ABSTRACT

This study analyzes the effect of education level on income inequality in Indonesia using panel data from 34 provinces over the 2015 – 2023 period. The dependent variable is the Gini Ratio, while the independent variables include average years of schooling, gross enrollment ratio in tertiary education, government expenditure in education, and Gross Domestic Regional Product (GDRP). Employing a quantitative approach with panel data regression and the Fixed Effect Model (FEM) with Least Square Dummy Variable (LSDV), this research controls for provincial heterogeneity and time-invariant factors.

The results indicate that average years of schooling have a negative and significant effect on income inequality, suggesting that longer educational attainment reduces income inequality. Gross enrollment ratio in tertiary education shows a positive but statistically insignificant effect on income inequality implying that expanding access to higher education alone may not effectively address inequality without complementary policies. Government expenditure in education significant reduces income inequality, emphasizing the critical role of public investment in education to promote social equity. GDRP exhibits a negative and significant relationship with the Gini ratio, highlighting economic growth as a driver of equitable income distribution.

These findings shows the importance of enhancing both the quantity and quality of education while ensuring equitable economic growth. Policymakers are advised to prioritize long-term educational investments, improve the relevance of tertiary education to labor market needs, and strengthen fiscal decentralization to address regional disparities.

Keywords: Income Inequality, Education, Panel Data Regression, Fixed Effect Model, LSDV