

ABSTRACT

Regional development has a positive impact on accelerating economic growth, but it can also have a negative impact on widening regional inequality. The Neoclassical Hypothesis explains that the higher the level of development, the more inequality increases because it is basically caused by differences in the endowment factor of each region. Industrial clusters are agglomerated in areas with high labour concentration. Good demographic conditions can absorb investment into a region. The amount of private investment must be balanced with the role of the government in order to achieve equitable development. KEDUNGSEPUR is one of the regional cooperation areas in Central Java which was formed as a policy in an effort to achieve economic equality and reduce development inequality between regions. This study aims to analyse the effect of economic growth, industrial agglomeration, domestic investment (PMDN), government spending, and the Human Development Index (HDI) partially and simultaneously on regional inequality of KEDUNGSEPUR area in 2011-2020.

This research uses the Generalized Least Square (GLS) regression analysis method with a fixed effect model and a significance level of 5%. The data used is panel data which includes cross section of 6 districts/cities in the KEDUNGSEPUR area and time series from 2011-2020. Data sources were obtained from BKPM, BPS Central Java Province, and BPS in 6 districts/cities of KEDUNGSEPUR area. The independent variables used include economic growth, industrial agglomeration, PMDN, government spending, and HDI. Meanwhile, the dependent variable is regional inequality in the KEDUNGSEPUR area measured using the Theil Entropy Index.

The results in this study show that economic growth, industrial agglomeration, and government spending variables partially have a negative and significant effect on regional inequality in the KEDUNGSEPUR area. The HDI variable partially has a positive and significant effect on regional inequality, while the PMDN variable partially has an insignificant effect on regional inequality. Meanwhile, the variables of economic growth, industrial agglomeration, PMDN, government spending, and HDI together have a positive and significant influence on regional inequality of KEDUNGSEPUR area in 2011-2020.

Keywords: *Regional Inequality, Theil Entropy Index, Economic Growth, Industrial Agglomeration, Domestic Investment, Government Expenditure, HDI*