International Journal of Environmental Sciences
ISSN: 2229-7359
Vol. 11 No. 6s, 2025
https://www.theaspd.com/ijes.php

Revisiting the Linkages of Fiscal Decentralization and Labor Absorption: A Theoretical Perspective

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Abstract
Fiscal decentralization is one of the main strategies in governance reform that aims to bring budget decision-making closer to local governments. In the context of regional economic development, fiscal decentralization is believed to have great potential in encouraging labor absorption through increasing the efficiency of resource allocation, strengthening public spending based on local needs, and creating a more conducive regional investment climate. However, the literature shows differences in empirical results regarding the relationship between fiscal decentralization and employment in developing and developed countries. This article aims to compile a comprehensive theoretical study of the linkages between fiscal decentralization and labor absorption with a multi-perspective approach. Oates' theory of decentralization became the basis for explaining the argument for the efficiency of fiscal allocation. In contrast, Keynesian theory was used to analyze the influence of government spending on aggregate demand and job creation. On the other hand, the theory of endogenous growth and labor dualism is also studied to show the dynamics of interaction between regional fiscal policies and the structure of the local labor market. The study results show the importance of paying attention to regional fiscal capacity, the quality of local institutions, and the direction of public spending in determining the real impact of decentralization on employment. This article contributes to building a conceptual framework that can be used for further research, development, and the formulation of labor policies based on regional autonomy.
Keywords: *Fiscal Decentralization, Labor Absorption, Regional Economic Theory, Regional Public Spending, Theoretical Review*

INTRODUCTION

Fiscal decentralization has become a strategic agenda in government reform in various countries, including Indonesia, with the primary goal of improving the efficiency of public services, strengthening fiscal accountability, and encouraging regional development that is more responsive to local needs. Since the enactment of Law No. 33 of 2004 on the Financial Balance between the Central and Regional Governments, Indonesia has undergone fundamental changes in its fiscal structure, which has shifted most of the authority of budget management to the regional level (Anto et al., 2024; Brandon, 2021; Purbadharmaja et al., 2019). This change is believed to encourage regional economic growth and expand employment opportunities, primarily through more targeted public spending and by the local context (Lewis, 2023; Lewis et al., 2020).

Although theoretically, fiscal decentralization can potentially create more jobs, various empirical studies show non-uniform results. Some studies indicate that increasing fiscal authority at the regional level can improve spending quality and expand access to productive jobs. Still, on the other hand, some findings show that without adequate institutional capacity, decentralization can exacerbate regional inequality and weaken the effectiveness of public spending (Bianchi et al., 2023a; Tirtosuharto, 2022). The inconsistency of these findings raises fundamental questions about the exact theoretical mechanism linking fiscal decentralization to labor absorption.In the regional economic and fiscal governance literature, theories that discuss the impact of fiscal decentralization on macroeconomic variables such as employment are still fragmented. The classical theory of fiscal decentralization put forward by Oates (1972) emphasizes the importance of allocation efficiency in the context of local preferences, but does not explicitly explain its impact on labor market dynamics (Afonso et al., 2024; Choudhury & Sahu, 2022; Deleidi et al., 2025). Similarly, Keynesian theory focuses more on the role of government in creating aggregate demand through public spending, but less on how the decentralization of fiscal authority changes the effectiveness of those policies at the regional level (Hao et al., 2020a; Y. Li & Bai, 2024; Yang, 2019).

This theoretical gap demonstrates the need to draft a conceptual framework that explicitly links various cross-field theoretical approaches, including fiscal decentralization, endogenous growth, labor market, and institutional theories. Thus, understanding how fiscal decentralization can affect labor absorption can be expanded through a single approach and cross-theoretical synthesis that enriches viewpoints and strengthens the basis of policy analysis.On the other hand, the context of developing countries such as Indonesia provides an additional dimension in the dynamics of the relationship between fiscal autonomy and employment. Many regions still face limitations in fiscal capacity, budget governance, and infrastructure to support the job market. Under these conditions, fiscal decentralization can have the contradictory effect of being able to create job opportunities on the one hand, but also be vulnerable to budget waste and ineffective allocation on the other (Akadun, 2024; Elvira et al., 2023; Tirtosuharto, 2022). Therefore, classical economic theories must be reinterpreted to contextualize these dynamics.

In addition, globalization and integration of the digital economy also affect the relationship between fiscal structure and the labor market. In many cases, increased fiscal autonomy has not been followed by the ability of regions to adapt policies to modern labour market dynamics that demand innovation, new skills, and sustainability. This suggests that the relationship between fiscal decentralization and labor absorption is non-linear and requires a complex, interdisciplinary, and cutting-edge theory-based approach.

Therefore, this article aims to compile a comprehensive theoretical review of the linkages between fiscal decentralization and labor absorption with a multi-theoretical approach. By integrating Oates' theory of fiscal decentralization, Keynesian theory of government spending, endogenous growth theory, and labor market dualism theory, this article seeks to build a complete and contextual conceptual understanding. This synthesis is expected to fill gaps in the literature and become a foundation for empirical research and policy-making.

This article's main contribution is to develop a conceptual framework that describes the theoretical mechanism of fiscal decentralization towards labor absorption, considering intermediate variables such as fiscal capacity, efficiency of public spending, and institutional quality. With a systematic theoretical approach, this article also provides a direction for future research focusing more on empirical proofing of the framework developed and offering evidence-based policy recommendations for optimizing fiscal autonomy in developing countries.

THEORETICAL FRAMEWORK AND LITERATURE REVIEW

Theory of Fiscal Decentralization (Oates, 1972)

The theory of fiscal decentralization developed by Wallace E. Oates states that delegating fiscal authority to lower levels of government can improve the efficiency of allocating public resources. According to Oates, local governments understand the needs and preferences of local communities better than the central government, so that they can design public policies that are more appropriate and on target (Akalbeo et al., 2023; Bianchi et al., 2023b; S. Li & Li, 2024). In this context, decentralization allows for economic policy flexibility, including infrastructure spending, education, and employment programs, all of which have the potential to encourage increased employment opportunities in the region.However, the effectiveness of this theory depends heavily on the region's fiscal and institutional capacity. Literature such as Martinez-Vazquez and McNab (2003) asserts that fiscal decentralization can lead to policy fragmentation, spending inefficiencies, and even increased disparities between regions without a transparent and accountable governance system. Therefore, Oates' theory needs to be reviewed in the context of employment by considering institutional conditions and local fiscal capacity (Arends, 2021; Hanif et al., 2020; Shi, 2020).

Keynesian Theory: Public Spending And Job Creation

Keynesian theory places the government as a key actor in creating aggregate demand, primarily through public spending instruments. In the context of fiscal decentralization, if local governments have broad fiscal authority and good managerial capabilities, then they can use the budget to encourage job creation through infrastructure development, labor-intensive programs, and strengthening local MSMEs (Barnes & Hicks, 2021; Klein et al., 2022; Kopiec, 2022).

Studies such as Todaro and Smith (2015) and Barro (1990) show that increased local government spending in the productive sector can directly increase labor demand, especially in areas experiencing structural unemployment (Q. ul Ain et al., 2025; CHANG et al., 2021). However, the effectiveness of public spending as a means of job creation is greatly influenced by the type of spending made—consumptive spending tends to have a temporary effect. In contrast, capital spending can long-term impact productivity and labor capacity.

Endogenous Growth Theory And Public Investment

Endogenous growth theory emphasizes the role of public investment in shaping long-term economic growth through the accumulation of human capital and infrastructure. Within this framework, fiscal decentralization is seen as a mechanism to encourage more targeted and locally-based investment. Local governments are more incentivized to allocate budgets to sectors that strengthen regional competitiveness, such as education, job training, technology, and logistics connectivity (Chang et al., 2024; Mauro et al., 2023).Research by Aschauer (1989) states that government investment, especially in public infrastructure, multiplies economic growth and labor absorption. In areas with broad fiscal authority, the ability to design and execute long-term investments can be a driving factor for creating new, productive jobs. However, decentralization can drive waste and inefficient allocation without strategic planning and strict oversight (L. Liu, 2021; Wu et al., 2024).

The Dualism Theory of the Labor Market (Lewis, 1954)

The labor dualism model developed by Arthur Lewis describes the transition of labor from the traditional sector (informal, subsistence farming) to the modern sector (formal, industrial, service). In the context of fiscal decentralization, local governments play an essential role in accelerating this transition process through policy interventions such as job training, local economic empowerment, and the creation of creative industry ecosystems (Karpushkina et al., 2021; Leyva & Urrutia, 2020; Mendieta-Muñoz et al., 2019).

Studies in developing countries show that fiscal decentralization not accompanied by a structured labor transition program tends to maintain structural dualism (Lobato, 2025; Weber et al., 2021). This can hinder the optimization of labor absorption and strengthen inequality between regions (B. P. Gomes et al., 2018; Esteban-Pretel & Kitao, 2021; Mezzadri & Banerjee, 2022). Therefore, Lewis's theory of dualism provides an essential framework for understanding the dynamics of labor absorption under a decentralized fiscal structure.

Synthesis Teoretis

The four theories studied show that the relationship between fiscal decentralization and labor absorption is complex and non-linear. The effectiveness of decentralization in creating jobs is highly dependent on mediating factors such as regional fiscal capacity, the direction of public spending, institutional quality, and the readiness of the local labor market. This synthesis demonstrates the need for cross-theoretical integration in compiling a comprehensive analytical framework, while also offering space for further empirical exploration that considers the specific context of developing countries such as Indonesia.

RESEARCH METHODS

This study uses a conceptual theoretical review approach to develop an integrative framework of understanding the relationship between fiscal decentralization and labor absorption. This approach does not use primary empirical data, but instead focuses the analysis on cross-theoretical synthesis and logical reasoning based on published scientific literature (Abimbola, 2022; Mezzadri & Banerjee, 2022; Zhou & Yang, 2023). The resulting conceptual model relies on an in-depth exploration of relevant economic and fiscal governance theories and systematically structured argumentative reasoning (Agrawal et al., 2024; Ernst et al., 2025).

Literature searches are carried out systematically through various reputable academic databases, including Scopus, ScienceDirect, JSTOR, and Google Scholar, with various publications between 2000 and 2024. The keywords used include fiscal decentralization, labor absorption, public spending, local governance, and theoretical framework. The literature reviewed was selected based on thematic relevance, conceptual contribution to decentralization and employment issues, and publication quality (minimum Q2 Scopus and reputable academic publishers).

The inclusion criteria in this study include journal articles that contain explicit theoretical approaches to one or more of the following aspects: fiscal decentralization, regional economic growth, public spending, and labor market structure. Meanwhile, documents that are technical or only present descriptive statistics without a strong theoretical basis are excluded from the analysis.

The analysis process has three main stages. First, a theoretical classification was based on fiscal dimensions, labor economics, and endogenous growth. Second, a comparative analysis between theories was carried out to identify points of intersection, consistency, and conceptual conflict. Third, a theoretical synthesis was prepared to build a conceptual model that systematically explains the relationship between variables, considering intermediary and contextual factors.

To ensure conceptual validity, the synthesis process was tested using a theoretical triangulation technique, which involves comparing the synthesis results with the findings of the meta-review and relevant previous theoretical frameworks (Bornman & Ramutumbu, 2019; Dimes & Molinari, 2024; Zhang & Andrew, 2022). In addition, logical consistency between the theory components is strictly maintained through balanced deductive and inductive reasoning. Thus, the methods used in this study ensure theoretical richness and provide conceptual contributions that can be used as the basis for further research and evidence-based public policy formulation (De Matteis et al., 2024; In et al., 2019).

DISCUSSION &RESULT

Fiscal Decentralization Increases Regional Expenditure Allocation Autonomy

Fiscal decentralization theoretically gives local governments flexibility in managing the public budget according to local conditions and needs. This concept refers to the view of Oates (1972), who emphasized that local governments can better recognize the preferences of the people in their areas than the central government. Therefore, decentralization is believed to increase the efficiency of public spending allocation and strengthen the effectiveness of regional development policies, including employment policies (Shin, 2023; Supriyatno, 2020; Tirtosuharto, 2022).

With fiscal autonomy, local governments can design priority programs that directly target structural problems in their regions, such as open unemployment and low labor productivity. For example, some regions with an agricultural sector base can allocate budgets for labor-intensive programs, training based on local wisdom, or agro-industrial development. In urban areas, regional spending can be focused on empowering MSMEs and improving digital skills (Pietrovito et al., 2023; Romanova & Umland, 2021; Tirtosuharto, 2022).However, the study's results also indicate that the benefits of fiscal decentralization in the context of spending allocation are not universal. Many regions have been unable to utilize fiscal autonomy due to limitations in fiscal capacity. Inequality in Regional Original Revenue (PAD) leads to significant differences in fiscal capabilities between regions, ultimately impacting disparities in the quality and quantity of employment programs (Chen & Yang, 2024; Onofrei et al., 2022; Zhao & He, 2024).

Furthermore, the technical capacity of planning and budgeting at the regional level is also a determining factor for the effectiveness of decentralization. Regions with competent human resources tend to be more able to develop strategic planning based on data and real community needs. In contrast, budget allocations are often routine and administrative in areas with limited bureaucratic capacity, rather than transformative. This is one of the explanations why regional public spending has not fully encouraged the creation of quality jobs (Fan et al., 2020; Hong Vo et al., 2021; Wenjuan & Zhao, 2023).Thus, although fiscal decentralization normatively provides opportunities to increase the effectiveness of employment policies in the regions, in practice, the implementation of these policies is primarily determined by each local government's fiscal and institutional capacity. Therefore, it is essential to encourage more inclusive fiscal reforms and strengthen regional technical and institutional capacities so fiscal autonomy can truly become an instrument for local economic development and job creation (Monkam & Mangwanya, 2024; Rahayu et al., 2019).

Productive Public Spending as a Transmission Channel for Fiscal Policy

Productive public spending is one of the main instruments local governments can use in fiscal decentralization to encourage job creation. In the Keynesian approach to theory, government spending is seen as an essential component of aggregate demand that can stimulate economic activity, especially when the private sector cannot create sufficient jobs. In decentralization, public spending by local governments has an additional dimension in the form of proximity to local problems, which allows policies to be tailored to the sectors that most need economic stimulus (Goemans, 2023; Turnovsky & Erauskin, 2022).

One of the most common forms of productive public spending is capital expenditure for infrastructure development. Infrastructure such as roads, bridges, irrigation, and other public facilities not only creates construction jobs in the short term, but also has a multiplier effect on the regional economy in the long run. Adequate infrastructure improves connectivity, reduces logistics costs, and expands labor access to various economic centers. Thus, this investment creates a more inclusive and sustainable work ecosystem (Q. U. Ain et al., 2025; Vidal-Hernández et al., 2021).In addition to physical infrastructure, productive public spending also includes investment in human capital, especially in education and job training. Endogenous growth theory emphasizes the importance of human capital accumulation as a key driver of long-term economic growth. Training programs designed by local governments to upskill local workers are highly relevant in today's employment challenges, especially in the digital transformation era and Industry

4.0. Without improving the quality of the workforce, fiscal expansion will only result in low-productivity jobs (Deleidi et al., 2025; KLEIN & LINNEMANN, 2024; Vidal-Hernández et al., 2021).
However, the effectiveness of public spending in encouraging labor absorption depends on the direction of policy, not solely on the amount of budget spent. Many cases show that an increase in the budget is not automatically proportional to an increase in employment opportunities, primarily when the budget allocation is not focused on the productive sector. Spending too much on routine or operational components, such as employee salaries, tends to have a limited and short-term economic impact. Therefore, emphasis needs to be placed on the quality of spending and results-based budgeting processes (*performance-based budgeting*)(Kaharudin & Ab-Rahman, 2022; Onofrei et al., 2022; Turnovsky & Erauskin, 2022).
Thus, productive public spending is essential in transmitting the fiscal decentralization's impact on the labor market. Local governments must be empowered with fiscal resources and technical capacity to design, implement, and evaluate productive programs. In this context, synergy between regional development planning, community participation, and data-driven monitoring is key to ensuring that every rupiah spent truly generates added value in the form of sustainable employment opportunities (Jalles, 2021; Kahn & Zimbalist, 2022; Shin, 2023).

The Quality of Regional Institutions Determines the Effectiveness of Decentralization
The quality of regional institutions is a fundamental prerequisite for realizing the optimal benefits of fiscal decentralization. Without adequate institutional capacity, the fiscal authority given to the regions will be unable to produce effective and responsive public policies. In employment, local government agencies are essential in designing, implementing, and evaluating programs to create jobs. Therefore, good governance is not only a complement but the foundation of the effectiveness of regional fiscal policies (Ayana et al., 2023; Bosomtwe, 2025; Hao et al., 2020b).
In practice, regions with high institutional capacity tend to be able to carry out data-based, participatory, and results-oriented planning and budgeting processes. Such governance allows local governments to identify priority sectors and efficiently allocate fiscal resources, including job training programs, MSME support, and employment infrastructure development. Transparency and accountability also encourage public participation and reduce the potential for corruption and irregularities in budget allocations (Dinh Thanh et al., 2023; Shao & Razzaq, 2022; Wang et al., 2022).In contrast, in areas with weak institutions, fiscal decision-making processes tend to be less evidence-based and more influenced by short-term political interests. As a result, public spending is more used to meet administrative needs and routine spending, rather than productive investments. This situation causes fiscal opportunities that should have been used to encourage job creation to be wasted or even cause wider inefficiencies in the regional economic system (Babasyan et al., 2023; Mabrouk, 2021).Thus, the synthesis resulting from this study confirms that institutional quality is an essential mediating variable in explaining the success or failure of fiscal decentralization in encouraging labor absorption. Institutional reform at the regional level needs to be a priority agenda in the national development strategy, including strengthening the fiscal accountability system, professionalizing the bureaucracy, and increasing the technical capacity of human resources for public budget planners and managers.

Labor Market Dualism Is Still a Structural Obstacle
The labor market structure in many developing countries, including Indonesia, still exhibits dualistic characteristics as described by Lewis' theory. One side consists of the formal sector, which is productive,

organized, and protected by law. In contrast, the other side is the informal sector, which is vulnerable, at risk, and has no social security. Fiscal decentralization, which should open up regional policy space to integrate these two sectors, often fails to address these structural gaps because policy approaches that have not touched the root of the informal labor problem (Bianchi et al., 2023b; Lobato, 2025).In reality, most of the workforce in the regions still depend on the informal sector for their livelihood, such as small trade, subsistence farming, and services without employment contracts. Local government programs have not been sufficiently focused to strengthen the transition to the formal sector through skills training, access to capital, and incentives for the legalization of micro enterprises. Without pro-transition policies, the fiscal potential of the regions will tend to benefit dominant economic groups already in the formal ecosystem, while vulnerable groups remain left out (Albertini & Terriau, 2019; Colombo et al., 2019; James, 2022). One of the main obstacles to overcoming this dualism is the absence of an integrated employment strategy in regional development planning. In fact, through fiscal decentralization, local governments can design interventions tailored to local characteristics, including women's workforce empowerment, green job creation, and job training based on local industry needs. Unfortunately, weaknesses in cross-sector planning make this opportunity not optimally utilized (B. P. Gomes et al., 2018; Komarek et al., 2022; Weber et al., 2021)Therefore, fiscal decentralization will only positively impact the labor market if accompanied by a structural approach that unravels this dualism. Interventions must create an inclusive ecosystem that bridges the informal sector to the formal through labor regulation reform, social security expansion, and strengthening local community-based work transition programs.

New Conceptual Framework: Mediation Pathways and Moderation Factors

The results of this theoretical study produce a conceptual framework that explains that the relationship between fiscal decentralization and labor absorption **is not direct**, but rather through several mediation channels, and is influenced by moderating factors. The three main mediating variables identified are: (1) **the composition of public spending**, (2) **the quality of local institutions**, and (3) **the efficiency of public investment**. These three are key determinants in turning fiscal potential into tangible results in job creation.

First, the composition of public expenditure refers to the proportion of budget allocation intended for the productive sector compared to routine spending. Regions that can allocate budgets to strategic programs such as economic infrastructure, job training, and MSME support will have a greater effect on job expansion. Second, the quality of local institutions is a factor that determines whether the expenditure can be carried out effectively, on target, and with minimal corruption.

Third, the efficiency of public investment reflects how well the results are achieved compared to the resources used. Public investment often does not provide optimal results due to poor planning and implementation. Therefore, improving efficiency requires budgeting and output-based budgeting reforms, which should be part of regional fiscal governance reform.

In addition, regional fiscal capacity is positioned as a **moderating factor** that affects the strength and direction of intervariable relationships. Regions with high fiscal capacity have flexibility in funding productive employment programs, while fiscally poor regions tend to be dependent on central transfers and experience limitations in policy innovation. This framework provides a conceptual basis for further quantitative testing through structural model approaches such as SEM or multilevel data panels in future studies.

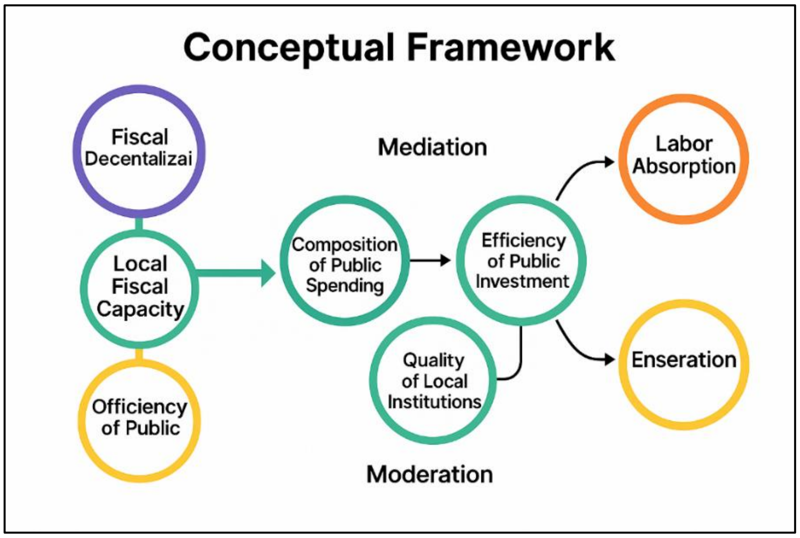

Figure 1. Conceptual Framework

DISCUSSION

Fiscal decentralization allows local governments to take a greater role in formulating and implementing development and labor policies. However, the reality shows that the fiscal space provided does not always increase the effectiveness of regional policies. Many regions have not been able to translate fiscal autonomy into productive and contextual development programs. This shows that decentralization is not a guarantee of policy efficiency, but rather an opportunity that is highly dependent on the internal capacity of the region itself (Di Novi et al., 2019; Y. Li & Bai, 2024; Sun et al., 2023).

The synthesis results show that productive public spending is one of the most promising channels in transmitting the influence of fiscal decentralization on labor absorption. However, its effectiveness is primarily determined by the direction and quality of spending, not just the budget amount. Many regions are still trapped in consumptive spending patterns, such as the dominance of employee spending, which does not produce long-term added value. Without spending orientation reform, the potential for decentralization as an instrument of job creation will remain symbolic and have little real impact.

The key to this problem lies in the quality of local institutions. Regions that have a professional bureaucracy, a data-driven planning system, and a strong accountability mechanism tend to be able to design fiscal policies that are pro-job creation. In contrast, regions with weak institutions show a tendency to budget allocation that is unstrategic and not results-oriented. Therefore, institutional power must be positioned not as a complement to decentralization, but as the foundation that determines the success of fiscal autonomy itself.

Another problem is the lack of integration of regional fiscal policies with a complex and dualistic labor market structure. The dominance of the informal sector in most regions shows that employment policies cannot be standardized. A community- and sector-based approach is needed to bridge the transition of the workforce from informal to formal. But unfortunately, many regions do not have the analytical and policy capacity to answer these challenges. As a result, decentralization strengthens the segmentation of the job market instead of unifying it (Bianchi et al., 2023a; K. Liu et al., 2022; López-Roldán & Fachelli, 2021).

In this context, the conceptual framework developed in this study offers a new approach to understanding the relationship between fiscal decentralization and labor absorption. The relationships between variables can be analyzed more structurally and dynamically by placing productive public spending, institutional quality, and investment efficiency as mediators and fiscal capacity as moderators. The framework also emphasizes that job creation results from a synergistic combination of fiscal, institutional, and sectoral policy aspects.

The implications of this framework are very significant for public policy. The central government needs to consider redesigning the fiscal transfer scheme between regions to be more oriented towards achieving socio-economic results, rather than just administrative equality. Regional budget performance indicators must reflect their contribution to inclusive growth and job creation. Meanwhile, local governments need to increase their capacity for fiscal planning and program implementation so that public spending truly improves people's welfare (Bahasoan et al., 2019; Ge et al., 2023; Vasyl'yeva et al., 2023).

Finally, this study makes a significant theoretical contribution by combining various approaches in public economics, regional economics, and labor market theory. These findings fill the conceptual voids in the decentralization and employment literature and open space for more empirical follow-up research. Researchers can then test this framework quantitatively using regional panel data to prove the influence pathways proposed in this conceptual model statistically.

CONCLUSION

This study develops a conceptual framework that examines the relationship between fiscal decentralization and labor absorption through a theoretical synthesis approach. By combining Oates' theory of decentralization, Keynesian approach, endogenous growth theory, and Lewis' model of dualism, it was found that the effects of fiscal decentralization on employment are indirect and highly contextual. The complexity of this relationship reflects the importance of considering mediating variables such as the composition of public spending, the quality of local institutions, and investment efficiency, as well as the moderation variable in the form of regional fiscal capacity.

The study results confirm that the fiscal autonomy given to local governments has not fully translated into pro-employment programs. Although normatively decentralization opens up space for policy innovation, the reality shows that there are obstacles in the form of institutional weaknesses, low fiscal capacity, and the dominance of unproductive spending. Therefore, the relationship between fiscal decentralization and employment will only be significant if it is supported by strategic and results-oriented budget governance.

These findings also show that the employment policy design cannot be separated from the context of the local labor market's structure. With the informal sector still having strong dominance, regional fiscal interventions must be directed towards a planned and sustainable formality transition strategy. This includes regulatory reform, strengthening the MSME ecosystem, and improving work skills based on the needs of the regional leading sectors.

The practical implication of this study is the need to reformulate the fiscal transfer mechanism from the central to the regions, considering socio-economic indicators, including job creation. In addition, increasing the capacity of planning and program implementation in the regions is key, so fiscal policies are administratively responsive and impact economic inclusion. Meanwhile, institutional reform should be the primary focus of improving the effectiveness of fiscal autonomy policies nationally.As a contribution to science, this study expands the conceptual discourse on the cross-disciplinary relationship between fiscal, institutional, and labor market policies. The conceptual framework developed can serve as a foundation for future empirical research, particularly quantitative approaches to test the validity of relationships between variables. This study also provides space for developing more adaptive and evidence-based policy models in responding to employment challenges in the decentralized era.

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