

ABSTRACT

Income inequality is one of the fundamental problems facing developing countries, especially Indonesia. According to Keynesian theory, government involvement in the economy through increased government spending can reduce income inequality. This study aims to analyze the effect of government spending on income inequality in Indonesia with a case study are Provinces of DKI Jakarta, West Java, DI Yogyakarta, Gorontalo, Southeast Sulawesi, and Papua from 2011-2020.

This study uses secondary data sourced from Statistics Bureau of Indonesia and Financial Statistics of Province Governance. Independent variables that used in this research are capital expenditure, social assistance expenditure, subsidy and grant expenditure, human development index, and GRDP per capita. The analysis used in this study is static panel data analysis with Fixed Effect Model (FEM).

The results showed that the capital expenditure variable had a negative and insignificant effect on income inequality. Then, social assistance spending has a negative and significant effect on income inequality. Furthermore, spending on subsidies and grants has a positive and insignificant effect on income inequality. Next, human development index has a negative and significant effect on income inequality. Last, GDP per capita has a positive and significant effect on income inequality.

Keywords: Income Inequality, Capital Expenditure, Social Assistance Expenditure, Subsidy and Grant Expenditure, Human Development index, GRDP per capita, FEM.