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Analysis of Economic Development Inequality in Polewali Mandar Regency of West Sulawesi Province Indonesia

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ABSTRACT

This study aims to analyze the imbalance of economic development and the relation of factors influencing the level of economic development in Polewali Mandar Regency. This study uses data panels from 2015 to 2019 with the least squares panel method (PLS) and using software eviews 9 for data processing. This study uses the Williamson Index and Gini ratio as a dependent variable in describing the condition of economic development inequality that occurred in Polewali Mandar Regency. Then the variables of infrastructure, investment, labor force, DAU (general allocation of funds) and DAK (special allocation of funds) as independent variables. The results stated that the average value of Economic Development inequality based on Williamsons index in the period of 2010-2019 by 0.11. While the infrastructure variables have a negative and significant effect on the imbalance of economic development on the value of 5% with the value of 0.0273 profitability. DAU also has a negative but not significant impact on development imbalance in Polewali Mandar Regency with profitability value of 0.4287. Investment variables, DAK and labor force (labor force participation rate) have a positive effect on variables of economic development inequality in Polewali Mandar regency. We found that infrastructure and DAU should be improved by the central gogernment, because these variables can reduce the level of income inequality and economic development in Polewali Mandar Regencys.

Keywords: economic development inequality, development imbalance, Polewali Mandar Regency, Williamsons Index, Gini Ratio, infrastructure, DAU, DAK, investment, labor force.

INTRODUCTION

Development is an activity process that is considered important and must be carried out by all countries, because globalization accompanied by technological advances and scientific developments has had an impact on change and renewal in all aspects of human life. The development process must cover all aspects, both economic and social, and is a physical reality as well as the determination of a society to strive as hard as possible through a series of combinations of social, economic and institutional processes in order to achieve a better life (Ahmad, 2017).

Its core development aims to make people's lives more prosperous and prosperous. Prosperity is a condition that is not poor and is the desire of everyone, while prosperity is a part that allows people to socialize well, calmly and does not cause social jealousy (Ani, 2017).

The key word for development is capital formation, because to achieve a high development target in a country requires a large investment value, so the development strategy that is considered the most appropriate is to accelerate economic growth by inviting foreign capital and industrializing (Agung, 2016).

In development planning based on local government laws, namely regarding the implementation of Indonesia's development planning by using three underlying principles in the implementation of development planning.

The first principle is the principle of decentralization which is the delegation of central government authority to autonomous regional governments in the implementation of government affairs. Second, the principle of deconcentration is a form of delegation of authority from the government to the governor as a representative of the central government in certain regions/regions. certain tasks (Basri, 2002).

Indonesia, which consists of 34 provinces, has different backgrounds between regions. This difference is in the form of differences in the characteristics of natural, social, economic, and natural resources whose distribution is different in each province. This difference becomes an obstacle in the distribution of economic development due to the concentration of an economic activity that has an impact on increasing economic growth in several provinces or regions that have abundant natural resources. These advantages are expected to have a spread effect. It's just that this natural wealth is not shared by all regions in Indonesia equally. This inequality in development is caused by differences between regions (Bahtiar, 2006).

However, the high economic growth of a country, province or regency does not mean that all regions have the same growth rate, due to limitations in terms of the potential of natural resources, human resources and supporting institutions. Because growth does not appear in various regions at the same time, growth only occurs in several places called growth centers with different intentions (Budiantoro, 2008).

This can be seen in Table 1 below issued by the Indonesian Central Statistics Agency from 2015-2019 as follows:

Table 1 Gini Ratio by Regency in West Sulawesi Province in 2015-2019

Year	Regency/Territory							
	Majene	Polman	Mamasa	Mamuju	Dimension	dead	Sulbar	National
2015	0.33	0.33	0.37	0.42	0.33	-	0.37	0.41
2016	0.28	0.28	0.32	0.36	0.3	-	0.32	0.41
2017	0.31	0.32	0.34	0.35	0.4	-	0.36	0.41
2018	0.3	0.35	0.32	0.33	0.37	-	0.35	0.41
2019	0.33	0.3	0.33	0.36	0.34	0.41	0.36	0.41

Source: BPS 2020 (data processed)

Based on the table above, during 2015 - 2019 there were still regional disparities in Indonesia, especially in West Sulawesi using the relative per capita GRDP approach, even though the level of inequality in West Sulawesi was below the national average. If the value of GRDP per capita

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is relatively more than 1, it indicates that the region is increasingly unequal, whereas if the value of GRDP per capita is relatively close to 0, then it is more evenly distributed (BPS, 2020).

Inequality has both positive and negative impacts. The positive impact of inequality is that it can encourage other less developed regions to be able to compete and increase their growth in order to improve their welfare. Meanwhile, the negative impacts of extreme inequality include economic inefficiency, weakening social stability and solidarity, and high inequality in general being seen as unfair (Ahmad,2017). Inequality causes economic inefficiency, because inequality is high, the overall saving rate in the economy tends to be low, because high savings rates are usually found in the middle class.

Although rich people can save a larger amount, they usually save a smaller share of their income, and of course save an even smaller share of their marginal income (Ahmad, 2017).

At the theoretical level, development problems can be overcome by several development strategies. The Basic Need Strategy is a development strategy to meet the basic needs of the community, so as to reduce the possibility of the emergence of internal conflicts. Self Reliance Strategies can be used as a way out to overcome external problems in industrialization, namely through increasing competitiveness. Sustainable Development is a development strategy that is able to overcome resource scarcity. These strategies are relatively more convincing and suitable to be applied in long-term planning in developing countries such as in Indonesia (BPS, 2019).

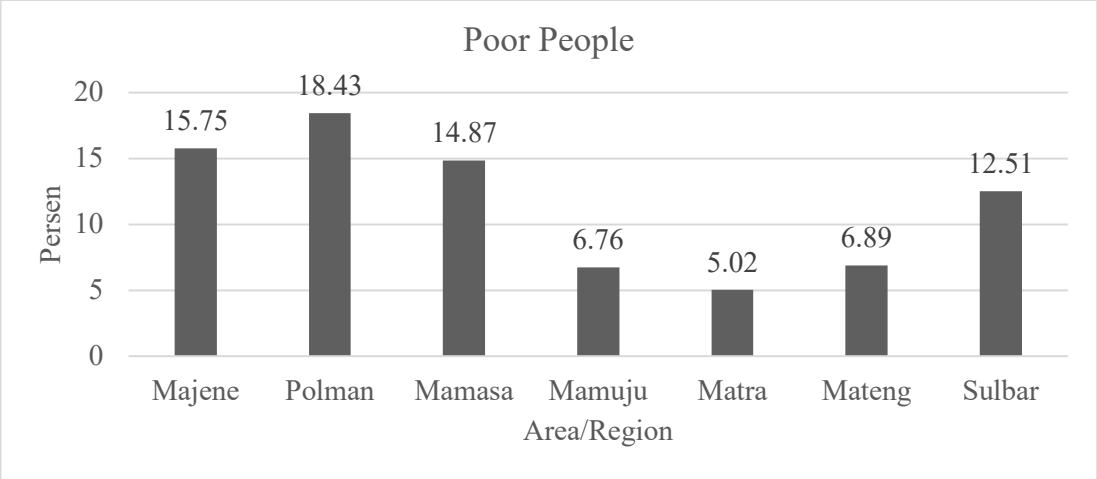
Therefore, HDI will describe the level of human quality possessed by each region based on the results of the release of the Central Statistics Agency (BPS) which will be explained in table 2 as follows:

Table 2.Human Development Index (HDI) According to Regency in West Sulawesi Province. Year 2015-2019

regencys	Year				
	2015	2016	2017	2018	2019
Majene	59.93	60.03	60.15	60.21	60.51
Polman	61.04	61.09	61.12	61.14	61.54
Mamasa	70.17	70.20	70.25	70.28	70.38
Mamuju	65.9	66.1	66.28	66.37	66.38
Dimension	64.20	64.44	64.70	64.83	64.93
Dead	66.59	66.78	66.93	67.00	67.2
Sulbar	62.78	63.04	63.32	64.04	64.22
National	67.09	67.70	68.31	68,90	69.55

Source: BPS, 2020 (data processed)

Based on the Human Development Index data, we can see that in the last few years the average Human Development Index in West Sulawesi is still far below the national HDI average. Meanwhile, the condition of Polewali Mandar Regency has fluctuated in the last five years which continues to be in the range of 61. Looking at the HDI condition of Polewali Mandar Regency in the last five years there has been no significant effort made by the government.



Picture 1.Percentage of Poor Populationin West Sulawesi by Regency in 2015-2019
Source: BPS, Susenas, 2020 (Data processed)

Based on Figure 1. above, it is clear that there has been a difference in poverty levels between regencys in West Sulawesi and the results of data processing show that the number of poverty in West Sulawesi is still high, especially Polewali Mandar Regency. This shows that there have been differences and disparities in the development process in West Sulawesi.

Another indicator that is no less important in seeing the level of inequality that occurs between development areas is the condition of infrastructure. The importance of accelerating infrastructure development is carried out to support strengthening connectivity within the region and between regions. So far, it has been known that the flow of goods in Indonesia must incur relatively high transportation costs so that they are unable to compete with imported commodities. Through strengthening connectivity between regions and within the region itself, it is hoped that it will reduce the cost of transportation of goods and services, especially to areas that are far from the locus of goods production, which will benefit business actors (producers), communities (consumers) and the government.

Table 3. Road Density Ratio in West Sulawesi in 2019

No	regencys	An area	Road Length	Density Ratio
1	Majene	947.84	839.90	0.89
2	Polman	2,022.30	1,129.42	0.56
3	Mamasa	2,909.21	2,027.63	0.70
4	Mamuju	4,999,69	1,191.60	0.24
5	Dimension	3,043.75	1,709.62	0.56
6	*dead	3,014.37	-	-
7	Sulbar	16,937.16	6,898.17	0.25
8	National	1,910,931	478,668	0.41

Source: BPS 2020
*** Data Not Available**

Based on the table above, the condition of the infrastructure of the length of the road and the area of the Regency City in West Sulawesi in 2019, it is clear that there have been differences in

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the achievements of infrastructure development. This illustrates that there has been an imbalance between regency development areas in West Sulawesi.

LITERATURE REVIEW

Economic development is a process of combining population growth and technological progress (BPS, 2018). The increasing population of a country must be balanced with technological advances in production to meet domestic demand. Economic development is: a multidimensional process that involves all major changes, both to changes in economic structure, social change, reducing poverty, reducing inequality (disparity) and unemployment (BPS, 2018).

In economic development, supporting factors are needed so that the development process can run according to development goals. One of the main factors in economic development is the formation or accumulation of capital (BPS, 2017). Capital formation includes both material and human capital. There are various opinions, that in economic development only material capital is needed, but there are also those who argue that human capital is also needed in economic development. With the formation of capital, it is hoped that the main goals of development will be created. The main objective of economic development itself is to build capital equipment on a sufficient scale to increase productivity in agriculture, mining, plantations and industry (BPS, 2017).

Economic growth of a region is influenced by several factors, including regional political stability, infrastructure, investment from entrepreneurs, regional economic policies, bureaucracy, number and quality of human resources, population and social sector involvement (BPS, 2016).

Some of the main factors that cause inequality between regions / regions are differences in the content of natural resources, differences in demographic conditions, lack of smooth mobility of goods and services, concentration of regional economic activities, allocation of development funds between regions according to (BPS, 2015).

In the early stages of economic growth, the distribution of income tends to deteriorate, but at a later stage, the distribution of income increases. It is this observation that has come to be known as the “Inverted-U” Kuznet curve, because of the longitudinal (time-series) changes in the income distribution. The Kuznet curve can be generated by a continuous growth process stemming from the expansion of the modern sector Dumairy, 1996).

The identification of economic disparities between regions can be seen from three dimensions, namely:

1) Based on the level of modernity, where there is a gap between the modern sector and the traditional sector. The modern sector is generally located in urban areas with its industrial sector, while the traditional sector is generally located in rural areas with its agricultural sector.
2) Regional, the gap that occurs between regions within a country such as the gap between the Eastern Region of Indonesia and the Western Region of Indonesia.
3) Ethnicity, this ethnic gap can be seen between indigenous and non-indigenous (Ghalib, 2005).

A condition of decreasing inequality (improvement of income distribution) is always inconsistent with an increase in the incidence of poverty unless there are two aspects that underlie the inconsistency, namely the variation in income distribution from the low class increased drastically as a result of the crisis and the occurrence of inconsistencies which are methodological issues related to doubts in measurement of poverty and indicators of inequality (BPS, 2019).

Theoretically, the problem of inequality between regions was first raised by Douglas C. North in his analysis of Neo Classical Growth Theory. In this theory, a prediction is made about the relationship between the level of national economic development of a country and the inequality of development between regions. This hypothesis is then better known as the Neo-Classical Hypothesis (http://www.go.id.Simreg Bappenas).

Furthermore, investment is a crucial factor for the continuity of the process of economic development (Sustainable Development), or long-term economic growth. Economic development involves production activities in all economic sectors, and for these development activities, funds are needed to finance them which are called investment funds (Gijarati, 2019). Investments are expenditures to buy capital goods and production equipment with the aim of replacing and especially adding to capital goods in the economy that will be used to produce goods and services in the future (Jhingan, 2012).

Then, investment is a flow that increases the stock of capital. Although capital is measured at a certain point in time (a stock), investment is measured over a period of time (a flow). Investment flows increase the stock (stock) of capital (Kafrawi, 2015).

The existence of new investments allows the creation of new capital goods so that they will absorb new production factors, namely creating new jobs or employment opportunities that will absorb labor which in turn will reduce unemployment. Thus, it will add new output and income to production factors which will increase national output so that economic growth will occur (Basri, 2002).

Foreign Investment (PMA) based on Law No. 25 of 2007 Investment activities to conduct business in Indonesia are carried out by foreign investors who use fully foreign capital or jointly with domestic capital.

Foreign investment (PMA) is a flow of capital from abroad that flows into the private sector either through direct investment (Direct Investment) or indirect investment (Portfolio) (Kuncoro, 2016).

Domestic investment according to Law No. 25 of 2007 states that investment activities are to do business in the territory of the Republic of Indonesia using domestic capital. Domestic capital is part of the wealth of the Indonesian people, including rights and objects, whether privately owned or foreign citizens domiciled in Indonesia, which are provided to run a long-term business. Domestic investment is the use of wealth, either directly or indirectly, to run a business according to the provisions of the investment law.

According to Nicholson W) that a production function on a particular good or service (q) is q = f (K, L) where K is capital and L is labor showing the maximum amount of a good / service that can be produced using alternative combinations between K and L, then if one of the inputs is added one additional unit and the other inputs are considered fixed, it will cause additional output to be produced. This additional output produced is called the marginal physical product.

The factor that determines the progress of an economy in providing employment opportunities for the workforce is the accumulation of capital which gives birth to various investment projects which will then provide employment work. Population growth and labor force are traditionally considered as one of the positive factors that spur economic growth (Todaro, 2008).

Financial Balance between the Central Government and Regional Governments, the General Allocation Fund (DAU) is a fund sourced from APBN revenues allocated for the purpose of equal distribution of financial capacity between regions to fund regional needs in the context of implementing decentralization (Basri, 2002).The General Allocation Fund is balancing funds in the context of equitable distribution of inter-regional financial capacity (Bahtiar, 2006).

Another definition says that the General Allocation Fund is a fund originating from the State Revenue and Expenditure Budget (APBN) which is allocated with the aim of equitable distribution of regional financial capacity to finance its expenditure needs in the context of implementing decentralization (Basri,2002).

Furthermore, Special Allocation Funds (DAK) are funds sourced from APBN revenues that are allocated to certain regions with the aim of helping fund special activities which are regional affairs and in accordance with national priorities (Basri, 2002).

Infrastructure is physical facilities developed or required by public agencies for government functions in the provision of water, electricity, waste disposal, transportation and other services to facilitate economic and social goals (Kafrawi, 2015).

The Committee for the Acceleration of Infrastructure Provision, explained several types of infrastructure whose provision must be regulated by the government, namely transportation infrastructure, road infrastructure, irrigation infrastructure, drinking water and sanitation infrastructure, telematics infrastructure, electricity infrastructure, and oil and gas transportation infrastructure (Presidential Regulation Number 42, 2005).

While the infrastructure system is defined as basic facilities or structures, equipment, installations that are built and needed for the functioning of the social system and the community's economic system. Therefore, infrastructure needs to be understood as the basis for making policies (Kodoatie, 2005).

Infrastructure as the main support for the social system and the economic system is implemented in an integrated and comprehensive context. Infrastructure which is a facility developed for government functions in terms of public services cannot function separately and separately (Kodoatie, 2005).

MATERIAL AND METHODS

This research uses a quantitative approach. In this study using panel data which is a combination of time series data and cross section data.

The Williamson index is a weighted coefficient of variation created by Williamson in 1965. The Williamson index is very sensitive to measure regional differences and observe the trend of gaps that occur. The formulation is as follows:

Where:

$$IW = \frac{1}{\bar{y}} \sqrt{\sum_{i=1}^{n} (y_i - \bar{y})^2 \frac{P_i}{P}}$$

IW = Williamson Index
yi= GDP per capita regency/city i
y' = Average GRDP per capita Province
Pi = Total population of regency/city i
P = Total population of the province (Williamson in Akita and Kataoka, 2003).

Then to measure the level of income inequality, the Gini Index is used with the formulation as follows:

$$G = 1 - \sum_{i=1}^{k} \frac{P_i (Q_i + Q_{i-1})}{10.000}$$

with:

Pi : Percentage of households or residents in class i

Q_i: Cumulative percentage of total income or expenses up to class i

To estimate the regression coefficient of the tested linear model, the parameter estimation process is carried out using the Ordinary Least Square (OLS) method.

RESULTS AND DISCUSSION

The research conducted is an analysis of the Inequality of Economic Development in Polewali Mandar Regency. To see the condition of inequality, the Williamson Index is used. In the process of statistical analysis, the researcher uses panel data regression, which after conducting the Hausman test, in this study the Panel Least Squares (PLS) method will be used.

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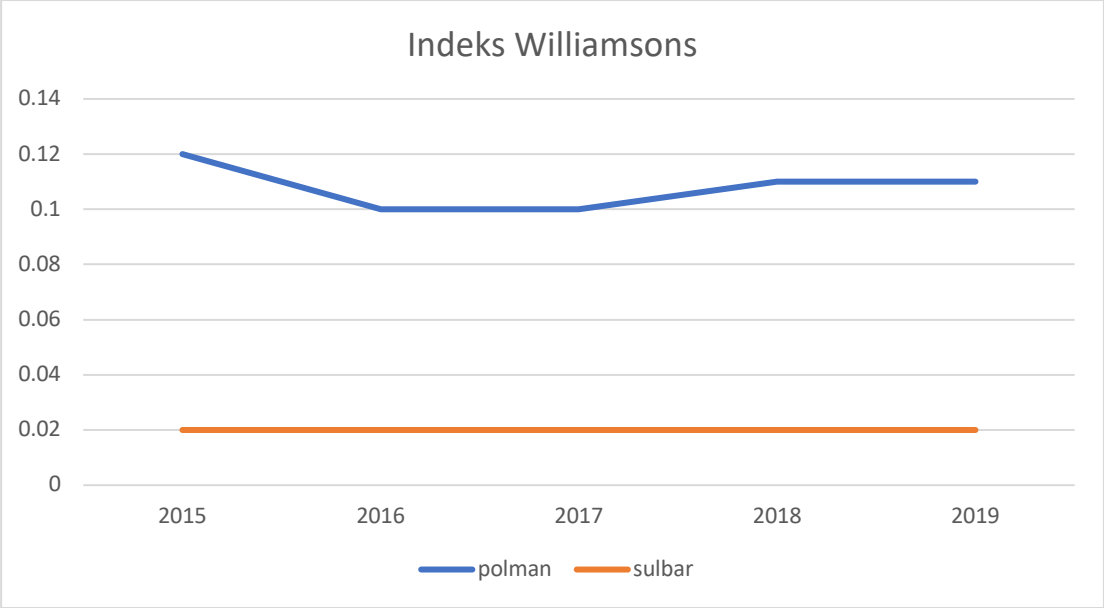


Figure 2 Comparison of Development Inequality in Polewali Mandar
Source: BPS 2020 (Data processed)

In assessing the level of inequality that occurs in each estimated province, the Williamson Index is used to provide an overview of inequality conditions and compare these conditions.

Based on the Williamson index test in Figure 2 above, it can be seen that the level of inequality that occurs in Polewali Mandar Regency is higher than the average level of inequality in the Province that houses it. In the last five years period 2015-2019 the level of inequality that occurred in Polewali Mandar Regency was higher and fluctuating with a value range of 0.10-0.12, while for West Sulawesi Province the inequality ratio was stagnant with a value of 0.02. Based on the Williamson inequality index measurement criteria, namely 0 < IW < 1, with an IW value close to 1, the area is categorized as experiencing a high level of inequality. In statistical science, this index is actually a coefficient of variation which is commonly used to measure a difference.Furthermore, to measure income inequality, the Gini Index or Gini coefficient is used.

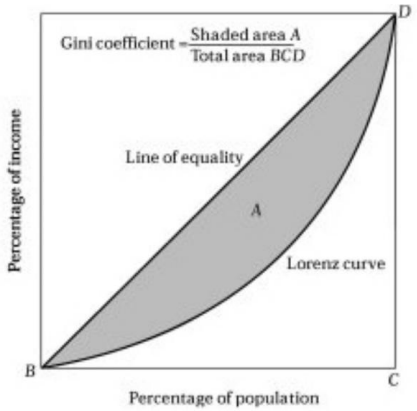


Figure 3 Lorenz Curve

Based on the results obtained by researchers at the Gini index or the Gini ratio for Polewali Mandar Regency, the following is a list:

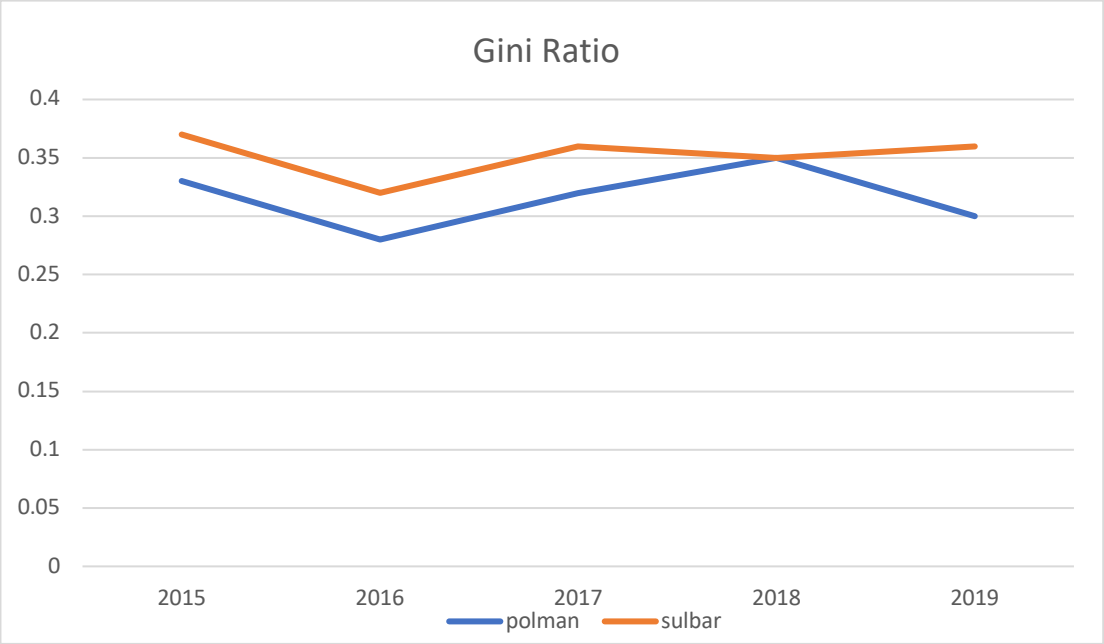


Figure 4 Gini Ratio of Polewali Mandar Regency in 2015-2019
Source: BPS 2020

The causes of the unequal distribution of income are: (1) high population growth which results in a decrease in per capita income; (2) Inflation in which money income increases but is not followed proportionally with an increase in the production of goods; (3) inequality of development between regions; (4) Very large investment in capital-intensive projects, so that the percentage of additional working capital income is large compared to the percentage of income derived from work, so that unemployment increases; (5) Low social mobility; (6) The implementation of import substitution industrial policies that result in an increase in the prices of industrial goods to protect the businesses of the capitalist group; (7) Deteriorating exchange rate for NSB in trade with developed countries, as a result of the inelasticity of demand for developed countries for NSB export goods; (8) The destruction of the folk craft industry such as carpentry, home industry, and others (Lincoln Arsyad, 2010).

Furthermore, to determine the density ratio of this road jalan using indicators of total area and road length in Polewali Mandar regency. Based on this, the road density ratio in Polewali Mandar regency is 0.56, while for the provincial level the road density ratio is 0.25. The following is data on the development of road infrastructure in Polewali Mandar regency:

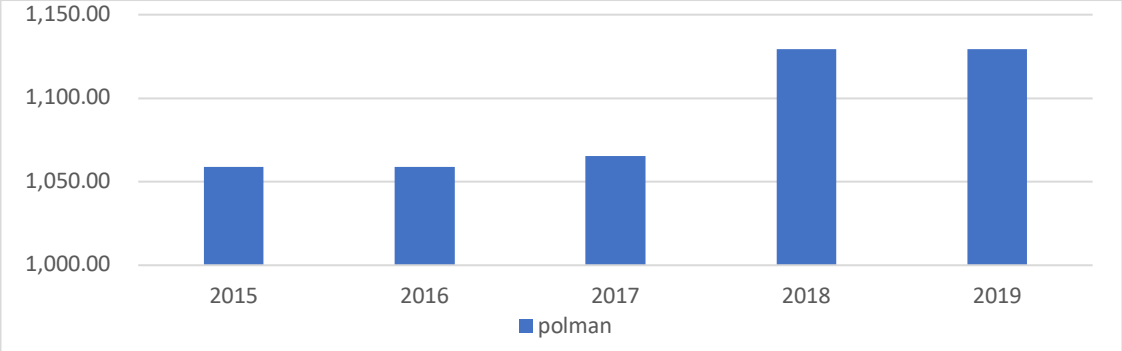


Figure 5. Infrastructure Development in Polewali Mandar Regency
Source: BPS Sulbar

Then the investment data used is the data of Foreign Investment (PMA), Domestic Investment (PMDN) and Banking Investment Credit.

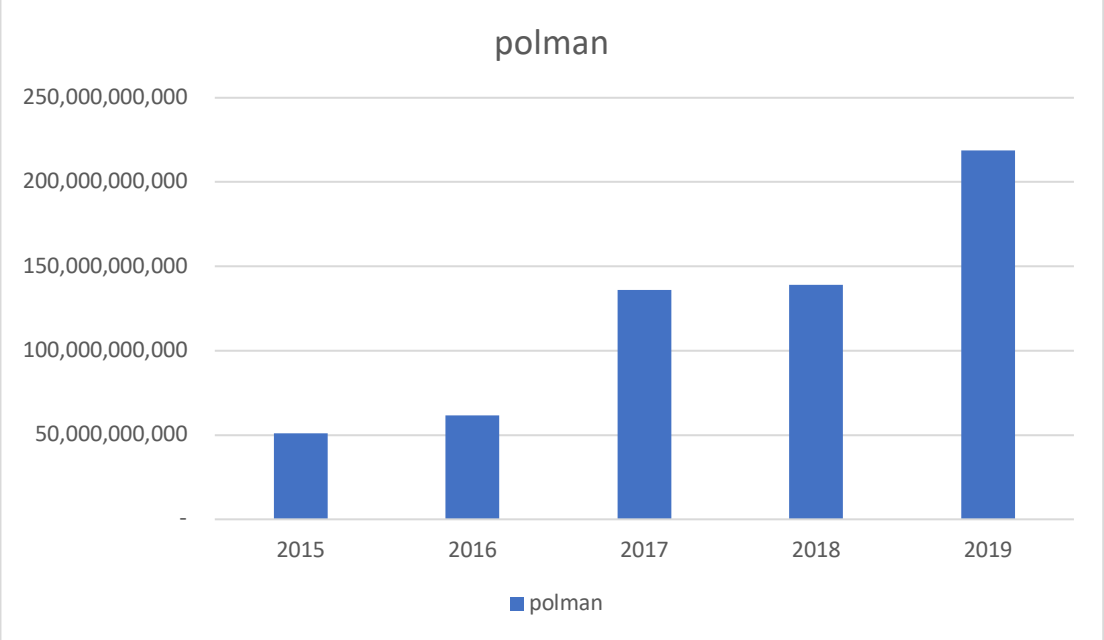


Figure 6. Investment Graph in Polewali Mandar Regency
Source: BPS 2020, Simreg Bappenas 2020 (Data processed)

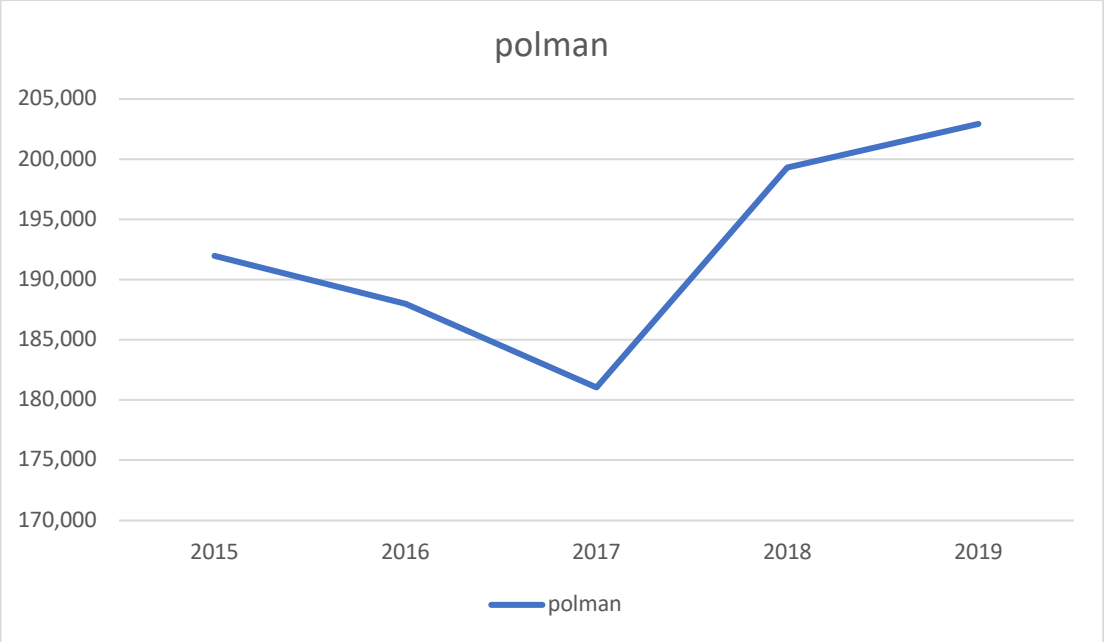


Figure 7. Labor Force Data in Polewali Mandar
Source: BPS Sulbar 2020 (Data processed)

The amount of DAU and National DAK is highly dependent on the amount of net Domestic Revenue (PDN) in the APBN.

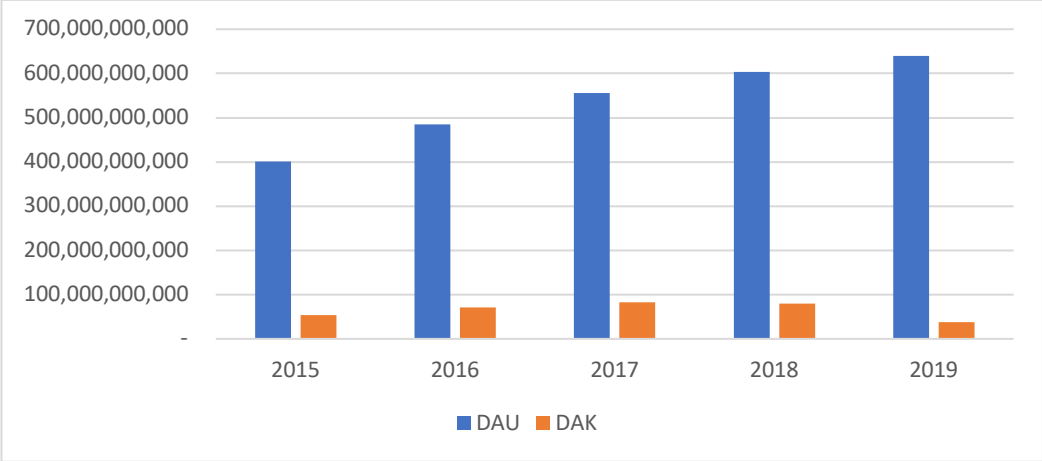


Figure 8. Development of DAU and DAK Polewali Mandar
Source: Simreg Bappenas 2020

The following model is used in the study:
Vwi it* = 0+1Ln Street *it* +2Ln Invest *it+3TPAK it+4LnDAU it + Ln DAK it +nεit
Vwi i,t = Williamson index
Ln Street i,t = Infrastructure (Road Length)
Ln Invest i,t = Investment
AK i,t = Labor Force
Ln DAU i,t = General Allocation Fund
Ln DAK it = Special Allocation Fund

i = Regency t = year
1, 2 3 = regression coefficient
U= Error term

Table 4. Estimation Results

Dependent Variable : IWi,t Total Observation : 10			
Independent Variable	Coefficient	t-statistics	Probability
C	6.943430	1.586026	0.1879
LOG(INV)	0.216580	0.769376	0.4846
LOG(INF)	-1.215106	-3.400237	0.0273
LOG(AK)	0.022276	0.214652	0.8405
LOG(DAU)	-0.259975	-0.879749	0.4287
LOG(DAK)	0.030454	0.870094	0.4333
R-Squared	0.997669		
F-Stats	342.3706		
DW-Stat	2.552705		

Source: Data Processing Results with Eviews 9

Based on the results of data regression, it can be seen that the independent variable Infrastructure has a significant effect on α= 5% and has a negative coefficient on the dependent variable. The general allocation fund variable also has a negative effect on development inequality, but it is not significant because the DAU variable does not directly touch the community, meaning that every additional infrastructure will reduce inequality in economic development in Polewali Mandar. As for the variables Investment, Labor Force and DAK have a positive effect on development inequality, which means that the addition of each variable will not reduce development inequality in Polewali Mandar.

Table 5. T-table values for Two-Way t-test

	Degrees of Freedom		
DF	= 0.01	= 0.05	= 0.1
3	5.84	3.18	2.35

Source: Data Processing Results

Table 6. Regression Model t-statistical Test Results

Variable	t-statistics	H0	Information
C	1.586026	Rejected	Not significant at =0.05
Log(Inv)	0.769376	Rejected	Not significant at =0.05
Log(Infrast)	-3.400237	Accepted	Significant =0.05
Log(AK)	0.214652	Rejected	Not significant at =0.05
Log(DAU?)	-0.879749	Rejected	Not significant at =0.05
Log(DAK)	0.870094	Rejected	Not significant at =0.05

Source: Data Processing Results

Based on the results of the two-way t-statistic test in table 6 above, it can be seen that the Investment, Infrastructure, Labor, Labor Force, General Allocation Fund (DAU) and Special

Allocation Fund (DAK) variables, are in an insignificant area, except for the Infrastructure variable which has a negative and significant effect.

a. Variable Investment on regional inequality

In the investment variable in Polewali Mandar Regency, regression results are obtained with a coefficient value of (0.216580) and has a positive effect on inequality in the Polewali Mandar Man regency with a probability value of 0.4846. This means that each investment of one investment unit will increase the inequality that occurs in Polewali Mandar regency by 0.216580.

b. Infrastructure variables on regional inequality

Based on the results of panel data with PLS, the coefficient value obtained from the estimation results on the infrastructure variable is (0.048287) and has an insignificant effect. This means that every increase in infrastructure sector development (road length) by one kilometer, it reduces inequality by 1.215 according to the coefficient value of -1.215106 and has a significant effect on the profitability value obtained by 0.0273.

This is in line with what Sjafrizal (2000) said that one of the factors that causes inequality is the lack of smooth mobility of goods and services and the low mobility of production factors between regions.

c. Labor Force Variables on regional inequality

In the labor force variable, the coefficient value is (0.022276) and is significant at = 5%, with a probability value of 0.8405. This can explain that each additional unit of the labor force increases the inequality that occurs in Polewali Mandar regency by 0.022276. This is because the number of workforce in Indonesia is Polewali Mandar Regency is seasonal and or odd jobs and the distribution of the population.

d. Variable General Allocation Fund for Regional Inequality

Based on the results of the regression in the research model on the variable of development allocation funds in relation to reducing inequality, the coefficient value is -0.259975 and is significant at = 5% with a probability value of 0.4287. it means that each increase in development allocation funds by one percent of rupiah will increase the level of development inequality in the area in Polewali Mandar Regency by -0.259975 %.

e. Variable Special Allocation Fund for Regional Inequality

Based on the results of the regression in the research model on the variable of development allocation funds in relation to reducing inequality, the coefficient value is 0.030454 and is significant at = 5% with a probability value of 0.4333. it means that each increase in development allocation funds by one percent of rupiah will increase the level of development inequality in the area in Polewali Mandar Regency by 0.030454%.

CONCLUSION

1. Inequality that occurs in Polewali Mandar Regency is low with an average inequality index of 0.11 in the period 2015-2105.
2. Of the five variables studied, only the Infrastructure variable has a negative and significant effect on the inequality of Economic Development in Polewali Mandar

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Regency, while the DAU variable also has a negative but not significant effect on the inequality of Economic Development. For the labor force variable, the Special Allocation Fund and Investment have a positive and insignificant effect on the inequality of Economic Development in Polewali Mandar Regency.

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