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ANALYSIS OF INCOME INEQUALITY BETWEEN RURAL AND URBAN AREAS IN WEST JAVA PROVINCE 2018 – 2022

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Abstract

This research is a quantitative study with an associative-causal (causal-comparative) approach, which aims to analyze the effect of income inequality on the Human Development Index (HDI), Labor Force Participation Rate (TPAK), and fiscal independence in West Java Province during the 2018–2022 period. The data used in this study are quantitative, with a focus on measuring income inequality, the Human Development Index (HDI), the Labor Force Participation Rate (TPAK), and fiscal independence. The type of data used is secondary data that describes the economic and social conditions of a region during a certain period. The data collection technique in this study uses the documentation method, considering that the research is quantitative with secondary data. Based on the goodness-of-fit model test in Cities and Regencies in West Java province, it is proven that the determinant coefficient (R^2) value in Regencies is 27.39 percent while the determinant coefficient value (R^2) value in Cities is 87.78 percent. Therefore, it can be concluded that the determinant coefficient value (R^2) in cities is higher than the determinant coefficient value in regencies. Based on the t-test, it can be seen that the labor force participation rate in both cities and regencies has a negative and significant effect on income inequality. While the labor force participation rate itself has a significant impact on income inequality in regencies and cities, fiscal independence is not sufficient to influence income inequality in regencies and cities in West Java Province. The results of the goodness-of-fit model (F-test) for regencies and cities indicate that simultaneously, the human development index, labor force participation rate, and fiscal independence influence income inequality in regencies and cities in West Java Province.

Keywords: Income Inequality Analysis, Rural, Urban

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INTRODUCTION

The success of development in a region can be seen through the Human Development Index (HDI), as this indicator reflects the quality of education, health, and living standards, which directly impact population productivity. A low HDI generally impacts the community's low capacity to participate in economic activities (Sinambela, 2016). Regions with a high HDI tend to have a more productive population and the potential to earn a better income. This difference in HDI conditions between regions makes the HDI a factor closely related to the emergence of income inequality. When the quality of human development is uneven, income distribution also shows inequality, as seen in the difference in inequality between rural and urban areas in West Java, as follows: (Mangkunegara, 2021)

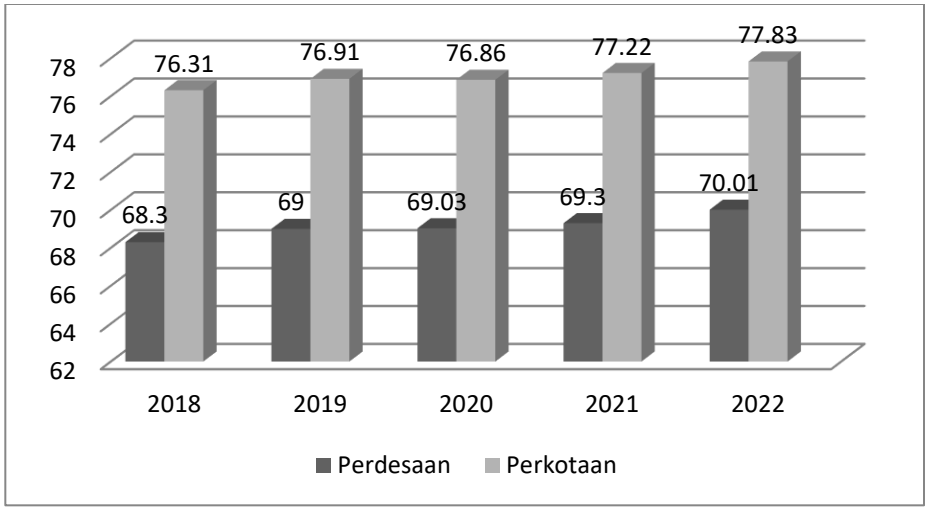

Figure 1.
Human Development Index of West Java Province 2018–2022 (Percent)
Source: Central Statistics Agency (BPS)

Figure 1 shows the development of the Human Development Index (HDI) in rural and urban areas of West Java Province during the 2018–2022 period. In its measurement, the HDI is divided into three categories: very high if it reaches a value above 80, high in the range of 70–80, and moderate in the range of 60–70. The data shows that the rural HDI has consistently increased from 68.30 in 2018 to 70.01 in 2022, placing rural areas in the moderate to high category. Meanwhile, the urban HDI also shows an increasing trend, from 76.31 in 2018 to 77.83 in 2022, reflecting human development performance in the high category. This difference in achievement illustrates the gap in quality of life

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between urban and rural residents, with urban areas showing better welfare conditions.

The difference in the development of the Human Development Index (HDI) between rural and urban areas in West Java Province reflects a significant gap in quality of life, with urban areas showing better access to education, health, and income, while rural areas still face limitations in these areas. This condition shows that despite the increase in the HDI in both regions during the period 2018–2022, the difference in achievement remains, indicating that the benefits of development have not been fully distributed. This disparity not only directly affects the welfare of the community, but also impacts the ability of local governments to implement fiscal decentralization effectively, because the capacity to manage financial resources is closely related to the quality of available human resources. Furthermore, this difference in human development levels has the potential to affect the Labor Force Participation Rate (LFPR), because residents with better quality of education, health, and living standards tend to have greater ability, motivation, and opportunities to participate in economic activities (Burso, 2018).

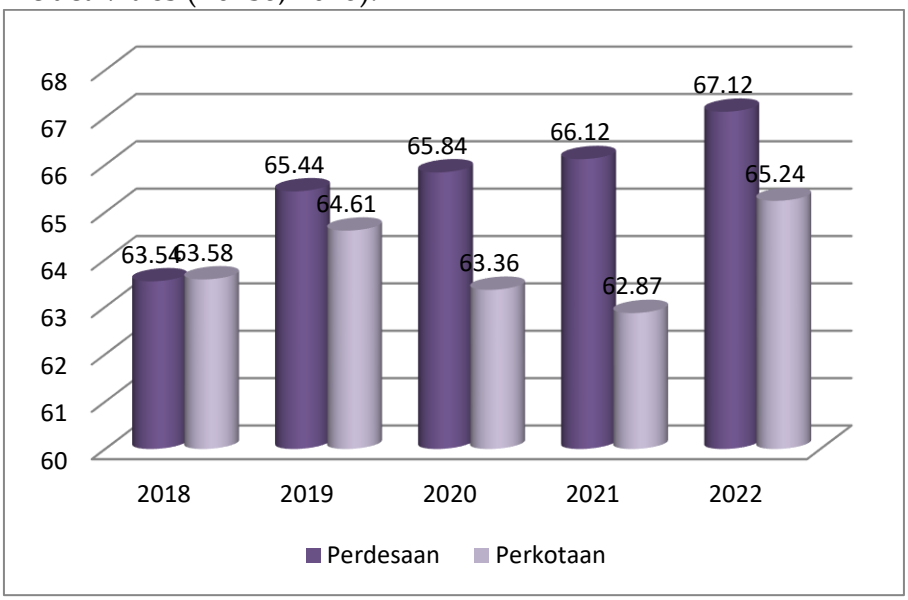

Figure 2.
Labor Force Participation Rate in West Java Province, 2018–2022 (Percent)
Source: Central Statistics Agency (BPS)

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Figure 2 shows that the percentage of the Labor Force Participation Rate (LFPR) in rural and urban areas of West Java Province fluctuated during the 2018–2022 period. LFPR in rural areas was recorded to have increased from 63.54% in 2018 to 67.12% in 2022. Meanwhile, LFPR in urban areas also increased, namely from 63.58% in 2018 to 65.24% in 2022. These data show that the labor force participation rate in rural areas is consistently higher than in urban areas. This condition indicates that the increase in LFPR in rural areas needs to be balanced with the expansion of job opportunities so that the population ready to work can be optimally absorbed (Hartati et al., 2024). Increasing workforce participation followed by adequate workforce absorption will contribute to more productive economic activities, which can ultimately strengthen regional fiscal independence by increasing community income and increasing the tax base as a source of development financing (Hartati et al., 2024).

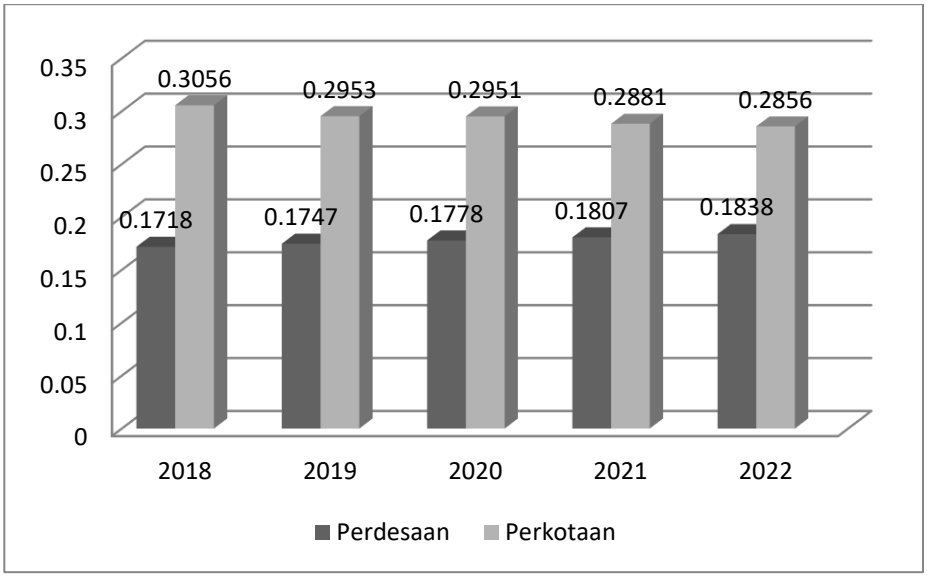

Figure 3.
Fiscal Independence Index in West Java Province, 2018–2022 (Percent)
Source: Audit Board of the Republic of Indonesia (BPK RI)

Figure 3 shows the level of fiscal independence of rural and urban areas in West Java Province from 2018 to 2022. It can be seen that the level of fiscal independence in rural areas is lower than that in urban areas, which will affect the smooth running of economic activity in West Java Province. The level of fiscal independence in rural areas can be further improved to ensure economic development in West Java Province by increasing local government capital expenditure (Liline & Khaeril, 2024).

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Increasing the Human Development Index (HDI), labor force participation rate, and fiscal independence are crucial aspects in strengthening the quality of development and directing regional economies toward more inclusive growth. A higher HDI indicates improved health, education, and living standards, thus supporting the development of productive and competitive human resources (Rivai, 2018). Similarly, a high labor force participation rate reflects the optimal utilization of labor potential, ultimately driving economic activity and improving household welfare. Fiscal independence also plays a significant role because a region's ability to finance its own needs enables the implementation of more effective development programs aligned with local priorities. Given the significant contribution of these three indicators, an in-depth analysis of the factors influencing HDI, labor force participation rate, and fiscal independence is necessary. One such indicator is income inequality, which has the potential to hinder equitable distribution of development outcomes and improve the quality of life of the community (Sari et al., 2022).

High inequality not only reflects an unequal distribution of income but can also weaken people's access to education, health care, and economic opportunities, thus impacting the quality of human development. This condition can reduce labor force participation rates, widen productivity gaps, and hamper regions' ability to increase fiscal independence due to a limited productive economic base. More broadly, income inequality can trigger social instability, weaken economic mobility, and hinder the achievement of inclusive and sustainable development. Therefore, understanding the dynamics of income inequality is crucial as a foundation for formulating policies that can increase the Human Development Index (HDI), expand labor participation, and strengthen regional fiscal capacity (Marwansyah, 2016).

The significant role of income inequality in influencing the quality of development makes its measurement crucial. One of the most widely used indicators is the Gini Index, which ranges from 0 to 1. Values closer to 1 indicate high levels of income inequality, while values closer to 0 indicate a more equal distribution of income (BPS, 2022). Nationally, income inequality in Indonesia remains a prominent issue, particularly in provinces on the island of Java, which have Gini ratios above the national average. This situation indicates that although Java is a center of economic growth, income distribution is not yet equitable, requiring special attention in relation to increasing the Human

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Development Index (HDI), labor force participation, and fiscal independence (Arzaqi & Astuti, 2020).

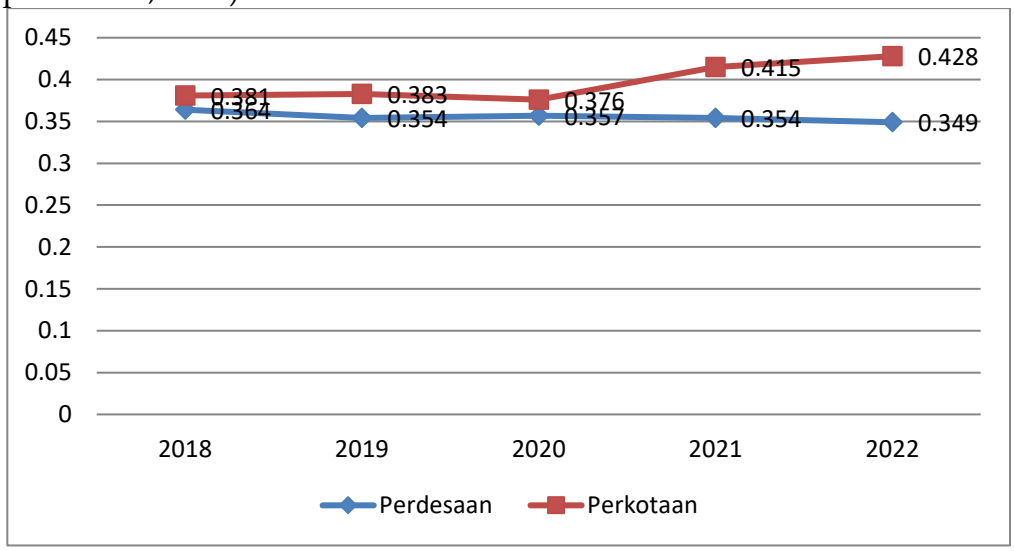

Figure 4.
Gini Index of West Java Province, 2018–2022 (Percent)
Source: Central Statistics Agency (BPS)

Figure 4 illustrates the development of income inequality between rural and urban areas in West Java Province during the 2018–2022 period. The data shows distinct patterns between the two regions. In urban areas, income inequality tends to increase, as evidenced by the Gini Index, which rose from 0.381 in 2018 to 0.428 in 2022. Conversely, rural areas experienced a decline in inequality, with the Gini Index falling from 0.364 in 2018 to 0.349 in 2022. This development indicates that the burden of income inequality is greater in urban areas, where income distribution is increasingly unequal. Although the figure has not yet reached the 0.5 threshold, the increase in the Gini Index value to above 0.42 indicates that inequality in urban West Java remains a significant issue and requires attention in the formulation of development policies (Gurusinga et al., 2022).

The difference in the direction of income inequality between urban and rural areas indicates that development acceleration often occurs in a region or city with established economic capacity and resources that will easily record economic growth, while regions or cities with minimal economic resources will find it difficult to record economic growth (Arif, M., & Wicaksani, R. A., 2017). The dynamics of income distribution have a broad impact on various regional development indicators. Increasing inequality in urban areas has the potential to

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hinder the increase in the Human Development Index (HDI) because low-income groups tend to have limited access to education, health, and a decent standard of living. In addition, income inequality can also affect the level of work participation, where the gap in economic opportunities and job quality can reduce people's incentives to enter the labor market productively. At the same time, high inequality can weaken the fiscal independence of a region because the tax base becomes narrow and dependence on central government transfers increases. Therefore, researchers are interested in examining how income inequality plays a role in shaping the HDI, the level of work participation, and fiscal independence in West Java Province in 2018 - 2022.

LITERATURE REVIEW

Income Inequality

Efforts to reduce inequality are crucial in the context of economic development, including through income redistribution programs, increasing access to education and economic opportunities for vulnerable groups, and implementing policies that promote economic justice (Riyadi & Ghuzini, 2022). In addition to the government's role, the private sector can also contribute through social responsibility, training programs, and fair wage policies to create a more equitable income distribution. These measures are expected to promote inclusive economic growth for all levels of society, enhance social legitimacy, and support improvements in the overall quality of life (Wati et al., 2024).

Human Development Index

In efforts to improve human development, equal attention is paid to reducing social and economic disparities, so that every individual, regardless of social, economic, or cultural background, has equal opportunities to access education, health services, and economic resources. By creating more equitable access, each individual's potential can be optimally developed, which in turn contributes to inclusive and sustainable economic growth. Improving human quality not only enhances individual capabilities but also strengthens community participation in decision-making, encourages innovation, and strengthens social stability. Thus, human development that focuses on equity and quality improvement not only produces quantitative progress but also has tangible long-term impacts, creating a more prosperous, productive, and sustainably competitive society (Wati et al., 2024).

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Labor Force Participation Rate

The Labor Force Participation Rate is also an important benchmark in economic planning and employment policy. Through this indicator, the government can identify untapped labor potential, the gap between job opportunities and job seekers, and demographic shifts that impact the labor market. By understanding the dynamics of the Labor Force Participation Rate (LFPR), economic development strategies can be directed toward increasing labor inclusion, minimizing unemployment, and encouraging more equitable economic growth, so that every individual in the productive age group has a greater opportunity to contribute optimally to social and economic progress at the local and national levels (Hakim, 2022).

Fiscal Decentralization

Fiscal decentralization grants regional governments the authority to autonomously manage financial resources, including revenue and expenditure (Sarlina et al., 2022). With this authority, regions are no longer solely dependent on central government funding but are also able to optimize local revenue potential, such as taxes and levies, and allocate budgets according to the priority needs of local communities. This contributes to the creation of fiscal independence, namely the ability of regions to finance operational and development needs without relying entirely on transfers from the central government. The higher the level of fiscal independence, the greater the capacity of regional governments to plan and implement development programs tailored to local conditions and priorities, while simultaneously increasing the accountability and efficiency of regional financial management (Fahrizal & Bintoro, 2022).

RESEARCH METHOD

This research is a quantitative study with an associative-causal (causal-comparative) approach, which aims to analyze the effect of income inequality on the Human Development Index (HDI), Labor Force Participation Rate (TPAK), and fiscal independence in West Java Province during the period 2018–2022. This approach was chosen because the research not only describes existing phenomena but also attempts to identify and explain the causal relationships between the variables studied (Sugiyono, 2020).

This research is quantitative descriptive, focusing on testing the hypothesis regarding the effect of income inequality (independent variable) on the dependent variables of the Human Development Index (HDI), the Regional General Allowance (TPAK), and fiscal independence. The data used are sourced

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from secondary data published by official institutions, such as the Central Statistics Agency (BPS) and the Supreme Audit Agency of the Republic of Indonesia (BPK RI). The data used in this study are quantitative, focusing on measuring income inequality, the Human Development Index (HDI), the Labor Force Participation Rate (TPAK), and fiscal independence. The type of data used is secondary data that describes the economic and social conditions of a region during a certain period. The data sources for this research come from official and credible institutions, including the Central Statistics Agency (BPS) and the Supreme Audit Agency of the Republic of Indonesia (BPK RI). The data obtained include socio-economic indicators relevant to the research, thus supporting valid analysis and can be used as a basis for formulating more effective and equitable regional development policies (Winarno, 2023).

This study used documentation as the data collection technique, given the quantitative nature of the research using secondary data. Documentation was conducted by collecting official data from government institutions, such as the Central Statistics Agency (BPS) and the Supreme Audit Agency of the Republic of Indonesia (BPK RI), which included indicators of income inequality, the Human Development Index (HDI), the Labor Force Participation Rate (TPAK), and fiscal independence (Sugiyono, 2020).

RESULTS AND DISCUSSION

Panel Data Regression Estimation Results for Regencies

The panel data regression estimation results for regencies in West Java Province using the Pooled Ordinary Least Squares (PLS), Fixed Effect Model (FEM), and Random Effect Model (REM) approaches are shown in Table 1.

Table 1.
Panel Data Regression Estimation Results

Variable	CEM		FEM		REM	
	Coefficient	Prob	Coefficient	Prob	Coefficient	Prob
C	0.422549	0.0000	0.437425	0.0307	0.462228	0.0013
IPM	0.002785	0.0423	0.003096	0.3564	0.002224	0.2986
TPAK	-0.004052	0.0000	-0.004831	0.0000	-0.004108	0.0000
KEMFIS	0.034535	0.3456	0.117637	0.3223	0.050256	0.3941
R^2	0.417217		0.779903		0.273906	
Adj. R^2	0.396888		0.716107		0.248577	

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F-Stat	20.52262	12.22492	10.81398
Prob.(F-Stat)	0.000000	0.000000	0.000000

Selecting the Best Estimation Model

Chow Test

Table 2.
Chow Test Results

Cross-section F	4.171186	(17,69)	0.0000
Cross-section Chi-square	63.620456	17	0.0000

The conclusion from the Chow Test Results that have been carried out in table .2 shows that the probability of Cross section F is 0.000 < α (0.05). Thus, $H_0$is rejected, which means that the more appropriate model to use is FEM.

Hausman Test

Table 3.
Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.940707	3	0.8156

Conclusions from the Hausman test results: Based on Table 3, the probability of Prob. X^2 is 0.8156. Therefore, H_0 is not rejected, meaning the selected model is REM.

Based on the results of the Chow and Hausman tests, it can be concluded that the Random Effects Model (REM) is the most appropriate model to use for estimating panel data in this study. The REM regression results are shown in Table 2.3.

Table 4.
REM Estimation Results for Regency

$GR_{it} = 0.4622 + 0.0022IPM_{it} - 0.0041TPAK_{it} + 0.0502FISCAL_{it}$ (0.298) (0.000)* (0.394)
R^2 = 0.2739; DW = 1.950; F = 17,69; Prob.F = 0.000

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Source: Table 1

Note: *Significant at α=0.01. Numbers in parentheses are the probability of the t-statistic.

Model Goodness-of-Fitness Test

Simultaneous Significance Test (F Test)

The F test is conducted to determine the effect of independent variables on the dependent variable simultaneously or jointly. H_0 in the F test is β_{1-3}= 0, or the simultaneous effect of the Human Development Index, Labor Force Participation Rate, and Regional Fiscal Independence on Income Inequality. $H_0$is rejected if the F-statistic probability is <α.

Based on Table 2, the F-statistic probability value is 0.000, meaning H_0 is rejected. Therefore, it can be concluded that the Human Development Index, Labor Force Participation Rate, and Regional Fiscal Independence have been shown to simultaneously influence income inequality in West Java Province from 2018 to 2022.

Interpretation of the Coefficient of Determination and Constant (R^2)

The coefficient of determination (R2) indicates the goodness-of-fit of the model. Table 2 shows that R2 is 0.2739. Thus, 27.39% of the variation in income inequality can be explained by variations in the Human Development Index, Labor Force Participation Rate, and Regional Fiscal Policy, while the remaining 72.61% is explained by other variables outside the model.

Partial Significance Test (t-Test)

The t-test is conducted to determine whether each independent variable individually has a significant effect on the dependent variable, assuming the other variables are held constant. The H_0 of the t-test is βi = 0 (i =1-3), meaning that individually, the Human Development Index, Labor Force Participation Rate, and Regional Fiscal Independence have no effect on income inequality. Meanwhile, the H_A of the t-test is βi < 0 (i =1-3), meaning that individually, the Human Development Index, Labor Force Participation Rate, and Regional Fiscal Policy do not negatively affect income inequality. H0 is not rejected if the probability of the t-statistic value is >α, and HA is rejected if the probability of the t-statistic value is <α. The results of the t-test are shown in Table 3.

Table 5.
t-Test Results

Variable	Coefficient	Prob.t	Criteria	Conclusion
IPM	0.002224	0.2986	> 0,1	β_1 not proven to be real

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TPAK	-0.004108	0.0000	< 0,01	β_2 proven true α 0,01
KEMFIS	0.050256	0.3941	> 0,1	β_3 not proven to be real

Source: Table 1

Based on the influence validation test (t-test) described above, one independent variable has a significant effect and two independent variables have no significant effect on the Random Effects Model (REM). The variable that influences income inequality is the labor force participation rate, while the variables that do not are the human development index and fiscal independence.

The labor force participation rate variable has a regression coefficient of -0.00410. The relationship between the labor force participation rate and income inequality is linear. Thus, a 1 percent increase in the labor force participation rate will lead to an increase in income inequality of -0.00410. Conversely, a 1 percent decrease in the labor force participation rate will lead to a decrease in income inequality of -0.00410.

Panel Data Regression Estimation Results for Cities

The panel data regression estimation results for cities in West Java Province using the Pooled Ordinary Least Squares (PLS), Fixed Effect Model (FEM), and Random Effect Model (REM) approaches can be seen in Table 1.

Table 6.
Panel Data Regression Estimation Results

Variable	CEM		FEM		REM	
	Coefficient	Prob	Coefficient	Prob	Coefficient	Prob
C	0.423532	0.0803	-2.071185	0.0001	-0.556859	0.0500
IPM	0.003450	0.3682	0.035905	0.0000	0.015125	0.0003
TPAK	-0.004323	0.1548	-0.004232	0.0216	-0.001947	0.3067
KEMFIS	-0.055758	0.7096	-0.093294	0.4608	-0.296767	0.0156
R^2	0.074042		0.877848		0.231722	
Adj. R^2	0.006289		0.837130		0.175507	
F-Stat	1.092815		21.55947		4.122036	
Prob.(F-Stat)	0.362989		0.000000		0.012081	

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Selecting the Best Estimation Model
Chow Test

Table 7.
Chow Test

Cross-section F	17.107928	(8,33)	0.0000
Cross-section Chi-square	73.731923	8	0.0000

The conclusion from the Chow Test results in Table 2 indicates that the cross-sectional probability F is 0.000 < α (0.05). Therefore, H_0 is rejected, meaning the more appropriate model to use is the FEM.

Hausman Test

Table 8.
Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	17.049250	3	0.0007

Conclusions from the Hausman Test results. Based on Table 2.3, it appears that the probability of Prob. X^2 is 0.0007. Thus, H_0 is rejected, meaning the selected model is FEM.

Based on the results of the Chow and Hausman tests, it can be concluded that the Fixed Effects Model (FEM) is the most appropriate model to use to estimate panel data in this study. The FEM regression results are shown in Table 2.

Table 9.
FEM Regression Results for Cities

$GR_{it} = -2.0711 + 0.0359IPM_{it} - 0.0042TPAK_{it} - 0.0932FISCAL_{it}$ (0.000) (0.021)* (0.460)
R^2 = 0.8778; DW = 2.4346; F = (8,33); Prob.F = 0.000

Source: Table 1

Note: *Significant at α=0.01. Numbers in parentheses are the probability of the t-statistic.

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Model Goodness-of-Fitness Test

Simultaneous Significance Test (F Test)

The F test is conducted to determine the effect of independent variables on the dependent variable simultaneously or jointly. H_0 in the F test is $\beta_{1-3} = 0$, or the simultaneous effect of the Human Development Index, Labor Force Participation Rate, and Regional Fiscal Independence on Income Inequality. $H_0$is rejected if the F-statistic probability is $<\alpha$.

Based on Table 2, the F-statistic probability value is 0.000, meaning $H_0$is rejected. Therefore, it can be concluded that the Human Development Index, Labor Force Participation Rate, and Regional Fiscal Independence of Cities jointly influence income inequality in West Java Province from 2018 to 2022.

Interpretation of the Coefficient of Determination and Constant (R2)

The coefficient of determination (R2) indicates the goodness-of-fit of the model. Table 2 shows that R2 is 0.8778. Thus, 87.78% of the variation in income inequality can be explained by variations in the Human Development Index, Labor Force Participation Rate, and Regional Fiscal Policy, while the remaining 12.22% is explained by other variables outside the model.

Partial Significance Test (t-Test)

The t-test is conducted to determine whether each independent variable individually has a significant effect on the dependent variable, assuming the other variables are held constant. The H_0 of the t-test is $\beta_i = 0$ *(i=1-3* meaning that individually, the Human Development Index, Labor Force Participation Rate, and Regional Fiscal Independence have no effect on income inequality. Meanwhile, the H_A of the t-test is $\beta_i < 0$ *(i=1-3)*, meaning that individually, the Human Development Index, Labor Force Participation Rate, and Regional Fiscal Policy do not negatively affect income inequality. H_0 is not rejected if the probability of the t-statistic value is $>\alpha$, and H_A is rejected if the probability of the t-statistic value is $<\alpha$. The results of the t-test are shown in Table 3.

Table 10.
t-Test Results

Variable	Coefficient	Prob.t	Criteria	Conclusion
IPM	0.035905	0.0000	<0,05	β_1 proven true α 0,05
TPAK	-0.004232	0.0216	<0.05	β_2 proven true α 0,05
KEMFIS	-0.093294	0.4608	>0.05	β_3 not proven to be real

Based on the influence validation test (t-test) described above, two independent variables have a significant effect and one independent variable

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has no significant effect on the Fixed Effect Model (FEM). The variable that influences income inequality is the labor force participation rate, while the variables that do not are the human development index and fiscal independence.

The human development index variable has a regression coefficient of 0.03590. The relationship between the human development index and income inequality is linear. A 1 percent increase in the human development index will lead to a 0.03590 increase in income inequality. Conversely, a 1 percent decrease in the human development index will lead to a 0.03590 decrease in income inequality.

The labor force participation rate variable has a regression coefficient value of -0.00423, the pattern of the relationship between the labor force participation rate and income inequality is linear-linear so that if the labor force participation rate increases by 1 percent, income inequality will increase by -0.00423 index numbers. Conversely, if the labor force participation rate decreases by 1 percent, income inequality will decrease by -0.00423 index numbers.

CONCLUSION

Based on the goodness-of-fit model test for cities and regencies in West Java province, the coefficient of determination (R2) for regencies was 27.39 percent, while the coefficient of determination (R2) for cities was 87.78 percent. Therefore, it can be concluded that the coefficient of determination (R2) for cities is higher than that for regencies.

Based on the effect validation test (t-test), it can be seen that partially, the labor force participation rate variable in cities and regencies both have a negative and significant effect on income inequality. This is because the labor force participation rate itself has a significant influence on income inequality in regencies and cities, while fiscal independence is not sufficient to influence income inequality in regencies and cities in West Java province.

The results of the goodness-of-fit model (F-test) for regencies and cities indicate that the human development index, labor force participation rate, and fiscal independence simultaneously influence income inequality in regencies and cities in West Java province.

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