CHAPTER I

INTRODUCTION

1.1 Introduction

There are six sections in this chapter. This part consists of an introduction that describes the systematic of writing in chapter one. Then the research background explains the concern of this study. The third part is a research methodology, while the research questions and research objectives are in the fourth and fifth parts, respectively. Finally in section six is an outline of the study which shows the systematic writing of the study as a whole in the form of a diagram.

1.2 Background

Economic development carried out by each country covers all aspects of the economy of rural and urban communities, with the main objective of improving the standard of living of all its citizens. But in reality, regional development when observed spatially is not always evenly distributed. Some areas experienced rapid growth, while other areas experienced slow growth. These areas did not experience the same progress due to the lack of available resources, as well as the tendency of investors to choose areas that have good facilities, such as transportation infrastructure, electricity networks, telecommunications, and skilled workers. In addition, there is inequality in the income redistribution from the central government to the regions.

Furthermore, high and steadily increasing economic growth, in many cases in developing countries, does not automatically eliminate regional inequalities. Regional income inequality has become an important issue in the literature on economic development theory and has attracted the attention of many researchers.

The income inequality between regions, according to Ardani (1992: 3), is a logical consequence of the development process. This idea is also supported by Kuznets (1955), which states that in the development process, disparities will always occur, especially in the early stages of development. Even developed countries still experience inequalities. The extreme level of the growing gap between regions, according to Myrdal (1957), will cause a backwash effect and dominate the beneficial influence (spread effect) on regional growth.

If seen during the development of Indonesia in the last few years, the Indonesian economy growth has experienced stable and increasing. However, from a social perspective, it turns out that high economic growth is not enjoyed by all regions, especially on Sumatra Island by their needs, resulting in economic inequality between regions. Inequality on the island of Sumatra has continued and revealed in different patterns, elements, or conditions. The existence of the development gap among provinces on Sumatra is led by numerous issues in the allocation or development of investment by the government or the private sector, and every single one of the province has different natural resource potentials.

The growth pole theory is a theory that forms the basis for regional industrial development strategies and policies that are widely carried out in various developing and developed countries. Initially, this concept was considered important because it provided a framework for reconciliation between regional economic development in the central region and its hinterland. The concept of "growth pole" which was built by the French economist, Perroux (1970) showed if growth will not occur in all areas simultaneously. Growth exists specifically in a few growth poles of varying intensity. Therefore, in order to achieve the high
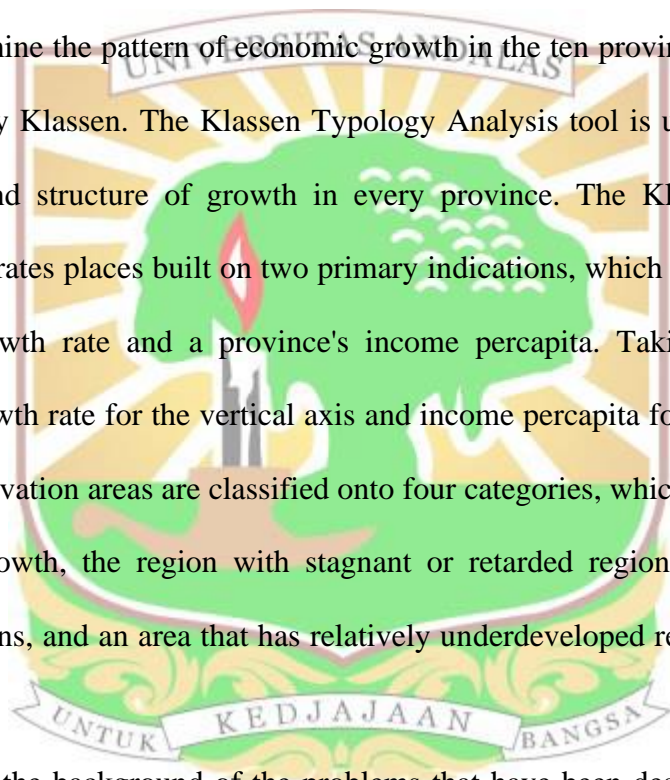
income, it should be built in a place called the center of economic activity, which is the so-called growth pole. Ideally, economic development that is carried out in addition to creating the highest growth, must also eliminate and reduce the level of poverty, income inequality, and unemployment.

Kuznets (1954) is considered one of the first researchers to study disparity. The guy who studied cross-sectional inequality in different countries and got an inverted U shape. The Kuznets hypothesis points out, in early stages of economic growth, it tends to concentrate on the modernized industrial sector. Employment tends to be limited but wages received and productivity levels are high. In the early stages, the income inequality between the modern industrial sector and the agricultural sector increased rapidly, but before then it decreased. Income inequality tends to be higher in areas with a modern industrial sector than in an area that uses a relatively fixed agricultural sector (Todaro, 2006). In other words, early economic growth in developing countries tends to lead to increasing unequal distribution of income or an increase in income disparity. However, at a later stage, the country's economic growth has progressed and, in a more equal distribution of income, or other words, decreased income inequality.

Per capita GRDP is a tool in order to measure the level of community welfare in an area. If the gross regional domestic product is getting smaller, it means that the level of social welfare is getting worse and worse. In order to find out the income inequality between provinces in Sumatra, an income inequality index that was identified as Williamson index can be used for analysis. The measurement of inter-regional development inequality was used in a study by Williamson (1965). This index is used to measure the distribution of regional per capita income levels

relative to the national average. In contrast to the Gini ratio, which is commonly used in measuring income distribution. Although this index still has several weaknesses, the index is commonly used in measuring inter-regional development disparities by using Gross Regional Domestic Product (GRDP) as a base data. Williamson (1965) outlines numerous factors that can influence the shape of regional inequality, such as migration, government policies, capital mobility, and inter-regional linkages.

To determine the pattern of economic growth in the ten provinces in Sumatra used Typology Klassen. The Klassen Typology Analysis tool is used to describe the pattern and structure of growth in every province. The Klassen typology basically separates places built on two primary indications, which are a province's economic growth rate and a province's income percapita. Taking the median economic growth rate for the vertical axis and income percapita for the horizontal axis, the observation areas are classified onto four categories, which are the region with rapid growth, the region with stagnant or retarded regions, the potential growing regions, and an area that has relatively underdeveloped region (Sjafrizal, 1997).

Based on the background of the problems that have been described above, I am interested in analyzing **"The Analysis of Income Inequality in Sumatra Island 2010-2019: The Application of Williamson Index and Klassen Typology"**.

1.3 Research Methodology

There are several approaches to the empirical analysis of regional income inequality. It uses either regional income data or direct measures of inequality. However, there are several alternative steps and methods for analyzing inequality. These various methods and measures can be categorized into various indices and various econometric methods. Different methods can produce different results. The technique we adopted are the Williamson index and Klassen typology. The technique we adopted is the result of this study, it also uses qualitative analysis. Research using a descriptive approach provides an overview, facts, and data analysis of the problem according to the existing phenomena. Through this phenomenon, there will be an overview of how regional income inequality occurred on the island of Sumatra in 2010-2019. For further details, we have described the research methodology in Chapter 3 of this research.

1.4 Research Question

In order to clarify the problems in this study it should be limited to discussion and decomposition of matter in it. This research will focus on the aims of the present research are:

1. How has the trend of regional income inequality increased or decreased within ten provinces on Sumatra Island 2010-2019?

2. How is the regional classification observed from the economic growth and per capita income between provinces on Sumatra Island 2010-2019?

3. What are the factors that guided regional income inequality on Sumatra Island from 2010-2019?

1.5 Research Objective

Based on the research problem, the basic objectives of this study are:

1. To find out how the trend of income inequality on the island of Sumatra increased or decreased in 2010-2019.

2. The aim of this study is to analyze the economic situation of each province in Sumatra Island from economic growth rate and income per capita 2010-2019 based on the Klassen Typology.

3. This study also aims to analyze the factors that guided regional income inequality in Sumatra Island 2010-2019

1.6 Outline of The Study

The outline of the study is a writing plan that contains outlines of the research to be made and is a list of ideas that are arranged in a systematic, logical, clear, structured, and orderly manner. This study is systematically divided into five chapters, specifically:

Figure 1.1

Chapter 1: Introduction

Chapter 2: Literature Review

Chapter 3: Research Methodology

Chapter 4: Result and Discussion

Chapter 5: Conclusion and Recommendation