ABSTRACT

This study aims to analyze the effect of structural economic changes, particularly the growth of Gross Regional Domestic Product (GRDP) concentration in the modern service sector, on income inequality across 27 regencies and municipalities in West Java Province during the 2014–2023 period.

The dependent variable is income inequality, proxied by the Gini Index. The main independent variables are the growth of GRDP in the modern service sector in the current year and the previous period (lag t-1). Covariant in this study include the growth of GRDP in the traditional service sector, the Human Development Index (HDI), and regional government expenditure. This study employs dynamic panel data regression using the First-Difference Generalized Method of Moments (FD-GMM) approach to address endogeneity issues.

The results show that income inequality in the previous period (lag t-1) has a positive and significant effect on current income inequality. The growth of GRDP in the modern service sector, both in the current year and the previous period (lag t-1), has a negative and significant effect on income inequality. This finding indicates that the expansion of the modern service sector in West Java has distributed welfare more inclusively and reduced inequality, confirming the later phase of the Kuznets Curve. Meanwhile, the traditional service sector, HDI, and regional government expenditure do not have a statistically significant effect on income inequality. Simultaneously, all independent variables in the dynamic panel model statistically significant in explaining income inequality.

Keywords: Modern service sector, income inequality, Gini Index, dynamic panel GMM, West Java.