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Fiscal Illusion Phenomena in West Sulawesi Province in 2013-2017 Period

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ABSTRACT: This research aims to analyze the phenomenon of fiscal illusions on regional financial performance. This research is derived from the website of the Central Bureau of Statistics and sites that provide regional financial data. The analysis tool for this research uses panel data regression with the method of detection of fiscal illusions using the Revenue Enhancement approach model. The results of this study found a fiscal illusion in the financial performance of the West Sulawesi Provincial Government, through the income measurement approach method, a fiscal illusion occurs in the Revenue Sharing Fund.

KEYWORDS: Fiscal Illusion, Balancing Funds, Original Regional Income, West Sulawesi Province.
JEL Classification: C01; C23; E62; H72

I. INTRODUCTION

The management of government administration is entering a new era in Indonesia, namely the change from a centralized system to a decentralized system. This is marked by the enactment of the regional autonomy system on January 1st, 2001. Law Number 23 of 2014 concerning Regional Government is in line with Law Number 33 of 2004 concerning Financial Balance between the Central Government and Local Governments. This law regulates Fiscal Decentralization. In developing their regions, local governments are encouraged to be independent due to the creativity space provided by this policy. Regional Autonomy has a goal, namely to realize regional independence, as a result the region is free to regulate itself without any interference from the Central Government, including independence in financial matters. The Central Government continues to provide assistance in the form of a General Allocation Fund (DAU) as long as Regional Autonomy is implemented as stated in Law Number 33 of 2004 it is stated that for the implementation of the authority of the Regional Government, the Central Government will transfer the Balancing Fund (DP) which consists of the DAU, Special Allocation Fund (DAK), and the regional share of the Revenue Sharing Fund (DBH) consisting of Taxes and Natural Resources. In an effort to reduce this gap, the Central Government issued the Law. This is also intended to reduce vertical fiscal differences, namely between the Central Government using Regional Governments and horizontal fiscal differences, namely between Regional Governments and other Regional Governments. DAU is only given to regions with low fiscal capacity. The inability of the regions to implement autonomy illustrates that many regions are not yet financially independent, resulting in a very large dependence of the regions on transfers from the center.

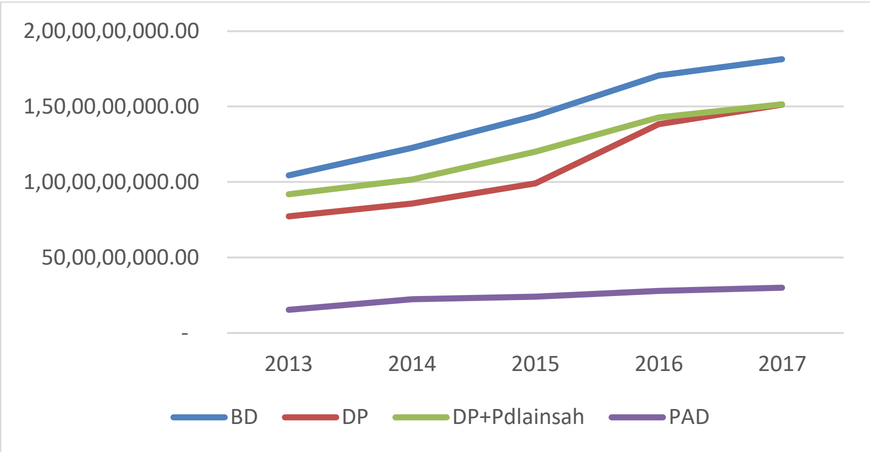
Financing and other income is another source of income from the Regional Government. Regional financial performance and capability is one of the various measures that can be used to measure the success of regional autonomy. This is reflected in the revenue side (PAD, Balancing Fund, and other legitimate income) and the expenditure side (Regional Spending)(Rusydi, 2015). The balancing fund (DP) and PAD are one of the largest sources of funds from regional revenues. In 2013, the total DP received by the Provincial Government of West Sulawesi was 772.2 billion rupiah. This continued to experience a significant increase until 2017 where the total DP was twice as large as in 2013, which was 1.512 trillion rupiah. This significant development of DP is inversely proportional to what happened to PAD. Total PAD in 2013 was only 154 billion rupiah. However, the increase tends to slow down, namely PAD in 2017 only amounted to 299 billion rupiah.

The high number of DP when compared to PAD can affect the components of Regional Expenditures, in particular the proportion of DP to Regional Expenditures (BD). This evidence can be seen from the data that DP to BD is in the ratio of 69-83 points. It can be understood that the Province of West Sulawesi still has a very large dependence on transfers from the Central Government in the form of the Balancing Fund (DP).

The pressure in collecting PAD in the Province is due to the high dependence of regional finance on the Central Government. The DP received by the Regional Government is used to increase PAD, but the reality shows the opposite, the regions tend to ignore the PAD excavation as the primary basis for regional revenue by causing DP to be a substitute. The development of BD from West Sulawesi Province tends to increase nominally. However, the percentage increase from year to year fluctuates which tends to decrease.

In 1903, for the first time, an Italian economist named Amilcare Puviani put forward the theory of fiscal illusion. He assumes that when an institution's decision-making creates the illusion of financial preparation, there will be a fiscal illusion, thereby changing financial behavior (*Puviani*, 1903). There are indications of an asymmetric response in the transfer of assistance from the Central Government to Regional Governments. This shows that the transfer has an effect on the amount of expenditure of the Regency or City Regional Government so that there is no effort to increase PAD in each region.

The existence of fiscal illusions can be detected by measuring revenue (revenue enhancement). The function of regional expenditure is regional revenue, so if the increase in the size of the income component is negatively correlated with expenditure, it can indicate a fiscal illusion (Adi & Ekaristi, 2009). The occurrence of fiscal illusions can be detected by looking at the effect or contribution of each component of revenue to budget growth, which is a method of measuring through expenditure manipulation (Dude et al., 2014). The greater the original regional income, the greater the regional original income (PAD) with the assumption of ceteris paribus, namely the component of spending as far as possible is directed to quality spending.



Source: Central Bureau of Statistics of West Sulawesi Province 2013-2017, Processed Data**.**

Figure 1 Development of total Regional Expenditure (BD), Regional Original Revenue (PAD), Balance Fund (DP) and DP plus other legitimate income of West Sulawesi Province for the 2013-2017 period

Figure 1 can be seen that all components in the image tend to increase. However, in the PAD component the increase was not too significant, inversely proportional to what happened in the BD component, namely BD tended to experience a significant increase. This means that the increase in BD is not influenced by PAD, in fact the increase in BD is influenced by an increase in DP. This makes it clear that the increase in DP is faster than the increase in PAD. This makes it clearer that the West Sulawesi Provincial Government's dependence tends to increase on transfers from the Central Government.

The problem regarding the phenomenon of fiscal illusion, namely the number of regions that still rely on transfer funds to fulfill regional expenditures compared to increasing PAD, makes the authors interested in researching "The Phenomenon of Fiscal Illusions in the Financial Performance of the Regional Government of West Sulawesi Province for the 2013-2017 period" using panel data analysis. The use of panel data analysis is used because of the limited amount of data available for the province, so it uses data from 5 districts in West Sulawesi Province.

II. LITERATURE REVIEW

2.1. Fiscal Decentralization

According to (Simajuntak, 2005), fiscal decentralization in Indonesia has several objectives, namely first, to realize the desire of the regions to control state financial resources. The first objective is to encourage regions to be independent and creative in financing themselves.

Second, encourage transparency and accountability of local governments. The second objective is a reflection of good local governance.

Third, optimizing community participation in regional development. The third objective is in accordance with Government Regulation Number 45 of 2016 concerning Community Involvement in Government Administration.

Fourth, reduce inequality between regions. This inequality occurs because of the availability of natural resources that can be overcome through cooperation and synergy within the framework of regional incorporated and education.

Fifth, ensure the implementation of minimum public services in each region. Satisfactory public services are reflected in the speed of public administration services, public goods and public services as measured by indicators of Minimum Service Standards (SPM) and Norm Standard Procedure Criteria (NSPK).

Sixth, improve the welfare of society in general. Community welfare can be achieved through empowerment and strengthening of economic institutions so that there is not a single community that is not touched by public services.

Seventh, increase revenue and improve efficiency in the public sector and cut the budget deficit. This effort is carried out through optimizing the revenue and creativity of Local Revenue Agency (Bapenda) and producing regional apparatuses as well as conducting a spending review.

Eighth, fiscal decentralization to increase economic growth is something that the Central Government wants to achieve with its fiscal decentralization policy. Economic growth in question is inclusive economic growth. If local governments can manage their regional finances effectively and efficiently, including good governance, then this is a measure of the success of fiscal decentralization. Regional rights and obligations in the context of administering regional government which can be valued in money, including all forms of wealth related to the rights and obligations of the region are the meaning of regional finance.

Fiscal decentralization has three essential meanings. First, decentralization means the divestment of responsibilities within the Central Government to vertical agencies in the regions. Vertical institutions in the regions in the context of regulations in Indonesia such as security, religion, monetary, legal and regulatory affairs. Meanwhile, the release of responsibility from the Central Government to the Regional Government is regulated in Law Number 23 of 2014 concerning Regional Government. In its implementation, there are dynamics that demand the Central Government to change this policy, such as through Law Number 11 of 2020 concerning Job Creation.

Second, delegation relates to a situation, namely a region acting as a representative of the Central Government to carry out certain functions on behalf of the Central Government. This meaning should be understood by district/city governments, including local officials, that consultation and coordination only extends to the provincial level. For example, the Regent/Vice Regent and Mayor/Mayor pairs are appointed by the Governor as representatives of the Central Government in the regions.

Third, devolution, which is related to using the authority of the region to implement and determine what needs to be done. Theoretically, to evaluate the concept of decentralization as deconcentration, delegation, or devolution. There are two types of analysis examples, the first is a top down example and the second is a bottom-up example. The top-down fiscal decentralization model emphasizes political values, for example, government restoration in relation to using the will to get local advice & participation as regulated in Government Regulation Number 45 of 2017 concerning Community Involvement in Government Administration and allocation efficiency in interpreting welfare increases inhabitant. Adherents of this model believe that with decentralization, effective and equitable service delivery using local knowledge can be created (Bird, Richard M and Vaillancourt, 2000).

Fiscal decentralization policy is also believed to be able to stimulate greater democratic participation. This has an impact on community support and community involvement in administering local government to the government to continue to expand and thus, political stability can be improved. Other benefits that can be felt from decentralization include an increase in the mobilization of financial resources in the regions and a reduced pressure on central government finances, an increase in accountability, and an increase in governance and government responsibility. Universally, it is not surprising that many people think of decentralization as something very valuable. The top down model also translates decentralization from the perspective of the Central Government's thinking. Decentralization in this case is translated and implemented by the Central Government as an instrument to ease the burden on the center by shifting the deficit to the bottom. This policy is part of the central government's desire to achieve the goal of energy resource allocation more effectively through the delegation of authority to regional governments. The intention and purpose of implementing fiscal decentralization is to help achieve policy objectives and national interests. Therefore, the meaning of regional development is synonymous with decentralization, while the meaning of regional development is synonymous with centralization. Both are useful in the administration of local government.

2.2. Fiscal Illusion Phenomenon

Puviani (*Puviani, 1903*) in his scientific work Theory Della Illusione Finanziaria describes that the phenomenon of fiscal illusion arises when local governments who have authority within institutions create illusions when preparing budget plans that are able to change financial behavior. (Mueller, 1997) provides a definition of contemporary fiscal illusion as follows: "to bring about an increase in government size, for which citizens are not willing to pay voluntary, the legislative-executive entities must increase citizens tax burdens in such a way that citizens are unaware that they are paying more taxes if tax burdens can be disguised in this way, citizens have the illusion that the government is smaller than it actually is and government can grow beyond the levels citizens prefer". Fiscal illusions also occur because the Central Government hopes that transfer funds to the regions can create economic attractiveness in the regions, however, this has not necessarily happened.

This indicates that the government wants to manipulate the financial statements in such a way that it can focus other parties on assumptions or evaluations or on certain actions or attitudes. Detection of fiscal illusions can be tried either from the revenue side or from the expenditure side. The existence of asymmetric data is related to state revenues or expenditures, so it can be indicated that there is a fiscal illusion. (Dollery & Worthington, 1996) provides a more basic understanding of fiscal illusion as follows: "The concept of fiscal revolves around the proposition that the true cost and benefit of government may be consistently misconstrued by the citizenry of a given fiscal jurisdictions. The empirical analysis of fiscal illusion has been directed almost exclusively at the revenue side of the fiscal equation with the corresponding neglect benefit of public sector activity".

This view of the fiscal illusion emphasizes that all revenues must benefit from an increase in service activity. The increase in services, especially public services, arises as a consequence of economic activity, which in turn is needed to increase the revenue of the region itself. Unfortunately, there is a discrepancy between what is aspired to using the empirical that occurs, it can be indicated that there is a fiscal illusion. This fiscal illusion occurs because of information asymmetry. This asymmetry of information is caused by the Central Government not fully understanding the regional fiscal capacity as reflected in each component forming the Regional Fiscal Capacity Index (IKFD) and this situation, for example, is used by the region to increase its fiscal needs by designing fiscal needs as a function of increased spending, with the aim of obtaining large transfer funds, especially DAU. On the other hand, fiscal needs are a function of increasing income, especially PAD. Local governments run the projected paradigm of spending, not income projections, both regional taxes and regional levies. In this context, local government officials feel comfortable in the paradigm of money follow function rather than money follow program, program follow result.

The provision of transfer assistance aims to increase income, especially to encourage capital expenditure, infrastructure and social support, which create economic attractiveness so that in the future period the demand for transfer funds can be reduced. The provision of transfer funds should be able to encourage regions to be more creative and innovative in regional expenditures, as a result have an impact on increasing regional independence. Currently, various regions are immersed in the paradigm of 'it is better to hope to continue to transfer funds than to think and be creative in finding potential sources of PAD in the regions'.

Local income derived from Regional Original Income (PAD) should ideally be the main source of regional income. The importance of the role of PAD is because other sources of income are relatively volatile, especially during a pandemic like today when the world and domestic economies are experiencing sluggishness. In addition, the demand for transfer funds tends to be external, so that it becomes a symptom of the formation of fiscal illusions in Regional Governments, namely there is a tendency for Regional Governments not to try to maximize PAD as one of the various methods of obtaining DAU in constant or even increasing amounts. The study to find out fiscal illusions can be tried through 5 methods, namely revenue enhancement, expenditure manipulation, liability recognition, debt utilization, and budgeting and financial reporting practices. Liability recognition or debt utilization cannot be implemented in Indonesia, because not all Regional Governments have debts to other parties. In addition, if the local government is given the flexibility to owe debt, the government regime will take its APBD as collateral, making it difficult for the next government and can lead to a government without development and prosperity. Likewise, measurements using financial statements cannot be tried, considering the quality of financial reports is still low, so measurements using revenue enhancement are the main focus in detecting fiscal illusions in this article.

2.3. Fiscal Illusion Detection

PAD and DP are variables that generate regional revenue. The provision of balancing funds in the form of DAU aims to reduce the fiscal gap between Regional Governments and ensure the achievement of minimum public service standards in all countries according to Government Regulation Number 2 of 2018 concerning Minimum Service Standards (SPM). The increase in public service standards in the form of public objects, public administration, or public services is expected to increase, especially through digital-based online mechanisms in accelerating services. A large DAU is expected to optimize the performance of Regional Governments in increasing PAD, both in the form of regional taxes or regional levies according to Law Number 28 of 2009. (Dollery

& Worthington, 1996) indicates that there are benefits that can be obtained by Regional Governments by implementing fiscal illusions through increase in spending and decrease in tax revenues. Local Governments carry out fiscal illusions to get a boost from a larger Central Government. The measurement of the increase in spending is tried by equating the budget and the realization of the DAU budget through the APBD elaboration document or the realization of the elaboration of the APBD, to see the suitability of the DAU allocation with regional needs.

Detection of fiscal illusions in the expenditure budget and to identify how likely it is to form fiscal illusions, can be done by analyzing the development of regional expenditure realization compared to PAD realization. The Central Government can identify how efficient or effective the incentives provided are to increase PAD, compared to Regional Expenditures. Research (Holtz-Eakin. Douglas. Rosen, H, S, Tilly, 1985) shows that there is a very close relationship between Central Government transfers and Regional Government spending. Various local government policies in the short term are determined by transfers received from the central government. Ideally, all components of regional revenue have a positive correlation with the amount of regional spending. The increase in regional spending is expected to prioritize aspects of public services in the form of public goods, public administration or public services so that there will be an increase in welfare through increased economic development which has a dual effect on job creation and in turn there will be an increase in tax donations or levies from residents as a consequence of extensification and intensification of activities. (Gemmell, Norman, Morrissey, Oliver and Pinar, 1989) show that increasing regional budgets is an attempt to obtain large transfer amounts. They create a fiscal illusion through the existence of a negative bond between government spending and indirect taxes, which are taxes that can be transferred to third parties and the ratio of expenditures used for spending.

2.3. Framework

This article is based on the idea that Central Government revenues or transfers in the form of balancing funds should benefit from increasing economic activity and activity in the regions which in turn can increase regional revenues in the form of regional taxes and regional levies. If this happens in the opposite way, it can be indicated that there is a fiscal illusion. This study uses an income measurement approach, which is one of several methods of detecting fiscal illusions that see the relationship between expenditure components in this study using Regional Expenditures as the dependent variable and income components as independent variables, namely DAU, DAK, DBH, Regional Taxes and Regional Levies. If the income variable has a negative relationship with the expenditure variable, it can be concluded that there is a fiscal illusion.

The balancing fund includes the DAU. DAU is a number of funds allocated to each autonomous region (province, district or city) in Indonesia each year as development funds. DBH is a fund sourced from APBN revenues allocated to regions based on percentage figures to fund regional needs in the context of implementing Decentralization. DAK is an allocation from the APBN to certain provinces and districts or cities with the aim of funding special activities that are the affairs of Regional Governments and in accordance with national priorities. PAD is one of several sources of regional revenue that supports regional financial expertise. PAD describes the regional financial resources extracted from the region concerned, consisting of regional tax proceeds, regional levies. Regional tax is a tax that is formalized by the Regional Government with regional regulations promulgated with the DPRD whose collection authority is carried out by the Regional Government and the results are used to finance regional government expenditures in carrying out government administration and development in the region. Regional Governments in Indonesia are divided into 2, namely Provincial Governments and Regency or City Governments, so that the collection authority is formalized by each Regional Government as regulated in Law.

According to (Shamsub, H and Akoto, 2004), the government tends to explore the potential of tax revenue to increase its local taxes. Tax effort is an effort to increase local taxes as measured by a comparison between the results of revenue from PAD sources and potential sources of PAD taxes, showing the government's efforts to increase revenue for the region through this local tax. Potential in this case can be said as how big the target set by the Regional Government can be achieved in its budget year.

Regional Retribution, here in after referred to as Retribution, is a regional levy as payment for services or the granting of certain permits that are specifically provided or granted by the Regional Government for the benefit of individuals or institutions. Sources of PAD also include user fees or permits permitted by law. Regional levies are one of several types of regional revenues that are collected as payments or direct rewards for services provided by the Regional Government to the community.

The sources of retribution for regency or city areas consist of: health service retribution, garbage or cleaning service retribution, retribution for printing resident cards and civil certificates, retribution for funeral services and cremation of corpses, retribution for parking on the edge of public lanes, retribution for consumption of regional wealth, retribution for bus stops, market fees, abattoir fees, tourist fees, sales fees for regional business creation, building permits fees and obstacles.

Regional income obtained either from PAD or balancing funds must be used by the Regional Government to finance regional expenditures. Regional Expenditures are all regional obligations which are recognized as deductions from the net worth in the period of the relevant fiscal year. Based on the regional budget structure, the elements listed in regional expenditures consist of regional apparatus expenditures, public service expenditures, expenditures for results and financial incentives. Regional expenditure is used in the context of implementing government affairs which are the authority of the province or district/city which consists of mandatory affairs and options that are inaugurated based on statutory regulations. Regional spending is grouped into direct spending and indirect spending. The indirect expenditure group describes the budgeted expenditures that are not directly linked to the implementation of programs and activities, namely personnel spending, interest spending, subsidies spending, grant spending, social encouragement spending, spending for results, financial boost spending, and unexpected spending. The direct expenditure group is a budgeted expenditure that is directly related to the implementation of programs and activities, namely personnel expenditure, goods and services expenditure, and capital expenditure.(Adi & Ekaristi, 2009) wrote about fiscal illusions and found that there was a fiscal illusion in Central Java Province by using the expenditure manipulation approach and income measurement. (Bhakti, 2013), (Dude et al., 2014), (Rusydi, 2015), (Calvin & Yuliana, 2016), (Dyahningtyas et al., 2019), researching fiscal illusions however, only use the income measurement method. The results of their research show that there is a fiscal illusion. (Dwirandra et al., 2017), (Kusuma, 2017), and (Hapsoro & Yoduke, 2019) also examined fiscal illusions but used different methods. They found a fiscal illusion in their research area.

III. STUDY METHODS

This research uses quantitative methods, while the type or type of this research is associative. Analysis of the relationship between these variables aims to determine how the influence given by DAK, Regional Tax (TAX), Regional Retributions (RD), DAU and DBH as independent variables on Regional Expenditure (BD) as the dependent variable.This study uses secondary data in the form of combined panel data between time series data for the last 5 years (2013-2017) and a cross section of regional income and expenditure component data in West Sulawesi Province covering one province and 5 districts. Central Mamuju Regency was not included as an object in this study due to the limited data available as a new autonomous region (DOB). Sources of data used in this study came from the Directorate General of Fiscal Balance (DPJK) of the Indonesian Ministry of Finance, the Central Statistics Agency (BPS) of West Sulawesi Province, credible related websites in preparing related data. Detection of fiscal illusions using a revenue measurement approach (Revenue Enhancement). This model can be formulated in the following equation:

$BDt = 0 + 1\ DAK_{t-1} + 2\ TAX_{t-1} + 3\ HCT_{t-1} + 4\ DAU_{t-1} + 5\ DBH_{t-1} + e$

Then it is transformed into:

$LnBD_t = 0 + 1\ LnDAK_{t-1} + 2\ LnTAX_{t-1} + 3\ LnHCT_{t-1} + \beta 4\ LnDAU_{t-1} + 5\ LnDBH_{t-1} + e$

Description:

BD_t = Regional Spending

0 = Constant= Regression Coefficient

DAK_{t-1} = Special Allocation Fund

TAX_{t-1} = Local Tax

HCT_{t-1} = Herfindahl Concentration Taxes

DAU_{t-1} = General Allocation Fund

DBH_{t-1} = Profit Sharing Fund

e= Error Term

If in the measurement there is a revenue variable experiencing a deficit, it indicates a fiscal illusion. The hypothesis in this study is accepted if there is a negative relationship between the independent variable and the dependent variable. In the analysis of the panel data method, there are several approaches, namely the pooled least square (PLS) approach, the fixed effect approach, and the random effect approach. Chow test is a test to compare the common effect (PLS) model with the fixed effect. The Hausman test compares the fixed effect model with the random effect in determining the best model to be used as a panel data regression model. Lagrange Multiplier (LM) is a test to find out whether the Random Effect model or the Common Effect (PLS) model is the most appropriate to use. The Random Effect significance test was developed by Breusch-Pagan.

Classical assumption testing is carried out including Normality Test, Multicollinearity Test, Autocorrelation Test, Heteroscedasticity Test, Hypothesis Testing Simultaneously (Fisher's Test) and Partial Test (Studendized Test). The hypothesis of this test is H_0: the independent variable has no significant effect on the dependent variable. H_a: the independent variable has a significant effect on the dependent variable.The use of BD as the dependent variable is in accordance with the theory and analysis method of fiscal illusion. Regional expenditure as a variable is also due to being one of the important components of regional fiscal. The unit of account for the BD variable is thousand rupiah. The formula for finding BD is Regional Spending = Direct Spending + Indirect Spending. DAK is one component of the Balancing Fund. The use of DAK in this article is based on the importance of DAK in supporting regional fiscal development. In this article, the unit of account for DAK is thousand rupiah. The use of local taxes in this article is based on the importance of local taxes on BD. The unit of calculation for local taxes in this article is thousand rupiah.Herfindahl Concentration Taxes (HCT) is proxied by local user fees. The use of retribution in the HCT proxy considering that regional retribution is the largest component of PAD, in addition to local taxes. The unit of account for regional retribution is thousand rupiah. DAU is one component of the Balancing Fund. The use of DAU in this article is based on the important role of DAU in supporting regional fiscal as the main component in the Balancing Fund. In this article, the unit of account for DAU is thousand rupiah. The formula for determining the amount of DAU received by the Regional Government is, DAU = Basic Allocation + Fiscal Gap. DBH is one component of the Balancing Fund. The use of DBH is also the same as DAU and DAK, namely DBH has a vital role in supporting regional fiscal formation. In this article, the unit of account for DBH is thousand rupiah. The DBH formula is, DBH = Tax Revenue Sharing Fund + Non-Tax Revenue Sharing Fund.

IV. STUDY RESULTS AND DISCUSSION

In this section, we discuss the results of the analysis regarding the selection of the model used in this research, the estimation results of the selected model, in panel data processing and a discussion of the phenomenon of fiscal illusion in West Sulawesi Province.The estimation results using the Fixed Effect Model (FEM) show that there are independent variables that are negatively related to the dependent variable, namely DBH and DAK so that there is a fiscal illusion in the DBH and DAK variables. This model shows that partially the TAX, RD and DAU variables have a positive and insignificant effect on the BD variable. The DAK variable has a negative and insignificant relationship to the BD variable, while the DBH variable has a negative and significant effect on the BD variable. Simultaneously, the DAK, TAX, RD, DAU and DBH variables have a positive and significant effect on the BD variable. The coefficient of determination from the FEM test is 91 percent, which indicates that 91 percent of the independent variables can explain the dependent variable. Chow test is used to choose between PLS and FEM models. The Eviews output shows a chi-square value of 0.0227 which is smaller than 0.05 (p-value is less than 5 percent), so H_0 is rejected, so the FEM model is better than the PLS model. Hausman test is used to choose between FEM and REM models. The test output from the Eviews shows that the Chi-Square statistic has a p-value > 0.05, so H_0 is accepted, so the REM model is better than the FEM model. The results of the Chow test and Hausman test choose FEM and REM, so to determine the best model used in the current panel data method, it is necessary to continue with the LM test between the FEM and REM models. By using the residuals from the PLS method, the LM value is 0.9550, which is greater than the 0.05 value. Based on this, it can be seen that LM > chi-square, so it can be concluded that the FEM model is better than the REM model. Based on the results of panel data regression analysis using the FEM model, the following equation is obtained:

$$BDt = 7.602.817 - 0.001202\ DAK_{t-1} + 0.28258\ TAX_{t-1} + 0.090662\ RD_{t-1} + 0.747422\ DAU_{t-1} - 0.224091\ DBH_{t-1} +$$
$$(0.958519)\quad (-0.019839)\qquad (0.262798)\qquad (1.585967)\qquad (1.688300)\quad (-2.552343)^{**}$$

$R^2 = 0.912560$

$R = 0.866539$

$F_{stat} = 19.82918$

$DW_{stat} = 2.844777$

These results indicate that if the independent variable is considered constant, then the BD variable will increase by 7,602,817. This equation also describes the relationship between the DAK, TAX, RD, DAU and DBH variables with the BD variable. The DAK variable in the previous period will cause a decrease in BD in the next period by 0.001202 percent with the assumption that other variables are held constant. Regional Tax (TAX) in the previous period had an impact on increasing BD for the next period of 0.28258 percent with the assumption that other variables were held constant. The RD of the previous period caused an increase of 0.090662 percent in the BD of the next period with the assumption that other variables were held constant. The previous period's DAU caused an increase in BD of 0.747422 percent in the next period with the assumption that other variables were held constant. DBH of the previous period caused a decrease of 0.224091 percent in the BD of the next period with the assumption that other variables were held constant.The Classical Assumption Test found that the results of the normality test showed that the p-value > 5 percent or 0.898390 > 0.05. Jarque-Bera figures also show that 0.214302> 0.05, so, it can be concluded that the data is normally distributed. The results of the analysis above do not have a variance inflation factor (VIF) > 0.90, so it can be concluded that the data does not have multicollinearity. The autocorrelation test was performed by comparing the Durbin-Watson stat values with the d_L and d_U values in the Durbin-Watson table with N=30 and K=5. DW value = 2.844777, d_L value = 1.0706 and d_U = 1.8326. The value of DW_{stat} is greater than d_L and d_U, so the assumption of autocorrelation is fulfilled or there is no autocorrelation in the data. Heteroscedasticity test, the probability value of each variable exceeds 0.05 (P-value> 0.05), so it can be concluded that there is no heteroscedasticity disease in the data.The results of the analysis show that simultaneously (F test) shows that the independent variable simultaneously has a significant and significant effect on the dependent variable (p-value < 5 percent), namely the F-Statistic probability number is 0.00000 < 0.05. Partially (t test), the DAK variable has a probability of 0.9844 > 0.05. DAK has a negative and insignificant effect on the Regional Expenditure variable. TAX has a probability of 0.7955, namely TAX has a positive and insignificant effect on the Regional Expenditure variable. The RD variable has a probability value of 0.1292, namely the RD variable has a positive and insignificant effect on Regional Expenditures. The DAU variable has a probability of 0.1077, so the DAU variable has a positive and insignificant effect on BD. DBH variable has a probability of 0.0195 (with p-value < 5 percent), so it has a negative and significant effect on BD.The results of the model test show that the model used in this study is the FEM estimation model. The conclusion of the FEM model is as follows:

Table 1 Result of Fiscal Illusion Detection

Variables	Coefficient	Probabilities	Remark	Justification
C	7.602.817	0,35	-	-
$LnDAK_{t-1}$	-0,001202	0,98	No Significant	Fiscal Illusion
$LnTAX_{t-1}$	0,028258	0,79	No Significant	No Fiscal Illusion
$LnRD_{t-1}$	0,090662	0,12	No Significant	No Fiscal Illusion
$LnDAU_{t-1}$	0,747422	0,06	Significant	No Fiscal Illusion
$LnDBH_{t-1}$	-0,224091	0,02	Tidak Signifikan	Fiscal Illusion

Source: Research Finding, 2020.

The results above show that the DAK variable has a negative and insignificant relationship with BD. This is in line with the theory that has been put forward by (Gemmell, Norman, Morrissey, Oliver and Pinar, 1989) which states that if there is a variable that has a negative relationship with government spending, it indicates a fiscal illusion and research (Adi & Ekaristi, 2009) who found that the independent variable had a negative relationship with the dependent variable. The results of the study which were not significant were in line with research (Dyahningtyas et al., 2019) which found the DBH variable had no significant effect on Regional Expenditures (BD), namely the DAK variable had no impact on Regional Governments. This also indicates that the Regional Government does not maximize the DAK obtained. The results of this study are also in line with research (Dude et al., 2014), namely there is a variable income that has a negative and insignificant relationship to BD. The DBH variable also has a negative and significant relationship to the BD variable. These results are in line with research (Adi & Ekaristi, 2009) on the income measurement method, namely there is a variable income that has a negative and significant relationship to BD. This study is also in line with research (Bhakti, 2013) and (Rusydi, 2015), namely the two researchers found that income variables were negatively and significantly related to BD.

V. CONCLUSION AND RECOMMENDATION

Based on the results of the analysis in the discussion, conclusions and policy recommendations can be drawn as follows:

5.1. Conclusion

The results of this study are independent variables that have a negative and insignificant relationship to the dependent variable, so it can be concluded that there is a phenomenon of fiscal illusion in the financial performance of the West Sulawesi Provincial Government in the 2013-2017 period on DAK and DBH.

5.2. Recommendation

The results of this research recommend the following:

1. The importance of the role of the Regional Government in utilizing all the regional income obtained so that later it can make the Regional Government fiscally independent.
2. Utilization of the Balancing Fund to increase the potential of PAD from the region in line with the objectives of the Balancing Fund.
3. There is a need for supervision of the Balancing Fund provided by the Central Government to the Regional Government, so that later the initial purpose of providing these funds can be achieved properly.
4. In preparing the Balancing Fund, the Central Government should look at the fiscal capacity of each region.

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