

## Political Budget Cycle on The Regional Elections in Indonesia

Chanif Rizqiyati<sup>1</sup>, Dody Setiawan<sup>2</sup>

Master of Accounting Program, Postgraduate School, Sebelas Maret University<sup>12</sup>  
Jl. Ir. Sutami No 36 A Ketingan, Kec. Jebres, Kota Surakarta, Indonesia

**Abstract.** *This research examines the Political Budget Cycle on The Regional Elections in Indonesia, especially in Java, and gives evidence related between the central government transfer and the political budget cycle authority in regions. The number of samples taken was 337 observation data during three observation periods, i.e., elections years, one year before the elections, and two years before the 2018, 2017, and 2015 elections. The technique of testing data used regression analysis with Eviews Software. This research shows that the regional elections improve grant expenditures and social aid expenditures, while investment expenditures are increased two years before the elections are held. The assumption that the incumbent candidates utilize their authority to do politicization budgets cannot be proven in this research. Besides, the relationship between the central transfer and the political budget cycle in regions cannot be proven either.*

**Keywords:** *election; incumbent; and political budget cycle*

**Corresponding author.** chanifrizqiyati04@student.uns.ac.id

**How to cite this article.** Rizqiyati et al. (2021). Political Budget Cycle on The Regional Elections in Indonesia. *Jurnal ASET (Akuntansi Riset)*. Program Studi Akuntansi. Fakultas Pendidikan Ekonomi dan Bisnis Universitas Pendidikan Indonesia, 13 (1), 85-97. Retrieved from <https://ejournal.upi.edu/index.php/aset/article/view/33879>

**History of article.** Received: April 2021, Revision: June 2021, Published: June 2021

Online ISSN: 2541-0342. Print ISSN: 2086-2563. DOI : <https://doi.org/10.17509/jaset.v13i1.33879>

Copyright©2021. Jurnal ASET (Akuntansi Riset) Program Studi Akuntansi FPEB UPI

### INTRODUCTION

A regional election is one of the democratic implementations in a country. The countries which upheld democracy give a chance to their society to take part in deciding the leaders of their regions. Indonesia is one of them. The citizens' implementation of direct regional elections was started in 2015 since Law No. 32 the year 2004 on Regional Government was applied. Ten years later, Law No.8, 2015 was published, which stated that starting 2015, regional elections will be held simultaneously every five years in all Unitary State of the Republic of Indonesia.

The evaluation from the implementation of the direct regional elections has not been done seriously. Therefore it causes pros and cons from many sides, both from the central government and House of Representatives (DPR). One of the opinions states that the implementation of regional elections in some regions will cause an increase of financial burden in the regions which held the elections (Ritonga & Alam, 2010). Besides that, the implementation of regional elections can cause financial abuse problems and Regional Revenues and Expenditures Budget (APBD)

for personal interest from the region's heads before the elections (Sjahrir, Kis-katos, & Schulze, 2013).

The Regional Revenues and Expenditures Budget (next, APBD) were arranged by each regional government annually. APBD abuse could happen before or during the regional elections. It happens because of some of the reasons, first the regional governments through the heads of regions who can manage its government, including budgeting. The central government gave the regional government decentralization. Second, there is an ambition to be the successive heads of the regions in the next period. Therefore, everything will be used to attract the public's sympathy.

As the leader of a region, the head of the region has five years tenure and can be elected again for the second period. The heads of regions who have finished their first tenure period then participate in the next election are called incumbents. The incumbents, as their position the heads of regions, will get easier and broader access to reach the society by using expenditures of APBD in coordinating their political interest (Amalia & Pratolo,

2013). Grant expenditures and social aid expenditures are the types of expenditures that the incumbents can use to get support and votes from the citizen (Ritonga & Alam, 2010).

Grant expenditures and social aid expenditures are types of APBD related to the public welfare that can be used for regional elections interest (Ariyanto & Dewi, 2019). Those two expenditures are not allocated based on the indicators or work targets, but those tend to use a subjective approach in deciding the number of cost budgets (Ritonga & Alam, 2010). Besides grant expenditures and social aid expenditures that the citizens can feel directly, another APBD used for political interest is investment expenditures.

Investment expenditures are being realized in public services and infrastructure improvements that can give success impressions from the previous government and use their position to realize infrastructure projects as promised (Setiawan & Setyorini, 2018). This successful impression will make society feel a positive impression and think that this government is needed to be continued to the second period. It can be advantageous for the incumbents or relatives who participate to be candidates for regional elections and the supporting parties. Therefore, the central government's supervision is needed to prevent the political budget cycle in the region government when the regional elections are held.

The political budget cycle was developed for the first time by Nordhaus (1975). The political budget cycle combines budget elements and political elements that give budgeting behavior images around election year. The political budget cycle focuses on the regional elections cycle in government expenditures, taxes, and budgets deficit (Gootjes, Haan, & Jong-A-Pin, 2019). In some countries, political budget cycle practice has been proven, for example in the European Union (Efthyvoulou, 2012), London (Aidt & Mooney, 2014), Israel (Baskaran, Brender, Blesse, & Reingewertz, 2016), Italy (Alesina & Paradisi, 2017; Repetto, 2018), Denmark (Aaskoven, 2018), China (Guo, 2009; Tsai,

2016; Vortherms, 2019), Polandia (Turyna, Kula, Balmas, & Waclawska, 2016).

How does the political budget cycle happen in Indonesia? The research about the political budget cycle in Indonesia is still lack. It has been proven where there are fewer than ten articles published in national journals during the last 20 (twenty) years. Hence the researchers are motivated to research the political budget cycle based on some considerations. First, Indonesia is a 'young democracy country. Second, Indonesia has more than five hundred regional governments. The third is the implementation of decentralization and direct elections. Fourth, there are many cases of power abuse and APBD.

This research aims to give empirical evidence about the political budget cycle in regional government in Indonesia, especially in Java. The regional government expenditures are being used to attract and improve votes from society. Second, the researchers intent on examining whether there is a relationship between central government transfer and political budget cycle force or not. The researchers used 337 data during three years of observation stand from regencies and cities in Java that held regional elections in 2018, 2017, and 2016. The next subsections will be explained in the literature review and hypothesis development. The third part explains about research methods. The fourth displays results and discussions. The last part concludes the research.

## LITERATURE REVIEW

In 1975, Nordhaus developed the theory of the political budget cycle. This theory gives an image of budgeting behavior around the election year. The political budget cycle shows the fluctuation cycle in fiscal policy caused by election time, mainly because of its government's opportunism. The opportunistic behavior is shown by the heads of regions who tried to use expansive fiscal policy before the election in order to gain popularity and a higher chance to be chosen for the next period

(Efthyvoulou, 2012). Besides, the government opportunistic can be done through a discretionary fund in which the allocation is not based on the specific work target.

The political budget cycle practice can be detected in developing countries or new-democracy countries (Bohn, 2019). The political budget cycle only happens in direct elections, and it does not happen in indirect elections (Sjahrir et al., 2013). Direct elections are elections where the citizens vote directly. Law 8 the year 2015 states that a governor and vice governor, regent and vice-regent, the mayor and vice-mayor, are the executors of public sovereignty in province and regency/city to choose a governor and vice governor, regent and vice-regent, the mayor and vice mayor, directly and democratic. Every candidate will compete and try to gain the public's sympathy and votes. Therefore, the political budget cycle contains the first element; politics.

The second element contained in the political budget cycle is the budget. The budget in the regional government is written on APBD and it needs an accountability report. According to Law No. 23 the year 2014, APBD is an annual financial plan in a region that is set with Regional Regulation. The budget becomes an element that cannot be separated from the political budget cycle. It is because the budget has an important role every year which purposed for the public, including individual/group interest.

To supervise the use of regional financial, the government has issued its own rules specially to manage grand expenditures and social aid expenditures, in which these two posts are pretty troubled to be used. The first rule was made in *Peraturan Menteri Dalam Negeri No 32 Tahun 2011* discusses the guidelines of grant and social aid sourced from APBD. This ministry regulation has been changed four times. The newest one is Permendagri No 123 the year 2018 about the fourth changing of Permendagri No 32 Tahun 2011. This renewal adds co-op as the object of the grant receivers.

The political budget cycle strongly attached to budget and politics during an

election year. This cycle happens once in five years when the regional elections are held. The heads of regions will maximize the effort to gain the public's empathy and show their achievement through many programs. It is not surprising when the heads of regions utilize their power when they participate as incumbents. The opportunistic of incumbents can be seen in the APBD making process before the regional elections (Ritonga & Alam, 2010). The executives will use their position to put personal interest in budget deciding (Ariyanto & Dewi, 2019).

The research has been done by Amalia & Pratolo (2013); Ritonga & Alam (2010) shows the result that grant expenditures, social aid, and regional budget aid of incumbents during regional elections are bigger than before regional elections, and they are much bigger when incumbents participate in regional elections. Those results are in line with the research has been done by Sjahrir et al. (2013), which shows the increase of expenditures during election years in almost all regional governments. Setiawan & Setyorini (2018) states there are differences in the allocation of grant expenditures, social aid expenditures, and investment expenditures between the period before regional elections and during the regional elections. However, those results contradict Winoto & Falikhatun (2015) who show there are no grant expenditures, and social expenditures abuse happened before the regional elections 2015. Therefore, the hypotheses in this research are stated as below.  
H<sub>1</sub>: Election year has positive impact on political budget cycle.

H<sub>2</sub>: The incumbents has positive impact on the political budget cycle.

The political budget cycle happens by utilizing the budget provided and happens through the policies decided by the heads of regions. Alesina & Paradisi (2017) tested the political budget cycle in Italy, where the tax rate is lower when the regional elections are closer. Besides, the transfer between governments also happens. As Corvalan, Cox, & Osorio (2018) tested, the central government

transferred to the regional government for election purposes. The result shows that it was proven that the political budget cycle in Chili happened, transfer to cities were improved during city election and significantly more prominent as the politicians allied with the national government.

The transfer received by the regional government becomes one of the income element beside the real regional income that can be used for regional expenditures. Towards the general elections, the regional government needs big fund resources for expenditures contained political or non-political elements. Turyna et al., (2016) analyzed the impact of the political budget cycle and fiscal decentralization on Poland city's expenditures. One of the results shows that the transfer to the city has improved the power in the election cycle. It is needed for the next examination to investigate the relationship between the political budget and fiscal autonomy of the regional government. Whether the political budget cycle happens stronger on the regional funded by central government transfer or not, then the third hypothesis of this research is stated below.

H<sub>3</sub> : The political budget cycle of the regional government improves stronger on the regionals which rely on transfer from central government.

## **METHODOLOGY**

### **Definition of Variable Operations**

#### **Total Expenditures**

Expenditures are all the spending by the State Treasury (*Bendahara Umum Negara*) or Regional Treasury (*Bendahara Umum Daerah*) that reduces the balance of the budget in a certain period when the payment back would not be generated by the government. According to Government Regulation (PP) No 71 the year 2010, expenditures are classified into operational expenditures, investment expenditures, and unpredictable expenditures. Total expenditures in this research are the total expenditures of regencies/cities government stated in the realization budget report of each regional government. Total expenditures are

stated in the percentage from total expenditures then it is reduced with total expenditures median of all from each province in that year.

#### **Investment Expenditures**

Investment expenditures are spends that are held with a purpose to create capital stock as fixed asset/inventory that gives benefit more than one period of accounting. Investment expenditures stand from land, machine and tools, buildings and storages, streets, webs and irrigation, another fixed asset expenditures and asset expenditures. Investment expenditures are stated in the percentage from investment expenditures then it is reduced with investment expenditures median of all from each province in that year.

#### **Grant Expenditures**

Grant Expenditures are expenditures in the form of giving money/goods or services from the regional government to the central government or other regional governments, State-Owned Enterprises (BUMN)/Regional-Owned Enterprises (BUMD), Entities, Institutions and social organizations that are Indonesian legal entities whose designation has been specifically determined, is non-obligatory and non-binding, and is not continuously aimed at administering regional government affairs. Grant expenditures are expressed as a percentage of grant expenditure less the median overall grant expenditure for each province in the year concerned.

#### **Social Aid Expenditures**

Social aid expenditures or namely Bansos (Bantuan social) is a spend related aid in form of social cash aid/items from the regional government to an individual, families, groups and/or public that is not continuously and it is selectively chosen with the purpose to prevent social risk. Social aid expenditures are stated in the form of percentage from social expenditures, it is reduced with whole social expenditures median from each province in the related year.

#### **Election Year**

Election year is a year when the general election is held. In this research, election years are the election years of regent or mayor. The election years are stated with a dummy variable, score 1 for the election year, and score 0 for a non-election year.

**Incumbents**

Incumbents are the heads of regions in the previous period who participate in the next election to keep their authority in the next period. Incumbents in this research are the heads of regencies/cities who are serving and they run for re-election in the regional elections year 2015, 2017, and 2018. Incumbents belong to the dummy variable, they have a score 1 for incumbents and score 0 for non-incumbent candidates.

**Transfer**

Transfer is an income that comes from another fund besides the real regional income. In this research, the transfer is stated in the form of income ratio beside its revenue towards total revenue.

**Population and Sample**

Populations in this research are all the regencies and cities government in Java. The purposive sampling method is used to decide the sample in this research. The researchers took three periods of regional elections i.e. the regional elections of 2018, 2017, and 2015 with three years of observation for each. Those years were chosen with the consideration that they could give the newest data and they were held simultaneously. Based on the purposive

sampling applied, it has been received 337 observation data from regencies and cities in Java for three years.

**Data Analysis Methodology**

This research examines the influence of incumbents' election year, and transfer towards regional government spending during regional elections or before regional elections. The main idea of this research is the willingness to give images and shreds of the evidence whether the political budget cycle on regional government in Java and the years before the regional election misuse the authority to attract voters. The method used to analyze data is a double linear regression test with the help of software E-views. The equation of regression is drawn below.

$$Y_{it} = \alpha + \beta_1 ELECT_{it} + \beta_2 ELECT_{i(t-1)} + \beta_3 ELECT_{i(t-2)} + \beta_4 Incumbent_{it} + \beta_5 Trans_{it} + \beta_6 Populasi_{it} + \beta_7 Poverty_t + \epsilon ...$$

**RESULT AND DISCUSSION**

The regional governments that held regional elections in 2018, 2017, and 2015 in Java amount to 113 regencies and cities. Based on the sample chosen, the total used is 337 data of regional government during 3 years observation. The observation period stands from regional elections year, one year before regional elections, and two years before regional elections. Below is the statistic description data from each variable that is used in this research.

Table 1. Descriptive Statistic

| Variabel   | N   | Mean     | Std. Deviation | Median   | Min       | Max      |
|------------|-----|----------|----------------|----------|-----------|----------|
| Tot_Exp    | 337 | 0.088143 | 0.502766       | 0.000000 | -0.710025 | 2.650120 |
| Inv_Exp    | 337 | 0.182279 | 0.927225       | 0.000000 | -0.810930 | 11.63400 |
| Gra_Exp    | 337 | 0.306347 | 1.031754       | 0.072457 | -0.982377 | 6.564234 |
| Soc_Exp    | 337 | 0.829785 | 2.926650       | 0.000000 | -1.000000 | 23.58607 |
| Trans      | 337 | 0.815032 | 0.110180       | 0.851227 | 0.079981  | 0.976349 |
| Population | 337 | 13.76225 | 0.747537       | 13.86620 | 11.69424  | 15.58040 |
| Poverty    | 337 | 11.32680 | 4.827491       | 10.87000 | 1.330000  | 24.11000 |

Source: Secondary data analysis, 2020

Table 1 shows the number of each variable viewed from the mean, the standard deviation, median, minimum, and maximum. The dummy variable will be explained in the next table. Total Expenditures (Tot\_Exp) have increased 8.81% averagely from the median of the regional government in all provinces related. The maximum number of total expenditures has reached 265% while the minimum number has decreased by 71%. In line with total expenditure, the average investment expenditures (Inv\_Exp) have increased by 18.2%. This number is bigger than the average of total expenditure. The maximum number of investment expenditures has increased by 116%, and the minimum number has decreased by 81% from the median of the regional government in each province. Grant expenditures (Gra\_Exp) approach and during the regional elections have increased 30.6% averagely. While the maximum and minimum expenditure show a width range. The maximum reached 656% while another regional government decreased to 98% from the median of that province.

Social aid expenditures (Soc\_Exp) are not different from what have happened on grant expenditure or investment expenditure. These expenditures averagely e a bigger increase which is 82.9% compared to the other expenditures. The maximum number has increased until 235% while the minimum number has decreased by 100%. Transfer (Trans) has become one of the government's fund resources besides the real regional revenues. The average transfer ration of total expenditure received by the regional government is 81%, while the highest has reached 97% and the lowest is about 7.9%. The

number of populations is about 945 million. The highest has 5.840.907 populations, and the lowest has about 119.879 populations. While the average of poverty in the regencies and cities in Java is about 11.32%. The highest number of poverty is 24.11% and the lowest is 1.33%.

Table 2. Descriptive Statistic of Dummy Variabel

| Variabel  | N   | Category | Category 0<br>1 |
|-----------|-----|----------|-----------------|
| Elect     | 337 | 0.335312 | 0.664688        |
| Elect-1   | 337 | 0.332344 | 0.667656        |
| Elect-2   | 337 | 0.332344 | 0.667656        |
| Incumbent | 337 | 0.620178 | 0.379822        |

Source: Secondary data analysis, 2020

The descriptive statistic of the dummy variable has been shown in table 2. This table explains that from total data observed, around 33.53% is the data in the regional government that are held elections in that year, while in the one year and two years before election data show 33.32% for each. The incumbents who participate in their second competition are 62.01% form total observation, while the rest is 37.98% are non-incumbent candidates of the heads of regionals. The hypothesis testing in this research is divided into some regression results for each dependent variable. Each dependent variable will be tested to understand the result during regional elections year, one year before the regional elections, and two years before the elections. The result of regional government total expenditures (Tot\_Exp) can be seen in Table 3 below.

Table 3. The Result of Panel Data Regression: *Total Expenditure*

| Variabel                | 1                             | 2                          | 3                          |
|-------------------------|-------------------------------|----------------------------|----------------------------|
| Constant                | -6.6528*<br>(0.0000)          | -6.7285*<br>(0.0000)       | -6.6979*<br>(0.0000)       |
| Elect                   | <b>-0.0271*</b><br>(0.0000)   |                            |                            |
| Elect-1                 |                               | <b>0.0196*</b><br>(0.0063) |                            |
| Elect-2                 |                               |                            | 0.0067<br>(0.3237)         |
| Incumbent               | 0.0773<br>(0.1615)            | 0.0806<br>(0.1486)         | 0.0772<br>(0.1627)         |
| Trans                   | -0.0133<br>(0.4869)           | 0.0439<br>(0.4575)         | 0.0147<br>(0.4860)         |
| Population              | <b>0.5004*</b><br>(0.0000)    | <b>0.5000*</b><br>(0.0000) | <b>0.5003*</b><br>(0.0000) |
| Poverty                 | <b>-0.0154***</b><br>(0.0963) | -0.0140<br>(0.1253)        | -0.0144<br>(0.1030)        |
| Obs                     | 337                           | 337                        | 337                        |
| R <sup>2</sup>          | 0.4010                        | 0.3962                     | 0.3918                     |
| Adjusted R <sup>2</sup> | 0.3919                        | 0.3871                     | 0.3826                     |
| F-stat                  | 44.318                        | 43.4471                    | 42.658                     |
| Prob (F-stat)           | 0.0000                        | 0.0000                     | 0.0000                     |

Source: Secondary data analysis, 2020

According to table 3, the random effect of data panel regression test for regional government's total expenditures have been done partially in the regional election years, one year before regional elections, and two years before regional elections. The elections years (elect) have significantly influenced the level of 1% towards regional total expenditures, but it gives a negative sign (see column 1). It means in regional election years, the political budget cycle did not happen in total expenditures of the regional government. This result is inconsistent with the result has been obtained by Setiawan & Rizkiah (2017). While one year before the elections (elect-1) gives a significant result on the level of 1% towards total expenditures of regional government and has a positive sign (see column 2). This result shows evidence that in one year before the election is held, there is an improvement in total expenditure in regencies or cities where the elections are held. The different results have shown in two years before the election. Two years before the

elections (elect-2) there are not any influence on regional total expenditures (see column 3). In those years, regional total expenditures did not increase nor decrease. It happens probably because there is not any effort or program-related to political expenditure.

According to table 3, the incumbents do not give any significant effect to total expenditures either in the elections years, one year before elections, or two years before regional elections held. This result proves that increasing or decreasing total expenditures are not affected by the incumbents who join the next regional elections. The opportunistic of the incumbents in the expenditures category cannot be proven. This result is in line with the transfer variable (trans) which is not affected to total regional total expenditure (see column 1 to 3). Total expenditures do not rely on transfer from the central government to fund those expenditures.

The number of populations as the control variable gives a significant effect towards total expenditures in the election year, one year

before the elections, and two years before the elections. The bigger the population number in a region, the bigger the total expenditures in that region will be. While the poverty level in every region/city does not affect regional total expenditures and has a negative sign. This result might happen because the expenditures used by the regional government to reduce the poverty level are less. The total expenditure regression test of regional gives Adj  $R^2$  amount 38-39%. It means that the independent variables used in this research are able to explain the dependent variable of regional total expenditure amount 38-39, while the rest will be explained by another variable outside this research.

The random effect of the data panel regression test for total expenditures is explained in table 4. Based on that table, the elections year (*elect*) has given significant influence towards investment expenditures of the regional government, but it has a negative sign. When the elections were held, the

investment expenditures in those regions have decreased. Then, one year before the regional elections (*elec-1*) does not influence the total investment. The regional government might not reduce investment expenditures in one year before regional elections, they focus on other expenditures except investment expenditures. The testing result from Sakurai & Menezes-Filho (2011); Setiawan & Rizkiah (2017) shows the decreasing tendency investment expenditures in the election year. It is because investment expenditures need some time to be seen and felt. It is also based on the results shown in two years before the elections. Two years before the regional elections (*elect-2*) have a significant effect on investment expenditures on the level of 10% with a positive sign (see column 3). The investment expenditures of regions /cities in two years before the regional elections have increased. It proves that the heads of regions at the time emphasis on infrastructure activities or other investment expenditures.

Table 4. Data Panel Regression Result: *Investment Expenditure*

| Variabel                | 1                           | 2                           | 3                            |
|-------------------------|-----------------------------|-----------------------------|------------------------------|
| Constant                | -6.8540*<br>(0.000)         | -7.1120*<br>(0.0000)        | -6.9601*<br>(0.0000)         |
| Elect                   | <b>-0.1629*</b><br>(0.0000) |                             |                              |
| Elect-1                 |                             | 0.0734<br>(0.1096)          |                              |
| Elect-2                 |                             |                             | <b>0.0911***</b><br>(0.0759) |
| Incumbent               | <b>0.1765**</b><br>(0.0332) | <b>0.1841**</b><br>(0.0237) | <b>0.1758**</b><br>(0.0352)  |
| Trans                   | -0.5759<br>(0.3004)         | -0.4227<br>(0.3464)         | -0.5702<br>(0.3046)          |
| Population              | <b>0.5644*</b><br>(0.0000)  | <b>0.5670*</b><br>(0.0000)  | <b>0.5649*</b><br>(0.0000)   |
| Poverty                 | -0.0280<br>(0.1699)         | -0.0267<br>(0.1890)         | -0.0270<br>(0.1767)          |
| Obs                     | 337                         | 337                         | 337                          |
| R <sup>2</sup>          | 0.1918                      | 0.1807                      | 0.1819                       |
| Adjusted R <sup>2</sup> | 0.1796                      | 0.1683                      | 0.1695                       |
| F-stat                  | 15.7183                     | 14.604                      | 14.721                       |
| Prob (F-stat)           | 0.0000                      | 0.0000                      | 0.0000                       |

Source: Secondary data analysis, 2020

The incumbents in the elections years, one year before the elections, and two years before regional elections have significantly influenced investment expenditures on the level of 5% with a positive sign. It means the incumbents put more attention on regional investment expenditures through public infrastructure developments. By doing these programs, the heads of regions bring some motives. First, it proves their promises during the campaign; therefore after 2 years of their duty, they start to realize their promises. Second, it can be achievements during their duty and it can gain the public's sympathy, therefore the citizens will re-elect the incumbents for the next period.

The opposite result happens in the transfer variable. The transfer during three observation periods does not affect towards total expenditure and has a negative sign. This result is in line with the result of regional total expenditures testing. The government of regencies /cities does not rely on the transfer when they fund investment expenditures of their regions.

The number of populations as the control variable in this research has influenced significantly towards investment expenditures on the level of 1% with a positive sign. This result happens in the three observation periods (see column 1 to 3). The bigger population will impact the increase in regional investment expenditures. The lesser population in a region will demand the availability of public services and public needs, therefore it will influence the budget for infrastructure development, public services, etc. Opposite to the number of population, the poverty level in a region does not influence the investment expenditures. It proves that the increase in investment expenditure is not influenced by the high level of poverty. The regression test of investment expenditures gives  $Adj R^2$  about 16-17% which means the independent variables used in this research are able to explain the dependent variable of investment expenditures amount 16-17%, while the rest will be explained by another variable outside this research.

Table 5. Data Panel Regression Result:  
*Grant Expenditure*

| Variabel                | 1                          | 2                             | 3                           |
|-------------------------|----------------------------|-------------------------------|-----------------------------|
| Constant                | -7.5209*<br>(0.0088)       | -7.1118*<br>(0.0075)          | -7.4838*<br>(0.0058)        |
| Elect                   | <b>0.2917*</b><br>(0.0000) |                               |                             |
| Elect-1                 |                            | -0.0427<br>(0.3619)           |                             |
| Elect-2                 |                            |                               | <b>-0.2568*</b><br>(0.0030) |
| Incumbent               | -0.0923<br>(0.2361)        | -0.1030<br>(0.2188)           | -0.0802<br>(0.2667)         |
| Trans                   | -0.8973<br>(0.1127)        | <b>-1.1395**</b><br>(0.0448)  | -0.7335<br>(0.1232)         |
| Population              | <b>0.6278*</b><br>(0.0012) | <b>0.6249*</b><br>(0.0011)    | <b>0.6296*</b><br>(0.0010)  |
| Poverty                 | -0.0108<br>(0.1210)        | <b>-0.0154***</b><br>(0.0699) | -0.0125<br>(0.1029)         |
| Obs                     | 337                        | 337                           | 337                         |
| R <sup>2</sup>          | 0.1809                     | 0.1466                        | 0.1721                      |
| Adjusted R <sup>2</sup> | 0.1685                     | 0.1337                        | 0.1596                      |
| F-stat                  | 14.624                     | 11.376                        | 13.767                      |
| Prob (F-stat)           | 0.0000                     | 0.0000                        | 0.0000                      |

Source: Secondary data analysis, 2020

The result of the random effect of data panel regression for grant expenditures has been displayed in table 5. According to the table, the election years (*elect*) has significantly influenced grant expenditures and has a positive sign. It means, in the year when the regional elections are held, the number of grant expenditures is getting higher. This increase has been chosen by the heads of regions as the most effective way besides it is not only along with the work programs of regional government but also give a direct impact on the citizens. Setiawan & Rizkiah (2017), Sjahrir et al., (2013) show a similar result. However, one year before the elections (*elect-1*) shows the opposite result, it does not influence grant expenditures (see column 1). The different result also has been shown on a regression test two years before the elections (*elect-2*), it influences grant expenditures in a negative sign. There is not any increase in grant expenditures used by the

heads of regions to support their political activities in the years near the elections.

The heads of regions as the chiefs of government in every regional government have the authority to decide a policy, not to mention about the utilizing their authority for their own interest. However, it cannot be seen clearly that incumbents have a significant influence on grant expenditures during an election year or the years approach election (see column 1 to 3 table 5). This research does not line with Ritonga & Alam (2010), Sjahrir et al (2013), Winoto & Falikhatun (2015) research which shows there is an indication that incumbents use APBD on expenditure with *discretionary fund* character. Transfer as one of the regional total expenditure components does not influence grant expenditures and has a negative sign. The increase of grant expenditures spends cannot be shown by the regional government which has high transfer dependence to the central government. One year before the

election has influenced the level 5%, yet it is still in negative sign. This result is contrary to the result found by Turyna et al. (2016) where the transfer from central government to a city can improve election cycle power in that city.

According to table 5, the number of the population shows consistent results with a regression test on the previous expenditures. The number of populations has significantly influenced grant expenditures on the level 1% and has a positive sign. It means the bigger the population number in a region, the higher the grant expenditures during regional elections or close to regional elections. Besides that, with the big number of population, the heads of

regions will try to approach every public element in their regions to conduct work programs related to grant expenditures. The consistent result also has been shown by the poverty level variable which is not influenced toward grant expenditures and tends to have a negative sign. It informs that the increase of grant expenditures is not influenced by the high poverty level in that region. The regression test of grant expenditures shows Adj  $R^2$  about 13-16% which means the dependent variable of grant expenditures amount 13-16%, while the rest will be explained by another variable outside this research.

Tabel 6. Data Panel Regression Result: *Social Aid Expenditure*

| Variabel                | 1                           | 2                             | 3                            |
|-------------------------|-----------------------------|-------------------------------|------------------------------|
| Constant                | -9.1216*<br>(0.0001)        | -8.8128*<br>(0.0001)          | -9.0265*<br>(0.0001)         |
| Elect                   | <b>0.1592*</b><br>(0.0000)  |                               |                              |
| Elect-1                 |                             | <b>-0.0784***</b><br>(0.0744) |                              |
| Elect-2                 |                             |                               | -0.0824<br>(0.1717)          |
| Incumbent               | 0.5317<br>(0.1534)          | 0.5202<br>(0.1603)            | 0.5344<br>(0.1520)           |
| Trans                   | <b>-3.1773*</b><br>(0.0000) | <b>-3.3777*</b><br>(0.0000)   | <b>-3.1687*</b><br>(0.0000)  |
| Population              | <b>0.9403*</b><br>(0.0000)  | <b>-0.0734*</b><br>(0.0000)   | <b>0.9407*</b><br>(0.0000)   |
| Poverty                 | <b>-0.0692*</b><br>(0.0000) | <b>-0.0734*</b><br>(0.0090)   | <b>-0.0717**</b><br>(0.0180) |
| Obs                     | 337                         | 337                           | 337                          |
| R <sup>2</sup>          | 0.0718                      | 0.0705                        | 0.0705                       |
| Adjusted R <sup>2</sup> | 0.0578                      | 0.0564                        | 0.0565                       |
| F-stat                  | 5.1250                      | 5.0241                        | 5.0261                       |
| Prob (F-stat)           | 0.0001                      | 0.0001                        | 0.0001                       |

Source: Secondary data analysis, 2020

The last random effect of data panel regression testing is social aid expenditures as shown in table 6 above. The election-year (*elect*) has a significant influence on social aid expenditures on the level of 1%. During the regional elections years, the regional government has improved this expenditures spend. The regional government has given social aid for an individual, families, and/or society who suffer unstable condition due to economic crisis, disaster, etc., and also non-government institutions. The different result has been shown by the regression result of data panel one year before the election (*elect-1*) and two years before the election (*elect-2*). One year before the election has influenced social aid expenditures yet it is on the level 10% and has a negative sign. While two years before the elections do not show any influence on social aid expenditures. The heads of regions might not put more attention to the social aid expenditures because they do not have any plan to participate again in the second period of their regional elections.

The incumbents show a similar result with grant expenditures result. The incumbents do not show any significant influence on social aid expenditures in the three observation periods (see column 1 to 3 table 6). This result provides evidence that the incumbents utilize their authority for their political interest less indicated on social aid expenditures. Opposite to the incumbents, the result of the transfer test shows a significant influence towards social aid expenditures on the level of 1%, yet with a negative sign. It means the increasing of social aid expenditures in the election year or close to elections cannot be stated only happen on the regions which have high transfer dependence from the central government.

The number of populations in a regency/city tends to change every year. The big or less population has influenced social aid expenditures. The number of populations has a significant influence on social aid expenditure on the level of 1% in the election year or the years close to elections. The poverty level in every region also shows a significant influence on social aid expenditures but in the negative sign. Social aid expenditures are aimed for

individuals, families, society who is in an unstable or non-government institution. However, based on the result of the regression test, it shows a different thing. The regression test on social aid expenditures in this research is able to show the dependent variable of social aid expenditure amount 5%, while the rest will be explained by another variable outside this research.

## CONCLUSION

The political budget cycle is the politicization of the budget before the elections or during the election years. This cycle tends and will happen repeatedly at every government level, especially in the new-democracy countries. This research tries to give an image and evidence of political budget on the regional government especially in Java. Researchers divided three observation periods i.e. election years, one year before elections, and two years before elections. The result can be concluded that the regional government improves grant expenditures and social aid expenditures during regional elections, while the investment expenditures tend to increase in the two years before the elections.

The opportunistic of incumbents in utilizing their authority to compete for the regional elections cannot be shown in this research. The relationship of the transfer with the existence of the political budget cycle cannot be shown clearly as well. The regional government does not instantly improve regional spending in the region which has high dependent on central government transfer. Therefore, this research is expected to give evidence of the existence of the political budget cycle in the regional government in Indonesia especially the opportunistic of the heads of regions, relatives, or supporting parties of the heads of regions by adding the observation periods and another variable measurement proxy. Besides, it can give an image of participation of the central government towards the political budget cycle in the region towards elections seen from the transfer given.

## REFERENCE

- Aaskoven, L. (2018). Polity Age and Political Budget Cycles : Evidence from a Danish Municipal Reform. *European Journal of Political Economy*, 52, 75–84.
- Aidt, T. S., & Mooney, G. (2014). Voting suffrage and the political budget cycle : Evidence from the London Metropolitan Boroughs 1902 – 1937. *Journal of Public Economics*, 112, 53–71.
- Alesina, A., & Paradisi, M. (2017). Political budget cycles: Evidence from Italian cities. *Economic & Politics*, 29(1), 157–177.
- Amalia, C. R., & Pratolo, S. (2013). Analisis terhadap Dugaan Pemanfaatan Belanja Hibah, Belanja Bantuan Sosial, dan Belanja Bantuan Keuangan oleh Incumbent dalam Pemilukada serta Efektivitasnya terhadap Pendapatan Asli Daerah. *Jurnal Akuntansi & Investasi*, 14(1), 1–13.
- Ariyanto, D., & Dewi, A. A. (2019). Oportunistik Incumbent dalam Penganggaran Pendapatan dan Belanja pada Pemilihan Kepala Daerah Serentak Tahun 2017. *Jurnal Imiah Akuntansi Dan Bisnis*, 14(1), 41–55.
- Peraturan Pemerintah. (2010). Peraturan Pemerintah Republik Indonesia Nomor 71 Tahun 2010 tentang Standar Akuntansi Pemerintahan.
- Repetto, L. (2018). Political Budget Cycles With Informed Voters: Evidence From Italy. *The Economic Journal*, 128(616), 3320–3353.
- Republik Indonesia. Undang-Undang Republik Indonesia Nomor 32 Tahun 2004 tentang Pemerintah Daerah (2004).
- Republik Indonesia. Peraturan Menteri Dalam Negeri Nomor 32 Tahun 2011 tentang Pedoman Pemberian Hibah dan Bantuan Sosial yang Bersumber dari Anggaran Pendapatan dan Belanja Daerah (2011).
- Republik Indonesia. Undang-Undang Republik Indonesia Nomor 23 Tahun 2014 tentang Pemerintahan Daerah (2014).
- Baskaran, T., Brender, A., Blesse, S., & Reingewertz, Y. (2016). Revenue Decentralization, Central Oversight and The Political Budget Cycle : Evidence from Israel. *European Journal of Political Economy*, 42, 1–16.
- Bohn, F. (2019). Political Budget Cycles , Incumbency Advantage , and Propaganda. *Economics & Politics*, 31(1), 43–70.
- Corvalan, A., Cox, P., & Osorio, R. (2018). Indirect Political Budget Cycles : Evidence From Chilean Municipalities. *Journal of Development Economics*, 133(December 2017), 1–14.
- Efthyvoulou, G. (2012). Political budget cycles in the European Union and the impact of political pressures. *Public Choice*, 153(3–4), 295–327.
- Gootjes, B., Haan, J. De, & Jong-A-Pin, R. (2019). *Do Fiscal Rules Constrain Political Budget Cycles ?*
- Guo, G. (2009). China’s Local Political Budget Cycles. *American Journal of Political Science*, 53(3), 621–632.
- Nordhaus, W. D. (1975). The political business cycle. *The Review of Economic*
- Republik Indonesia. Undang-Undang Republik Indonesia Nomor 8 Tahun 2015 tentang Perubahan atas Undang-Undang Nomor 1 Tahun 2015 tentang Penetapan Peraturan Pemerintah Pengganti Undang-Undang Nomor 1 Tahun 2014 tentang Pemilihan Gubernur, Bupati, dan Walikota menjadi Undang-U (2015).
- Republik Indonesia. Peraturan Menteri Dalam Negeri Republik Indonesia Nomoe 123 Tahun 2018 tentang Perubahan Keempat atas Peraturan Menteri Dalam Negeri Nomoe 32 Tahun 2011 tentang Pedoman Pemberian Hibah dan Belanja Sosial yang Bersumber dari Anggaran Pendapatan dan Belanja (2018).
- Ritonga, I. T., & Alam, M. I. (2010). Apakah incumbent memanfaatkan anggaran pendapatan dan belanja daerah (APBD) untuk mencalonkan kembali dalam pemilihan umum kepala daerah

- (pemilukada). In *Simposium Nasional Akuntansi XIII Purwokerto* (pp. 1–25).
- Sakurai, S. N., & Menezes-Filho, N. (2011). Opportunistic and Partisan Election Cycles in Brazil: New Evidence at the Municipal Level. *Public Choice*, *148*, 233–247.
- Setiawan, D., & Rizkiah, F. (2017). Political budget cycles in municipalities: evidence from Indonesia. *International Journal of Business and Society*, *18*(3), 533–546.
- Setiawan, D., & Setyorini, E. (2018). Kajian Ekonomi & Keuangan Dampak Pemilihan Kepala Daerah terhadap Alokasi Belanja. *Kajian Ekonomi Dan Keuangan*, *2*(2), 106–119.
- Sjahrir, B. S., Kis-katos, K., & Schulze, G. G. (2013). Political Budget Cycles in Indonesia at the District Level. *Economics Letters*, *120*, 342–345.
- Tsai, P.-H. (2016). Fiscal incentives and political budget cycles in China. *International Tax and Public Finance*, *23*(6), 1030–1073.
- Turyna, M. K., Kula, G., Balmas, A., & Waclawska, K. (2016). The effects of fiscal decentralisation on the strength of political budget cycles in local expenditure. *Local Government Studies*, *42*(5), 785–820.
- Vortherms, S. A. (2019). Disaggregating China's Local Political Budget Cycles: "Righting" the U. *World Development*, *114*, 95–109.
- Winoto, A. H., & Falikhatun. (2015). Indikasi penyalahgunaan discretionary fund dalam anggaran pendapatan dan belanja daerah menjelang pemilukada 2015. *Jurnal Akuntansi Dan Keuangan Indonesia*, *12*(1), 75–91.