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Analysis of Income Distribution Inequality in Indonesia for the 2017-2021 Period

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Abstract: Inequality in the distribution of income is the difference between people with high incomes and those with low incomes. Inequality of income distribution is a reality that exists in the world community, both developed and developing countries. This inequality in income distribution is influenced by the Human Development Index (HDI), inflation, ZIS, and economic growth (GDP). The purpose of this study was to determine the direct and indirect effect of the variables of the Human Development Index (HDI), inflation, ZIS, and economic growth (GDP) on the inequality of income distribution in Indonesia. Methods This research uses a quantitative approach with path analysis using the SmartPLS program (v. 3.2.8). The results of this study indicate that the Human Development Index (HDI), inflation, ZIS, and economic growth (GDP) variables affect the inequality of income distribution by 78.6% and the remaining 21.4% is influenced by other variables. While the variables of the Human Development Index (HDI), inflation, and zakat have an effect on economic growth (GDP) with a contribution of 83.6%, and the remaining 16.4% is influenced by other variables. From the results of the indirect effect significance test, it was found that there was no significant indirect effect of the inflation variable and ZIS on the inequality of income distribution through economic growth (GDP) as an intervening variable in Indonesia. However, the variable economic growth (GDP) can be used as an intervening variable between the Human Development Index (HDI) on inequality in income distribution

Keywords: IPM, Inflasi, ZIS, PDB, Income Distribution Inequality

Introduction

Indonesia is one of the developing countries that continues to carry out sustainable economic development to compete with developed countries. Economic development can be defined as a process of increasing total income and maximizing the per capita income of the population by calculating population growth as well as fundamental changes in the economic structure of a country and income distribution for the population in the long term. In other words, economic development is a process that causes the per capita income of a population in a country to increase in the long term. The condition of the people who are not yet prosperous encourages the state to carry out various economic development efforts.

Unequal economic development will result in unequal distribution of income in an area. This is due to the differences between one region and another. Inequality of income distribution according to Todaro can be interpreted as the difference between people with high incomes and those with low incomes. Inequality of income distribution is a reality that exists amid the world community, both developed and developing countries. Inequality of income distribution in Indonesia is still very visible. This income inequality can be measured by the *Gini ratio* whose values range from 0 to 1. The higher the *Gini ratio,* the higher the inequality, and vice versa. If this inequality drags on, it will worsen the economy. The following is the income distribution inequality in Indonesia from 2017-2021 which is described by the *Gini ratio* :

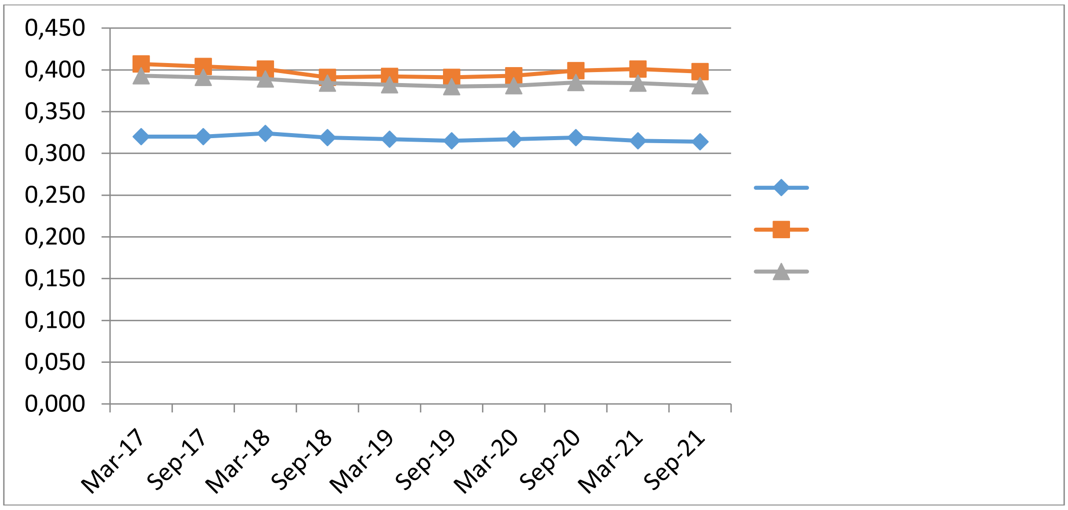

Figure 1 Gini *Ratio* Development in Indonesia

The picture above shows the development of the *Gini ratio* in rural, urban, and rural + urban areas in Indonesia during the period March 2017 to September 2021. The development of the *Gini ratio* in Indonesia fluctuates every year. It can be seen that the distribution of income is still uneven where most of it is still enjoyed by people in urban areas. Rural + Urban *Gini Ratio* the highest occurred in March 2017 at 0.393. Meanwhile, the lowest *Gini ratio* occurred in September 2019 at 0.380. This indicates that the inequality of income distribution in Indonesia is still ongoing and the decline is also only slightly. *Gini* the *ratio* in urban areas in Indonesia in March 2021 even reached 0.401, although the value was lower when compared to the urban Gini ratio in March 2017 of 0.407.

Many factors can affect the inequality of income distribution, one of which is the Human Development Index (IPM). Hartini in his research states that the Human Development Index (HDI) has an effect affects inequality. The Human Development Index (HDI) is an index that measures the achievement of socio-economic development in a country or region, which combines education, health, and *real* income per capita adjusted accordingly. An uneven Human Development Index (HDI) will result in differences in development because regions that have a high Human Development Index (HDI) will be more advanced in development, to overcome the problem of inequality. Based on data from the Central Statistics Agency (BPS) the Human Development Index (IPM) in Indonesia has increased every year in 2017 by 70.81%, in 2018 by 71.39 %, and in 2019 by 71.92 %, in 2020 by 71,94 %, and 2021 at 72.29 %.

Another factor that can affect the inequality of income distribution is inflation. Inflation has an important role in determining economic conditions, so it needs serious attention from various groups, especially the monetary authority responsible for controlling inflation. Inflation is an economic phenomenon that shows a continuous increase in the general price level. Based on data obtained from the Central Statistics Agency (BPS) inflation in Indonesia in 2017 was 0.71%, in 2018 it was 0.62%, in 2019 it was 0.34%, in 2020 it was 0.45%, and in 2021 was at 0.57%. If seen, the inflation rate in Indonesia has changed, where since 2017 it has decreased until 2019, and from 2020 to 2021 there has been an increase in the inflation rate.

Inflation has positive and negative impacts depending on the severity of inflation. The positive impact is that when inflation is relatively mild, it will encourage a better economy, which can increase national income and encourage people to work, save, and invest. While the negative impact, when inflation is not controlled or *hyperinflation,* the economy becomes sluggish and difficult to develop. People are not enthusiastic about working, reducing people's interest in saving and investing because the value of the currency is decreasing.

Inequality of income distribution is a problem that gets special attention in Islam because it causes injustice. The state has an important role to carry out a fair distribution to create a fair, honest, and equitable distribution of wealth. To make it happen, the community is required to realize its important role in creating a fair distribution to reduce inequality in income distribution by fulfilling the obligations of zakat, giving, and giving alms. According to Law no. 23 of 2011 concerning Zakat Management, zakat can be interpreted as assets that must be issued by a Muslim or business entity to be given to those who are entitled to receive it by Islamic law which is stipulated in 8 groups/anaf namely the indigent, poor, amil, converts, slaves, grim, fisabilillah, and ibn sabil. Infaq can be interpreted as issuing wealth or income for an interest that is commanded by Islam. While alms means the same as alms but has a broader meaning that is non-material. Zakat is obligatory, while infaq and sadaqah are sunnah or voluntary.

Based on data from the Ministry of Home Affairs (Kemendagri), the total Muslim population in Indonesia is 237.53 million as of December 31, 2021. This number is equivalent to 86.9% of Indonesia's population of 237.32. If the Muslim majority population all fulfill ZIS, it will reduce the inequality of income distribution in Indonesia. This is to research conducted by Safitri which states that the distribution of zakat affects income inequality. Based on BAZNAS data, the distribution of ZIS in Indonesia has increased every year, namely in 2017 by 82,090,491,624, in 2018 by 175,811,470,985, in 2019 by 196,898,478,131, in 2020 by 251,633,679,207, and in 2021 by 375,713,915,910. However, the amount of ZIS distribution is not proportional to the number of the Muslim population in Indonesia.

According to Maipita, inequality in income distribution is closely related to economic growth. The higher inequality of income distribution will hamper economic growth and vice versa. Prastiwi, et al stated that economic growth affects the inequality of income distribution in Yogyakarta. According to Sukirno, economic growth can be interpreted as the development of activities in the economy which cause the goods and services produced in the community to increase and increase the prosperity of the community. Economic growth describes the economic development of a country or region, by looking at the size of the economy every year. The following is a picture of the Gross Domestic Product (GDP) in Indonesia in 2017-2021:

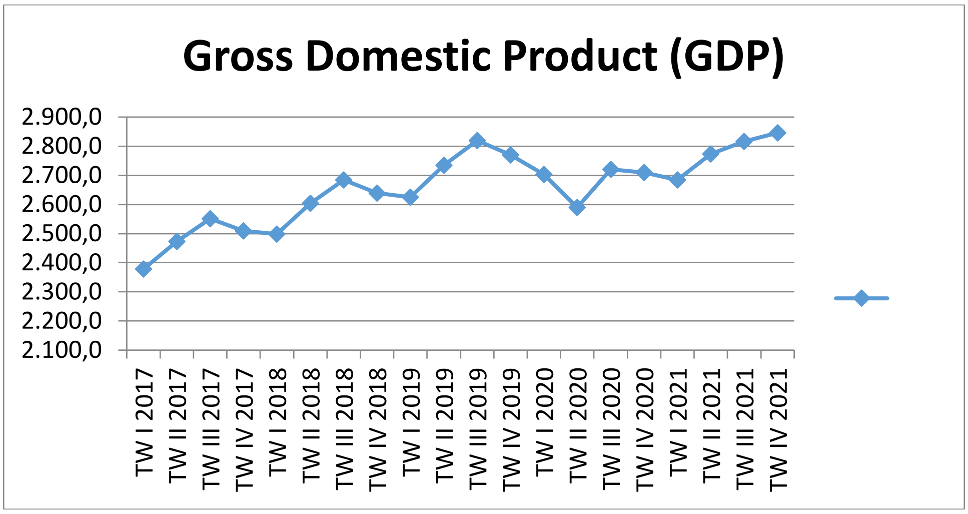

Figure 2 Gross Regional Domestic Product (GRDP)

In the picture above, it can be seen that the Gross Domestic Product (GDP) fluctuates every year. From 2019 TW IV to 2020 TW II, the Gross Domestic Product (GDP) experienced a drastic decline. This drastic decline was caused by Covid-19 which has hampered the economy. Factors influencing economic growth include the Human Development Index (HDI), inflation, and ZIS. According to research conducted by Andriani, the Human Development Index (HDI) affects economic growth.

A high Human Development Index (HDI) will be able to innovate to develop existing production factors. A high Human Development Index (HDI) will also increase the population so it will increase consumption levels. This will facilitate the increase in economic growth. However, according to research conducted by Prameswari, et al. Human Development Index (HDI) does not affect economic growth. Pramesti and Yasa in their research stated that inflation affects economic growth. Inflation that occurs, in general, will cause turmoil in the economy. In addition to inflation, Badriyah and Munandar also stated that ZIS had a positive and significant effect on economic growth in Indonesia. However, Zahro's research states that ZIS does not affect economic growth.

Based on the background of the problem above, the authors are interested in doing on this matter. The titles in this research are **Analysis of Inequality of Income Distribution in Indonesia for the 2017-2021 Period.**

Literature Review

Income Distribution Inequality

Inequality of income distribution according to Todaro can be interpreted as the difference between people with high incomes and those with low incomes. According to Syafrizal, inequality occurs because there are characteristics and geographical conditions in each region such as natural wealth or agricultural products from each region or region. The factors that influence the inequality of income distribution are the Human Development Index (HDI), inflation, ZIS, and economic growth. Distribution in Islam must apply the principle of justice to reduce inequality in income distribution. Justice in distribution is a condition that does not favor one party or a certain group. Distribution justice in Islam has the aim that wealth does not accumulate in a small part of society but always circulates in society.

Inflation

Inflation is an economic phenomenon that shows a continuous increase in the general price level. Inflation has positive and negative impacts depending on the severity of inflation. The positive impact is that when inflation is relatively mild, it will encourage a better economy, which can increase national income and encourage people to work, save, and invest. While the negative impact, when inflation is not controlled or *hyperinflation*, the economy becomes sluggish and difficult to develop. People are not enthusiastic about work, which reduces people's interest in saving and investing because the value of the currency is decreasing. Another bad impact of inflation is that it reduces *real income* for people with fixed incomes, reduces the value of wealth in the form of money, and worsens wealth or widens the inequality of income distribution. Based on the severity, inflation is divided into mild inflation (< 10% per year), moderate inflation (between 10% - 30% per year), severe inflation (between 30% -100% per year), *hyperinflation* (> 100 per year).

Human Development Index (HDI)

The Human Development Index (HDI) is an index that measures the achievement of socio-economic development in a country or region, which combines education, health, and *real* income per capita adjusted accordingly. Human development can trigger economic growth, so economic growth must observe data from human development to last a long time. There are 4 (four) main pillars that support human development, namely equity, productivity, empowerment, and sustainability.

ZIS (Zakat, Infaq, Alms)

According to Law no. 23 of 2011 concerning Zakat Management, zakat can be interpreted as assets that must be issued by a Muslim or business entity to be given to those who are entitled to receive it by Islamic law which is stipulated in 8 groups/anaf namely the indigent, poor, amil, converts, slaves, charm, fisabilillah, and ibn sabil. Infaq can be interpreted as issuing wealth or income for an interest that is commanded by Islam. While alms means the same as alms but has a broader meaning that is non-material.

Economic growth

According to Sukirno, economic growth can be interpreted as the development of activities in the economy which cause the goods and services produced in the community to increase and increase the prosperity of the community. Economic growth can be defined as a long-term increase in the ability of a country (region) to provide more and more economic goods to its population, this economy grows according to technological progress, and the necessary institutional and ideological adjustments. The factors that influence economic growth are the Human Development Index (HDI), inflation, and ZIS.

Research Methods

This research is quantitative, namely research conducted by analyzing data in numeric or numeric form. The aim is to deve p and use models, theories, and hypotheses related to the phenomena of research The data used in this study is secondary data *time series* sourced from the *website* of the Central Statistics Agency (BPS). This study uses path analysis (*path analysis)*. with the help of the SmartPLS program (v. 3.2.8). The sample in this study is *purposive sampling,* which takes samples based on certain objectives and considerations. Samples were taken from 2017 2021every month with a total sample of 60 samples.

Results

Evaluation of the Measurement Model (*Outer Model)*

a. *Convergent Validity*

Table 1 Outer Loadings

	HDI	Inflation	Income Distribution Inequality	GDP	ZIS
X1	1,000				
X2		1,000			
X3					1,000
Y			1,000		
Z				1,000	

In the table above, it can be seen that all variables have an *outer loading value* of more than 0.7. This means that each variable has met the requirements of *convergent validity.*

b. *Discriminant Validity*

Table 2 *Discriminant Validity (Fornell-Larcker Criterion)*

	HDI	Inflation	Income Distribution Inequality	GDP	ZIS
HDI	1,000				
Inflation	-0.213	1,000			
Income Distribution Inequality	-0.843	0.097	1,000		
GDP	0.913	-0.247	-0.869	1,000	
ZIS	0.679	0.109	-0.570	0.608	1,000

In the table above, it is known that each indicator has the largest *Fornell-Larcker Criterion* (FLC) value in its latent construct compared to the *Fornell-Larcker Criterion* (FLC) value in other constructs. The results of the *discriminant validity* test can also be known through the *Average Variant Extracted* (AVE) value. Each construct must have an *Average Variant Extracted* (AVE) value > 0.05 to reflect a good measurement model. The *Average Variant Extracted* (AVE) value in the study was greater than 0.05 as shown in the following table:

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Table 3 *Average Variant Extracted* (AVE) values

	Average Variance Extracted (AVE)
Income Distribution Inequality	1,000
HDI	1,000
Inflation	1,000
GDP	1,000
ZIS	1,000

c. *Composite Reliability*

Table 4 *Composite Values Reliability* and *Cronbach's Alpha*

	Cronbach's Alpha	Composite Reliability
Income Distribution Inequality	1,000	1,000
HDI	1,000	1,000
Inflation	1,000	1,000
ZIS	1,000	1,000

In the table above, the *composite value of reliability is*> 0.6 and reinforced by *Cronbach's alpha value* > 0.7 so that it is considered to have good reliability.

1. Evaluation of the Structural Model (*Inner Model)*

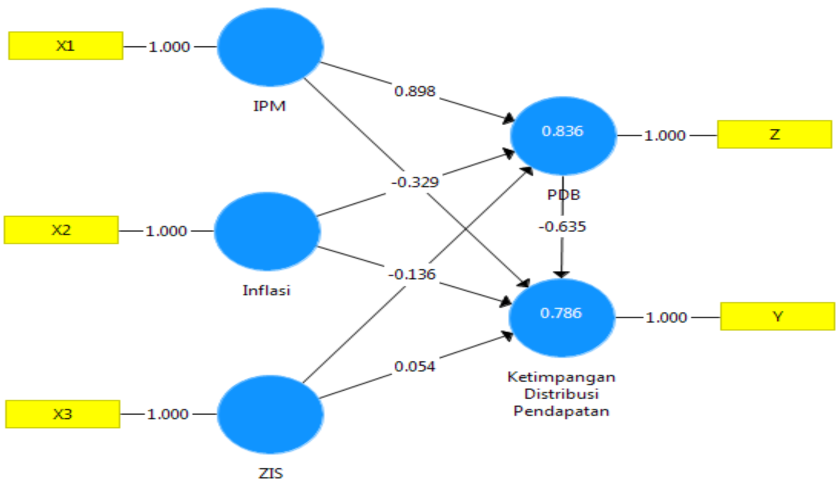

Figure 3 Bootstrapping Process Results

a. R Square. Value

Table 5 R Square

	R Square	R Square Adjusted
Income Distribution Inequality	0.786	0.770
GDP	0.836	0.827

Based on the value of *R Square,* it can be seen that HDI (X_1), inflation (X_2), ZIS (X_3), and GDP (Z) variables affect the inequality of income distribution. (Y) is 0.786 or 78.6% and the remaining 21.4% is influenced by other variables. Furthermore, the variables HDI (X1), inflation (X2), and ZIS (X3) also affect PD B (Z) by 0.836 or 83.6%, and the remaining 16.4% is influenced by other variables.

b. Hypothesis testing

1) *Path Coefficient* Value of Direct Effect

Table 6 *Path Coefficients Direct Effects*

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values	Information
HDI -> Inequality of Income Distribution	-0.329	-0.330	0.156	2,116	0.035	Significant Negative
HDI -> GDP	0.898	0.893	0.076	11,783	0.000	Significant Positive
Inflation -> Inequality of Income Distribution	-0.136	-0.141	0.065	2,102	0.036	Significant Negative
Inflation -> GDP	-0.057	-0.054	0.064	0.889	0.374	Negative Not Significant
GDP -> Income Distribution Inequality	-0.635	-0.627	0.142	4,471	0.000	Significant Negative
ZIS -> Income Distribution Inequality	0.054	0.055	0.088	0.615	0.539	Positive Not Significant
ZIS -> GDP	0.004	0.008	0.096	0.046	0.963	Positive Not Significant

path coefficient table above, the relationship between variables can be explained as follows:

a) The value of the influence of the Human Development Index (HDI) variable on the inequality of income distribution is -0.329 or 32.9% with p values of 0.035 <0.05. This means that H_0 is rejected and H_a is accepted, or in other words, the Human Development Index (HDI) has a direct negative and significant effect on inequality in income distribution. When the Human Development Index (HDI) increases by 1%, the inequality of income distribution will decrease by 32.9%

b) The value of the influence of the Human Development Index (HDI) variable on economic growth (GDP) is 0.898 or 89.8% with p values of 0.000 <0.05. This means that H_0 is rejected and H_a is accepted, or in other words, the Human Development Index (HDI) has a direct positive and significant effect on economic growth (GDP). When the Human Development Index (HDI) rises by 1%, economic growth (GDP) will also increase by 89.8%.

c) The value of the influence of the inflation variable on the inequality of income distribution is -0.136 or 13.6% with p values of 0.036 <0.05. This means that H_0 is rejected and H_a is accepted, or in other words, inflation directly has a negative and significant effect on the inequality of income distribution. When inflation increases by 1%, the inequality of income distribution will decrease by 13.6%

d) The value of the influence of the inflation variable on economic growth (GDP) is -0.057 or 5.7% with p values of 0.374 > 0.05. This means that H_0 is accepted and H_a is rejected, or in other words, inflation has no direct effect on economic growth (GDP).
e) The value of the influence of the variable economic growth (GDP) on the inequality of income distribution is -0.635 or 63.5% with p values of 0.000 <0.05. This means that H_0 is rejected and H_a is accepted, or in other words, economic growth (GDP) directly has a negative and significant effect on the inequality of income distribution. When economic growth (GDP) increases by 1%, the inequality of income distribution will decrease by 63.5%.
f) The value of the influence of the ZIS variable on the inequality of income distribution is 0.054 or 5.4% with p values of 0.539 > 0.05. This means that H_0 is accepted and H_a is rejected, or in other words, ZIS has no direct effect on the inequality of income distribution.
g) The value of the influence of the ZIS variable on economic growth (GDP) is 0.004 or 0.4% with a p-value of 0.963 > 0.05. This means that H_0 is accepted and H_a is rejected, or in other words, ZIS has no direct effect on economic growth (GDP)

2) *Path Coefficient Specific Indirect Effect* Value

Table 7 *Path Coefficient Specific Indirect Effects*

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values	Information
HDI -> GDP -> Inequality of Income Distribution	-0.570	-0.559	0.131	4,338	**0.000**	Significant Negative
Inflation -> GDP -> Inequality of Income Distribution	0.036	0.036	0.043	0.833	**0.405**	Positive is not significant
ZIS -> GDP -> Income Distribution Inequality	-0.003	-0.006	0.061	0.046	**0.963**	Positive Not Significant

In the table above, it can be seen that the variable economic growth (GDP) can be used as an intervening variable between HDI and inequality in income distribution. However, the variable economic growth (GDP) cannot be used as an intervening variable between the inflation variable and ZIS on the inequality of income distribution.

Discussion

The Effect of HDI on Economic Growth (GDP)

The results of this study indicate that the HDI variable (X_1) has a positive and significant effect on economic growth/ GDP (Z). This is to research conducted by Arifin and Fadlan which states that HDI has a positive and significant effect on economic growth in East Java Province. Theoretically, the Human Development Index (HDI) is an index that measures the achievement of socio-economic development in a country or region, which combines education, health, and *real* income per capita which is adjusted. From BPS data, it is known that the average HDI in Indonesia in the 2017-2021 period continues to increase every year. If seen, the HDI value in Indonesia has entered the high category so it has a positive effect on economic growth. A high Human Development Index (HDI) will be able to innovate to develop existing production factors. A high Human Development Index (HDI) will also increase the population so it will increase consumption levels. This will facilitate the increase in economic growth.

The Effect of Inflation on Economic Growth (GDP)

The results of this study indicate that the inflation variable (X_2) does not affect economic growth (Z). This is in line with research conducted by Asnidar which states that inflation does not affect economic growth in East Aceh Regency. Theoretically, inflation is an economic phenomenon that shows a continuous increase in the general price level. In general, when high inflation occurs, it will cause households and companies to have poor performance due to uncontrolled inflation and will cause the economy to become volatile. Inflation that occurs in Indonesia is relatively light (less than 10% per year) so it does not affect economic growth in Indonesia. The results of this study differ from those of Pramesti and Yasa who state that inflation has a positive and significant effect on economic growth.

The Effect of ZIS on Economic Growth

The results of this study indicate that the variable ZIS (X_3) does not affect economic growth/ GDP (Z). This is to research conducted by Zahro which states that ZIS does not affect economic growth. Although data from BAZNAZ shows an increase in the distribution of ZIS every year, it has not been able to affect economic growth in Indonesia for the 2017-2021 period. This is due to the uneven distribution of zakat in Indonesia. This study contradicts the research conducted by Badriyah and Munandar which stated that ZIS had a positive and significant effect on economic growth in Indonesia for the 2010-2019 period.

The Effect of Human Development Index (HDI) on Inequality of Income Distribution

The results of this study indicate that the HDI variable (X_1) has a negative and significant effect on the inequality of income distribution (Y). This means that when the Human Development Index (HDI) increases, the inequality of income distribution will decrease. This is in line with research conducted by Hartini which states that the Human Development Index (HDI) has a negative and significant effect on regional income inequality. Theoretically, the Human Development Index (HDI) is an index that measures the achievement of socio-economic development in a country or region, which combines education, health, and *real* income per capita which is adjusted. The human *capital* theory states that education will reduce disparity or income inequality. This is different from the research conducted by Julian and Rahmi which states that the Human Development Index (IPM) has a positive effect on the inequality of income distribution between provinces on the island of Sumatra.

The Effect of Inflation on Inequality in Income Distribution

The results of this study indicate that the inflation variable (X_1) has a negative and significant effect on the inequality of income distribution. That is, when inflation rises, the inequality of income distribution will decrease. This is to research conducted by Windrianti which states that inflation has a negative and significant effect on income inequality in

Yogyakarta Province. Inflation in Indonesia is relatively light (less than 10% per year). Mild inflation can increase national income and encourage people to work, save and invest so that inequality in income distribution will decrease. Inflation can encourage entrepreneurs, because, with a relatively mild price increase, entrepreneurs will get more profits and need more labor so that the inequality of income distribution will decrease.

The Effect of ZIS on Income Distribution Inequality

The results of this study indicate that the variable ZIS (X_3) does not affect the inequality of income distribution (Z). This is due to the unequal distribution of zakat in Indonesia. In addition, zakat, infaq, and alms received by mustahik both in the form of consumptive and productive assistance are still in relatively small amounts with a reach that is not so massive. This is certainly a challenge in the future for BAZNAS so that ZIS can be optimized. Indonesia has a very large ZIS potential considering that the majority of Indonesian people are Muslim. However, there is very little awareness among Muslims about ZIS, even though ZIS is increasing every year.

The Effect of Economic Growth (GDP) on Inequality in Income Distribution

The results of this study indicate that the variable Economic Growth / GDP (Z) has a negative and significant effect on the inequality of income distribution (Y). This means that when economic growth increases, the inequality of income distribution decreases. This is in line with research conducted by Prastiwi, et al, which states that economic growth has a negative and significant effect on the inequality of income distribution in Yogyakarta. Theoretically, economic growth can affect the distribution of income, if it can produce an even distribution of income for the population. This study shows that the increase in economic growth in Indonesia is good enough to reduce inequality in income distribution. This is different from the research conducted by Damani, et al, which states that economic growth has no significant effect on income inequality in Jambi Province.

The Effect of HDI on Inequality in Income Distribution *Gini Ratio* through Economic Growth (GDP)

The results of this study indicate that the Human Development Index / HDI variable (X_1) has a negative and significant effect on the inequality of income distribution (Y) through economic growth / GDP (Z) because the *p-value is* 0.000 <0.05. This means that here the variable economic growth (GDP) can be used as an *intervening* variable between the Human Development Index (HDI) variable and the inequality of income distribution. This is in line with research conducted by Pradnyadewi and Purbadharmaja which states that the Human Development Index has an indirect effect on inequality in income distribution through economic growth in Bali Province.

Effect of Inflation on Inequality of Income Distribution through Economic Growth (GDP)

The results of this study indicate that the inflation variable (X_2) does not indirectly affect the inequality of income distribution (Y) through economic growth/GDP (Z) because the *p-value is* 0.405 > 0.05. This means that here the variable economic growth (GDP) cannot be used as an *intervening* variable between the inflation variable and the inequality of income distribution. This is to research conducted by Pramesti and Yasa which states that inflation does not indirectly affect the inequality of income distribution through economic growth in Klungkung Regency, Bali Province.

The Effect of ZIS on Inequality in Income Distribution through Economic Growth (GDP)

The results of this study indicate that the ZIS variable (X_3) does not indirectly affect the inequality of income distribution (Y) through economic growth/GDP (Z) because the *p-value is* 0.963 > 0.05. This means that here the variable economic growth (GDP) cannot be used as an *intervening* variable between the ZIS variable and the inequality of income distribution. This is by research conducted by

Conclusion

From the results of this study, it can be concluded that the Human Development Index (HDI), inflation, and economic growth (GDP) partially have a negative and significant effect on the inequality of income distribution. The ZIS variable does not affect the inequality of income distribution. Furthermore, the Human Development Index (HDI) has a positive and significant effect on economic growth (GDP). While inflation and ZIS variables do not affect economic growth (GDP). The variable economic growth (GDP) cannot be used as an *intervening variable* between inflation and ZIS on inequality in income distribution. However, the variable economic growth (GDP) can be used as an *intervening variable* between the Human Development Index (HDI) on inequality in income distribution.

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