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THE EFFECT OF INCOME INEQUALITY AND POVERTY ON ECONOMIC GROWTH IN EAST LOMBOK DISTRICT

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ABSTRACT

This study aims to determine the effect of income inequality and poverty on economic growth in East Lombok Regency. The research method used was associative quantitative to test the effect of income inequality and poverty on economic growth. The data used is secondary data obtained from the Central Statistics Agency (BPS) with the time period 2014-2023. The analysis technique used is multiple linear regression with the help of the e-Views 12 program. The results showed that the income inequality variable had a negative and insignificant effect on economic growth, while the poverty variable had a positive and significant effect on economic growth in East Lombok Regency.

Keywords: Economic Growth, Income Inequality, Poverty

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INTRODUCTION

For a long time in developing countries, especially in Indonesia, issues of income inequality, poverty and economic growth have become the focus of attention to be addressed immediately. The analysis of the triangular relationship between income inequality, poverty and economic growth has been the subject of a long debate, especially in the selection of economic development strategies. Income inequality, poverty and economic growth are three different aspects but lead to one thing in common: welfare. To see the rise or fall of the average welfare of the community, it can be seen in its economic growth. In addition, economic growth is also one of the benchmarks for the success of economic development in a region. Economic development of a region is declared successful if economic growth in the area increases.

Development inequality between regions is a common phenomenon in the process of economic development. Sjafrizal (2012) explained that the difference in demographic content and natural resources in each region is the main cause of development inequality. This condition will cause developed areas and underdeveloped areas (Ginting, 2015). The difference also results in the process of economic development will be different and will cause gaps or gaps in welfare between regions. The welfare gap that occurs between regions will cause income inequality and increase the poverty rate. (Adelman and Morris, 1973 in Jhingan, 2013).

Tambunan (2001), the existence of developed and underdeveloped areas will cause the concentration of economic activities in one particular area. Usually, areas that are centers of concentration will be better able to provide higher income to their people than areas that are not centers of economic activity.

As a fundamental problem in development, development inequality should be sought to continue to be suppressed as low as possible. Efforts that can be made are by implementing development evenly in each region and creating job opportunities to reduce the level of income inequality and poverty. Equitable development will also overcome the division of developed and underdeveloped regions. (Sjafrizal, 2008).

One of the indicators used to measure the economic growth of a region in a certain period is the growth rate of Gross Regional Domestic Product (GDP). Economic growth in East Lombok district can be said to be in stable condition. Based

on data from the Central Statistics Agency (BPS), it can be explained that in the 2021-2023 period, the state of economic growth in East Lombok district has increased every year. One of the efforts that can be made by the government to increase economic growth is to reduce the level of income inequality in a region. The next indicator that affects economic growth is the poverty rate in society.

The higher the level of income inequality and poverty of a region, the lower the economic growth rate in the region. Conversely, if a region has low levels of inequality and poverty, then the economic growth of the region will be better.

East Lombok has social, economic and natural resource characteristics spread in each region. However, these characteristics or characteristics will bring their own obstacles to each region. Have different social conditions such as different poverty rates between urban and rural areas. Similarly, the economic conditions of coastal areas with different mountainous areas. In addition, there are areas that have natural resources and those that do not have natural resources. This will certainly be an obstacle in equitable distribution of economic development. Nevertheless, efforts to make equity must still be carried out in East Lombok Regency.

LITERATURE REVIEW

A. Regional Economic Growth Theory

According to Taringan (2005) in his book entitled *Regional Economics: Theory and Application* what is meant by regional economic growth is an increase in community income due to an increase in all overall added value that occurs in the region. Regional income describes a level of prosperity in a region by the recompense activity of factors of production. To see the increase in income over time, the calculation must be expressed in real value i.e. expressed in constant prices. Economic growth of a region is a major element in analyzing and determining policies for economic development. This analysis of economic growth can help explain why one region can grow faster than another. In addition, this economic growth analysis can also explain the causes of inequality in economic development of one region with other regions.

According to Tumangkeng (2018), regional economic growth theory analyzes an area as an open economic system through the flow of movement of production

factors and community exchanges related to other regions. An area that experiences growth will affect the growth of other regions.

According to Tarigan (2005), the main objective of regional economic policy is to create jobs so as to reduce unemployment and poverty, economic growth, and create price stability. In addition to these three main objectives, a region can also make economic policies more specific to space and place. Therefore, there are several things that are more effectively and efficiently done by local governments compared to the central government. So that an area has additional main objectives such as equitable distribution of development within the region.

In reality, regional economic growth cannot mean that poverty levels can be overcome. Inequality according to Arsyad (2010), namely economic growth that can only be felt a little benefit by the poor and there are still many people who have economic conditions below the standard of their needs. While the rich are able to feel most of the benefits of economic growth. In other words, the "trickle down effect" of economic growth benefits for the poor does not occur.

B. Economic Growth

Economic growth is an activity in the economy that causes goods and services produced in society to increase, it will increase aggregate output in the long run. (Sukirno, 2016: 29) The calculation of economic growth uses the *Gross Domestic Product* (GDP) approach for national data. Meanwhile, data at the Provincial and City / Regency / District levels use the Gross Regional Domestic Product (GRDP) approach.

According to (Prawoto, 2019) the determinants of economic growth can be divided into four, including:

1. Natural resources. Natural wealth can not only increase greater production output, but also can increase and expand production output traded in a wider environment, namely exports.
2. Quality of human resources. The advantage obtained if the population can be absorbed as labor is that it can increase production capacity and can explore economic sectors to be more productive.
3. Capital accumulation and application of technology. The current economic guidance is much more developed than the previous year so that capital goods must be followed by the application of modern technology so that production

becomes more efficient and quality.

4. Social conditions of society. One of the steps that can be taken by the government is to present education to people with traditional social conditions, so that open insights and technological advances can be used as well as possible.

C. Income Inequality

Income inequality is the difference in the amount of income received by the community, resulting in a difference in the class of society. Differences in income arise due to differences in ownership of resources and factors of production, especially ownership of capital goods. (Aiman, 2015) People who have more factors of production will also earn more income. As a result, it will have a clear impact on the rich getting richer and the poor getting poorer.

According to Adelman and Moris, (quoted in Subandi, 2016: 72) there are several causes of uneven income distribution:

1. High population growth can lead to a decrease in per capita income and increase inequality in income distribution.
2. Inflation can cause money income to increase but is not followed proportionally by the increase in production of goods.
3. Uneven regional development can lead to inequality in income distribution between regions.
4. Other factors such as education, health and labor levels can also influence the unequal distribution of income.

D. Poverty

The term poverty basically describes the inability to own an item due to low income, more precisely not met basic needs, especially consumption, both clothing and food. (Latumaerissa, 2015:97) Poverty broadly means lack or lack of education, poor health conditions and lack of transportation needed by society. Poverty is also defined in terms of lacking or not owning assets such as land, houses, equipment, money, gold, credit and others.

RESEARCH METHOD

The type of research conducted in this study uses quantitative data and uses associative methods. Researchers chose the type of associative method because this study aims to find whether there is a relationship between the independent variable, namely Income Inequality and Poverty, to the dependent variable, namely Economic Growth.

The type of data used in this study is secondary data obtained from the Central Statistics Agency (BPS), which is taken from Gini Ratio data, Poverty data, and Gross Regional Domestic Product (GRDP) data in East Lombok Regency for 2014-2023. The analysis technique used by researchers is a multiple linear regression analysis technique with the help of the *Econometric Views (Eviews) 12* program. The multiple linear regression equation in this study is as follows:

$$Y = \beta_0+\beta_1X_1+\beta_2X_2+\varepsilon$$

Information:

Y = Economic Growth (%)
β_0 = Konstanta
β_1 = Regression Coefficient X1
β_2 = Regression Coefficient X2
X_1 = Income Inequality (%)
X_2 = Poverty (%)
ε = error

Berikut langkah - langkah analisis yang digunakan dalam penelitian ini antara lain:

1. Classical Assumption test including normality test, multicollinearity test, heteroscedasticity, and autocorrelation test.
2. Hypothesis testing including t-test (partial test), F test (Simultaneous test), coefficient of determination test

RESULT AND DISCUSSION

A. Result

1.1. Regression Equation Analysis

The result of regression of this research as follow

Table 1. Regression Equation Results

Dependent Variable: Y
Method: Least Squares
Date: 03/28/24 Time: 22:51
Sample: 2014 2023
Included observations: 10

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-16.23614	7.134088	-2.275854	0.0570
X1	-14.53533	15.44018	-0.941396	0.3778
X2	1.435099	0.428158	3.351800	0.0122

R-squared	0.617287	Mean dependent var	3.088000
Adjusted R-squared	0.507940	S.D. dependent var	2.461864
S.E. of regression	1.726923	Akaike info criterion	4.173885
Sum squared resid	20.87585	Schwarz criterion	4.264660
Log likelihood	-17.86942	Hannan-Quinn criter.	4.074304
F-statistic	5.645226	Durbin-Watson stat	1.432025
Prob(F-statistic)	0.034678		

Based on the table above, the form of the regression equation can be produced as follows:

$Y = -16{,}236 – 14{,}535X_1 + 1{,}435X_2 + \varepsilon$

1. If the value of all independent variables (Income Inequality and Poverty) in this study is equal to zero, then the value of the variable tied to Economic Growth in East Lombok District will be -16.236 percent.
2. Every increase in the value of Income Inequality in East Lombok District by 1 percent while other variables are in a constant or unchanged state, the magnitude of Economic Growth value will decrease by -14.535 percent.
3. Every increase in the value of the Poverty variable in East Lombok Regency by 1 percent while other variables are in a constant state or do not change, then the magnitude of the value of Economic Growth will increase by 1.435 percent.

This is contrary to theory because in theory it says if poverty increases then economic growth will decrease. The results of this study are in line with research (Adelowokan et al., 2019) entitled *"Unemployment, Proverty an Economic Growth in*

Nigeria" which states that although absolute numbers determine the number of poor people, output in a country still increases. Although the number of poor people increases, the economy will continue to develop. Similarly, in the short term, even though the number of poor people increases every year, the economy can continue to grow.

1.2 Hypothesis Test

1. Test T (Partial)

Test T for income inequality variable of 0.941 with *Prob value. (Significance)* amounted to 0.377 (≥ 0.05). This means that the variable income inequality partially has no effect on economic growth. While the T test value for the poverty variable is 3.351 with a value of *Prob. (Significance)* amounted to 0.012 (≤ 0.05). This means that the poverty variable has a partial effect on economic growth in East Lombok Regency.

2. F Test (Simultaneous)

Based on the results of the F test test, it shows an *F-Statistic* value of 5.645 with a value of *Prob. (F-Statistic)* amounted to 0.034. So the figure ≤ a significant level of 0.05 (0.034 ≤ 0.05). Thus, it can be concluded that the variables of Income Inequality and Poverty together (simultaneously) have a significant effect on the Economic Growth of East Lombok District.

3. Test Coefficient of Determination (R2)

The R2 determination value in this study is 0.617, so it can be concluded that the variables of Income Inequality and Poverty have a contribution of 61.7% in explaining the rate of Economic Growth. While the remaining 38.3% (100% - 61.7%) is contributed or explained by other variables outside the study that were not studied in this study.

1.3 Classical Assumption Test

1. Normality Test

Based on the estimation results using the *Jarque-Bera test method* (J-B Test), a probability *value* of 0.873 is obtained which means that the value is greater than 0.05. Thus this indicates that the data has been normally distributed.

2. Multicollinearity Test

Based on the estimation results, the method to detect the presence or absence of multicollinearity in the equation model can be seen from the tolerance value and

Variance Inflation Factor (VIF). The estimated result obtained a VIF value of 1.136 which means less than 10. So between the research variables there is no problem of multicollinearity in the regression model.

3. Heteroscedasticity Test

The statistical test used to test heteroscedasticity in this study was using *the White Test.* The results of the heteroscedasticity test obtained a value of 0.421 which means greater than 0.05. So it can be concluded that the data has passed the Heteroscedasticity Test.

4. Uji Autokorelasi

The autocorrelation test in this study was conducted using the *Bruesch Godfrey Test.* The results of the autocorrelation test obtained a value of 0.531 which means greater than 0.05, so it can be concluded that in the regression model the data has passed the Autocorrelation Test.

B. Discussion

1. The Effect of Income Inequality on Economic Growth

Based on the results of hypothesis testing conducted with statistical tests t shows that Income Inequality does not have a significant effect on Economic Growth in East Lombok District in 2014 - 2023. This is evidenced from statistical testing t which obtains a probability value of 0.377, which means greater than the significance level α = 0.05 (0.377 > 0.05).

Income inequality does not affect economic growth due to uneven economic growth in each region caused by some areas where some people have high incomes. This means that economic growth only benefits the rich, so development only occurs in areas that are not followed by other regions that fail to encourage income equality. (Anggina &; Artaningtyas, 2017).

This can be due to economic growth not being contributed by every resident equally. In addition, economic growth is not used to increase regional spending in creating jobs, so it is not able to reduce income inequality. (Istiqomah et al 2018).

Factors that cause the ineffect of income inequality on economic growth in East Lombok Regency are natural resource factors that are uneven in each sub-district in East Lombok Regency, in addition to the transfer of labor that is too centralized in urban areas, capital transfer, and local government policies that have not focused too much on equitable development that causes inequality. Development policies should prioritize areas that are relatively underdeveloped without neglecting regions that are already developed and growing rapidly.

The results of this study are in line with the research of Ramadhani et al (2022) and Fahrizal et al. (2021) which shows that income inequality does not have a significant effect on economic growth. However, the results of this study are different from the research of Maskur et al (2023) and Riyadi &; Dinny (2021) which states that income inequality affects economic growth.

2. The Effect of Poverty on Economic Growth

Based on the results of hypothesis testing conducted with statistical tests t shows that poverty has a significant effect on Economic Growth in East Lombok Regency in 2014 - 2023. This is evidenced from statistical testing t which obtains a probability value of 0.012, which means smaller than the significance level α = 0.05 (0.012 < 0.05).

One of the obstacles to economic growth in a region is the high level of poverty, the inability of the community to meet basic needs, and the low standard of living of the community. Poverty is not only related to the problem of low income levels, but also related to low levels of education, health and various problems related to human development. The government's efforts to reduce poverty in the form of assistance provided such as free education, free medical treatment and increased wages received by the community reaped quite good results. (Novriyansyah, 2018).

Reducing poverty requires high and sustainable economic growth, leading to an increase in demand for labor. With so much demand for labor, it will certainly reduce unemployment and increase wages which will ultimately reduce poverty. (Sukirno, 2016)

The results of this study are in line with the research of Nadila (2023) and Suryani (2023) which shows that poverty has a significant effect on economic growth. However, the results of this study are contrary to research conducted by Ummah (2023) which shows that poverty does not have a significant effect on economic growth.

CONCLUSION AND SUGGESTION

A. Conclusion

Based on the results of research and data analysis that has been carried out on the effect of income inequality and poverty on economic growth in East Lombok District, the following conclusions can be drawn:

1. Income inequality has a negative and insignificant effect on economic growth in East Lombok District. That is, if income inequality increases, it will cause economic growth to decrease.

2. Poverty has a positive and significant effect on economic growth in East Lombok District. That is, if poverty increases, it will cause economic growth to also increase.

B. Suggestion

Based on the results obtained in the conclusions described above, there are several suggestions that can be done as follows:

1. For the East Lombok Regency government, in order to reduce the level of income inequality and poverty that exists in the community, it is necessary to carry out development policies evenly in each sub-district in East Lombok. The development should be directed at creating broad employment opportunities for both rural and urban communities and the government can also evaluate the potentials that exist in each sub-district in order to achieve equity and community welfare.

2. In this study, there were only two independent variables, namely income inequality and poverty and one dependent variable, namely economic growth. For this reason, for other researchers who are interested in researching this topic, it is hoped that in the next study they can examine or add other independent variables and with more recent year data.

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