Traditional policy theory predicts growth gains from regionalisation at the country level through decentralisation, specialisation, investment in innovation, productivity improvement, or

enhanced resource allocation. The role of autonomy policy in economic growth has been a key matter of debate in the growing theories. The neoclassical growth models consider regional autonomy change as endogenous and support that consequently, autonomy policies can be impacted in economic growth. However, new economic growth theories assume that policy change is an endogenous variable and that regional policies can be combined with those on the welfare of society. The economic effect of regional autonomy is more visible at the regional level, while being moderated by the country size and other characteristics of countries involved. The empirical evidence has potentially useful policy implications for the ongoing decentralisation reforms in transition economies.

### ***Welfare Society***

Welfare society is a complex functional system of relationships that incorporates certain values, objectives, intentions, the general program of policy and local government, and the implementation of one or another attitude to definite conditions of behaviour and activity. Dimensions of welfare form the system of objective and subjective relations to ontological spaces that all people are involved in. According Anikina (2015), the suggested model for studying and estimating welfare, the source of activity and economic development to cross-systems interactions. The interconnection and combination of these components define the degree of implementation of an individual's demands, the stability of social status, life satisfaction, confidence in the future, emotional attitude to better. Welfare society is a model being designed considering the existing international approaches and national or regional characteristic features. This will provide a wide use of this model at national, regional or local levels and also the qualitative analysis of the major welfare parameters for all peoples in the world.

Increasing economic activity could imply future costs, Subroto (2017) says, costs that must be paid sooner or later. The payment of these costs is more likely to accumulate over generations, like debt. Consequently, a share of production output must be used to offset the costs of economy activity and the defensive costs. According to Marques (2016), a share of production output must be used to offset the costs of economic activity, the so-called defensive costs. Private consumption measures society's wellbeing through the available income of families, because the acquisition of more money by wealthy families creates less well-being than it does for poor families.

The modern international models of welfare and those of all people are represented by integral indices based on socioeconomic objective indicators, and, partially, on data of sociological inquires that reflect the subjective estimation conducted in many countries of the world. International indicators and rankings of all peoples' welfare estimation, their comparison, advantages and disadvantages are described in many scientific papers. Integral



indices denote the ratio between the set of phenomena comprising heterogeneous, disparate elements and are used to form suitable and efficient methods and tools for measuring phenomena of any nature including the socioeconomic. Integral indices allow the unequivocal interpretation of the phenomenon under study and are valuable both from research and management points of view. In the theory of the development of humanity and other related fields of economy such integral indices are used: quality of living, gender disparity, poverty, health and the Physical Quality-of-Life Index.

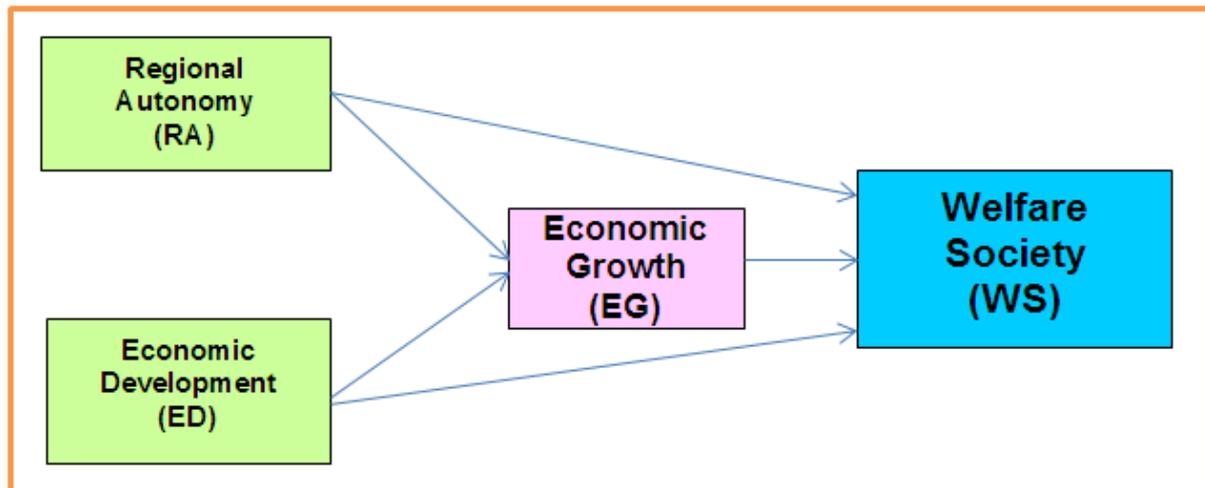
The determinant for welfare lies in the necessity of overcoming a need for something, that is, the satisfaction of needs, whereas the effect is saturation and satisfaction from accomplishment. This interconnection is traced at the etymological level of a broad conceptual construct relating to the term welfare, which includes the broad context of social existence. Social welfare is, concurrently, the objective and subjective phenomenon determined by everyday conditions of people's vital activity under which they satisfy their needs, implement plans and social expectations. Ivankina (2015) says, welfare implies a self-evidence of satisfaction of what a person or society possesses in a real situation because it means the obtainment of welfare that becomes possible due to external factors (subsistence resources, normalisation of relationships, etc.) and internal factors (psychological emotions, assessment of welfare standards based on individual self-sentiment). Social welfare is a complex integral indicator of the social sphere efficiency that reflects social health, welfare standards, quality of living and the social security of the social system. In this connection, social welfare is the most important indicator of stability, comprising certain achievements and opportunities available in diverse vital activities of the individual and society as a whole, such as: regional policy, economics, legislation, and so on. The welfare assurance is provided by the civil society interested in the achievement and regulation of the balance between the private and the public. According to Ivankina (2013), a civil society represents the moral and political method of organising people in a community that demonstrates a phenomenon of autophagy, that is, when people utilise themselves as a means of their survival, free choice and activity based on common values. Being an artifact, social welfare is recorded in the system of beliefs, assessments, rationales, requirements and values of axiological dominants in humanity's existence. According to Subroto (2015), welfare is a kind of chronology of social development, a characteristic of normative-regulatory transformations. Therefore, social welfare is a sociocultural policy directed toward the establishment of axiological systems and norms that allow each person to feel safe.

### ***Conceptual Thinking and Hypothesis***

#### **Conceptual Thinking**

The conceptual thinking associated with this study is related to regional autonomy and economic development to foster the growth and welfare of society. This is shown in Figure 1.

**Figure 1.** Conceptual framework research



### Research Hypothesis

This research hypothesis is formulated as follows:

1. There is a positive correlation between the influence of regional autonomy toward the economic growth and welfare of society.
2. There is a positive correlation between development toward economic growth and the welfare of society.
3. There is a positive correlation between economic growth toward the welfare of the society.
4. There is a positive correlation between regional autonomy, development and economic growth toward the welfare of society.

### Methods of Research

This study uses the explanatory design method to explore the relationship among variables of regional autonomy, towards the development and economic growth of a society. The random sampling method was used to obtain primary data from a total of 350 respondents using questionnaires, from September to October, 2019, in East Java.

**Table 1:** Research samples in several regional areas of East Java

Number	Regional	Cities/District				
		1	2	3	4	5
1	Pamekasan	City of Pamekasan 10 respondents Age 45 – 55 years	Districts Pamekasan 15 respondents Age 50 – 60 years	Districts Sampang 15 respondents Age 50 – 60 years	Districts Bangkalan 15 respondents Age 45 – 55 years	Districts Sumenep 15 respondents Age 45 – 55 years
2	Bojonegoro	City of Bojonegoro 10 respondents Age 50 – 60 years	Districts Tuban 15 respondents Age 50 – 60 years	Districts Lamongan 15 respondents Age 45 – 55 years	Districts Jombang 15 respondents Age 50 – 60 years	District Nganjuk 15 respondents Age 50 – 60 years
3	Banyuwangi	City of Banyuwangi 10 respondents Age 45 – 55 years	Districts Jember 15 respondents Age 50 – 60 years	District Probolinggo 15 respondents Age 45 – 55 years	District Malang 15 respondents Age 50 – 60 years	Districts Lumajang 15 respondents Age 45 – 55 years
4	Madiun	City of Madiun 10 respondents Age 50 – 60 years	Districts Pacitan 15 respondents Age 45 – 55 years	District of Ponorogo 15 respondents Age 50 – 55 years	Districts Ngawi 15 respondents Age 45 – 55 years	Districts Magetan 15 respondents Age 40 – 50 years
5	Surabaya	City of Surabaya 10 respondents Age 40 – 50 years	Districts Gresik 15 respondents Age 45 – 55 years	Districts Sidoarjo 15 respondents Age 50 – 50 years	Districts Pasuruan 15 respondents Age 45 – 50 years	Districts Mojokerto 15 respondents Age 45 – 55 years

**Source:** Field data

The obtained data were analysed using the regression model, as shown in the equation below:

$$Y = \beta(0) + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \mu$$

Where:

**Y** : Stage of welfare.

**X1**: Understanding of regional autonomy

**X2**: Understanding of development economic

**X3**: Economic growth.

## Research Result

The regression square test was used to select the appropriate model, as shown in Table 2.

**Table 2:** Model summary

Model	R	R Square	Adjusted R Square	Std. The estimation error
1	.416 <sup>a</sup>	.173	.166	.30237

Based on Table 2, the output of the R-value is 0.416, therefore, the variables are significantly correlated and able to foster economic growth. Similarly, the value of R Square (R<sup>2</sup>) is 0.173, which means that it has the ability to influence the welfare of society by 17,3 percent, with a standard error of 0.30237.

**Tables 3:** Normality test result

		Unstandardised Residual
N		350
Normal Parameters <sup>a</sup>	Mean	.0000000
	Std. Deviation	.30114060
Most Extreme Differences	Absolute	.075
	Positive	.075
	Negative	-.048
Kolmogorov-Smirnov Z		1.450
Asymp. Sig. (2-tailed)		.030

Based on Table 3, the mean value model is 0.0000000, with a standard deviation of 0.30114060, a significant difference of 0.075, as well as a positive and negative difference of 0.075 and 0.048, respectively.

**Table 4:** Multicollinearity test results

Model		Unstandardised Coefficients		Standardised Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Con-stant)	9.553	2.941		3.248	.001		
	X1	.318	.043	.389	7.418	.000	.851	1.176
	X2	.021	.083	.016	.257	.798	.636	1.572
	X3	-.097	.095	-.060	-1.011	.313	.655	1.528

Table 5 shows the total value of the multicollinearity test result for X 1, X2, and X3, with a positive correlation.

**Table 5:** Heteroscedasticity test results

Model		Unstandardised Coefficients		Standardised Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.031	.088		.356	.722		
	X1	.005	.001	.228	4.160	.000	.851	1.176
	X2	.004	.002	.101	1.591	.112	.636	1.572
	X3	-.003	.003	-.065	-1.045	.297	.655	1.528

Table 5 shows a co-efficient calculation of X1 at 0.722, with a value of 0.05, which amounted to 0.851. The co-efficient value of X2 is 0.636 at 0.004 for 0.636. Co-efficient value calculation X3 of 0.655 while co-efficient value -.003 for co-efficient value calculation is a smaller value of statistics. Therefore, there are no errors associated with heteroscedasticity.

### *Hypothesis Testing of Partial Variables*

In accordance with the research hypothesis, four statements need to be verifiable based on the information of data analysis results, namely regional autonomy, development and economic growth. The result of the regression analysis is shown in Table 6.

**Table 6:** Correlation of regional autonomy, development economic and economic growth toward welfare society

Model		Unstandardised Coefficients		Standardised Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Con-stant)	2.455	.144		17.021	.000		
	X1	.018	.002	.439	8.527	.000	.851	1.176
	X2	-.002	.004	-.026	-.442	.658	.636	1.572
	X3	-.005	.005	-.066	-1.130	.000	.655	1.528

Base on Table 6, the variables of regional autonomy (X1) have the value 8.527, at a significant degree of 0.000. The t-tables showed a significant value of  $0.05/2 = 0.025$  with  $df = n - k - 1$  or  $350 - 3 - 1 = 346$ , to obtain 1.966. In addition, the t-account of variables on regional autonomy (X1) produced better t-tables ( $8.527 > 1.966$ ) with significant value of  $0.000 < 0.05$ . Therefore, the partial variables on regional autonomy are significant, with the ability to foster economic growth for the welfare of society.

The economic development (X2) has a value of -0.442, at 0.658 significant, with the t-account better at  $-0.442 < 1.966$  and at a degree range of  $0.658 > 0.05$ . Therefore, the partial variable on the economy is insignificant toward economic growth. The economic growth (X3) has a t-account value of -1.130, with a significant degree 0.000. Therefore, it is better for t-tables ( $-1.130 < 1.966$ ), and with a significant degree  $0.000 < 0.05$ . Therefore, the partial variables on economic growth have a positive correlation with the ability to foster welfare society.

### *Hypothesis Testing of Simultan Variables*

This study analyses four statements and provides a hypothesis based on the data received on regional autonomy, development and economic growth, to foster the welfare of society in East Java. Result of regression analysis is shown in Table 7.

**Table 7:** The Simultan correlation of variables

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.004	3	2.335	25.536	.000 <sup>a</sup>
	Residual	33.463	366	.091		
	Total	40.467	369			

The co-efficient of F-account is 25.536 with a significant of 0.000, were obtained at 0, 05, and  $df_1=3$  and  $df_2=366$ , with F-table at 2.629. Therefore, regional autonomy and development have the ability to foster the economic growth of a society.

### **Discussion**

The strategy of economic development in a nation is applicable to the autonomous regional policy used to accelerate growth. The inverse relationship between regional autonomy and economic growth is known in macroeconomic literatures. The empirical studies confirm a positive impact of regional economics on economic growth. However, the estimated effect of regional autonomy toward economic growth is as would have been expected. According to Subroto (2015), perspectives and target values of the region are needed for long-term development. One such is regional analysis that analyses the spatial dispersion and coherence of economic activities. We can identify three main fields that can be dealt with by regional analysis. These are location analysis; regional economic modelling and spatial interaction analysis; regional economic development and policy analysis. Nalimov (2015) reported that the key to economic growth in local government is policy and targeted programs. According to Komkov (2014), the process of the strategy implementation needs to consist of long-term departmental target programs, while alongside specific actions on regional autonomy, aimed

at achieving development with the innovative transformation of knowledge and technology, are needed (Phuong, 2019).

Furthermore, Rapaport (2012) states that there is a regional autonomy policy between the development and economic growth of the welfare of society. According to Phillip (2009), the impact of regional decentralisation on the macroeconomy is given not only to economic growth but also to a number of important macroeconomic variables where may influence growth. At the aggregate level, when measured through expenditure shares, decentralisation is found to decrease medium-term economic growth, worsen the budget balance and increase the size of the public sector. For the central government, decentralisation is generally found to have no significant impact on the distribution of income, but a weak negative effect on economic growth. On some measures, regional autonomy may tend to increase the inequity of income distribution across a province and retard economic growth. In reality, through the majority of measures employed, however, no such relationship could be detected. There are many ways in which regional autonomy can affect the economic growth, with the outcome depending on the type of autonomy undertaken. On the other hand, Florentina (2017) says, the negative correlation between growth and economic growth is local rules. The strength of policy in local government show that these rules are different in each province and did not reflect regional autonomy but rather reflected that local authorities and government did not have real regional autonomy to determine their own policy. That some of these effects have been empirically identified leads to the next step: a better theoretical understanding of why these relationships exist and what policy lessons can be learned from them.

Aarstad (2016) states that the positive association between regional autonomy and economic growth has a propensity with the innovative development of the local economy. The random effect variables are similar to the significant empirical nexus of regional autonomy and economic growth. This implies that economic activities can foster growth and economic development, thereby boosting the welfare of society. According to Tabassama (2016), regional autonomy provides policy implications for decision-makers, investors, regulatory authorities and financial institutions to set their goals and policies on planning for and keeping political regional autonomy. According Neringa (2016), this means that when the economic activities of a society increase, potential investors gain confidence, with an expected return on investment. According to Subroto (2017), some of the literature reviewed analysed that regional autonomy policy and development have an adverse impact on economic growth. In the future, this research recommends the use of regional policy to accelerate the economic growth of a society (Andrea, 2016). According to Howard (2008), the welfare state is a vestige of the decentralisation era, and that is the contrast between regionalisation and centralistic policies. Income growth, mobility, the inequitable distribution of income, and the current decline in real wages among a large sector of the workforce is also examined. The effects of the global economy on the welfare state, poverty, consumer debt,



and bankruptcy are functionally to increase welfare society. The authors look at how these problems not only affect economic growth but also the functionality of the distribution of economic growth to increase welfare society.

### **Conclusion**

In conclusion, the regional autonomy policy and economic development are used to foster the economic growth and the welfare of society. Therefore, the regional autonomy policy, and development, provides a significant and insignificant effect on economic growth, respectively, with the ability to foster development. Regional autonomy has a positive correlation toward the economic growth and welfare of society. And economy development policy does not have significance toward economic growth. Therefore, economic growth has significance toward the welfare of society. Therefore, regional autonomy, development and economic growth have a positive correlation or significance toward the welfare of society.

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