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The Impact of Fiscal Policy on Addressing Economic Inequality in Jayapura City, 2014-2023

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ABSTRACT

Economic inequality remains a persistent challenge in regional development, particularly in eastern Indonesia, including Jayapura City. This study aims to examine the impact of regional fiscal policy, specifically government expenditure on social programs, education, health, and infrastructure, on income inequality in Jayapura City during the period 2014–2023. The study employs a quantitative approach using multiple linear regression analysis based on secondary data obtained from the Regional Budget (APBD) and Statistics Indonesia (BPS). The results indicate that, simultaneously, the four categories of regional expenditure do not have a statistically significant effect on income inequality, although the regression model explains 62.2% of the variation in inequality. Partially, social expenditure shows a positive effect that approaches statistical significance, while expenditures on education, health, and infrastructure do not demonstrate a significant influence. These findings suggest that the effectiveness of regional fiscal spending in reducing income inequality in Jayapura City remains limited. Therefore, improvements in the quality of budget allocation, spending efficiency, and targeting accuracy are essential. This study provides important policy implications for local governments in formulating more inclusive and inequality-oriented fiscal strategies.

Keywords: Economic Inequality; Fiscal Policy; Regional Expenditure; Gini Ratio

INTRODUCTION

Economic inequality is one of the fundamental issues faced by many countries, including Indonesia. This disparity refers to a condition in which the distribution of income, wealth, and access to economic resources is uneven among individuals, social groups, and regions. Such inequality serves as a tangible indicator that the outcomes of development processes and economic growth have not been distributed fairly and equitably. In the long run, persistent inequality has the potential to generate various negative consequences, including increased poverty rates, declining quality of life among disadvantaged groups, and heightened risks of social tension and economic instability (Van Niekerk, 2020).

Empirically, inequality is reflected in multiple aspects of community life. Income disparities, unequal access to basic services such as education and healthcare, and differences in economic opportunities are clear manifestations of this condition. Inequality can also be observed through human and economic development indicators, including the Gini Index, the Human Development Index (HDI), and the geographical distribution of Regional Gross Domestic Product (RGDP). In many regions, particularly in eastern Indonesia, inequality is not merely evident in statistical data but has become a daily reality that significantly affects community well-being.

Economic inequality does not emerge suddenly; rather, it is driven by various structural factors. Inequities in resource distribution systems, systemic poverty, and the limited role of the state in addressing socio-economic challenges through effective policies are among the primary causes. In addition, centralized development models that fail to accommodate regional characteristics tend to exacerbate inequality. In the Indonesian context, eastern regions such as Papua, Maluku, and Nusa Tenggara continue to face substantial challenges related to infrastructure development, public service quality, and the creation of productive employment opportunities.

Jayapura City, as the capital of Papua Province, represents a clear example of regional economic inequality. Despite its role as the administrative and economic center of the province, the city continues to experience significant disparities between affluent and low-income communities, as well as between urban centers and suburban areas. Access to quality education, adequate healthcare services, basic infrastructure, and equal economic opportunities remains limited for many residents. This condition indicates that development efforts have not yet reached all segments of society equitably and have not fully realized the principle of social justice as mandated by the constitution.

Within the framework of public policy, fiscal policy serves as one of the primary instruments for addressing economic inequality. Fiscal policy encompasses government actions in managing revenue and expenditure to achieve objectives such as economic growth, price stability, and equitable income distribution (Huda et al., 2024). At the regional level, fiscal policy is implemented through the management of the Regional Revenue and Expenditure Budget (APBD), which includes revenue derived from central government transfers and locally generated income, as well as regional expenditures allocated to support development programs.

In the pursuit of equitable development and inequality reduction, regional government expenditure plays a crucial role. Through well-planned and targeted public spending, local governments can enhance public access to education, healthcare, and economic infrastructure. Government expenditure can also generate employment, increase community productivity, and stimulate the growth of local economic sectors.

Consequently, the planning and execution of regional spending are essential components in achieving inclusive and sustainable development.

According to Sun et al. (2024), government expenditure constitutes an effective fiscal instrument for improving the efficiency and effectiveness of public resource allocation. When managed appropriately, public spending can help maintain economic stability, improve social welfare, and narrow inequality gaps. However, the effectiveness of government expenditure largely depends on factors such as comprehensive planning, sound budget governance, strict oversight mechanisms, and continuous evaluation of policy outcomes.

Nevertheless, not all regions possess equal capacity to manage their budgets optimally. Many local governments continue to encounter challenges, including misallocation of expenditures, weak internal supervision, and limited evaluation of development programs. In Jayapura City, these challenges are compounded by distinctive geographical, demographic, and socio-cultural conditions. Difficult terrain, diverse community characteristics, and limited basic infrastructure necessitate a more contextual and responsive policy approach by the local government.

In practice, government spending in Jayapura City has often failed to reach all segments of society equitably. Strategic sectors such as education and healthcare continue to face constraints related to access, service quality, and equity. Moreover, budget allocations that are not fully aligned with actual community needs further hinder efforts to promote social justice and reduce inequality. Therefore, an in-depth examination of the extent to which regional government expenditure contributes to reducing economic inequality and fostering equitable development in Jayapura City is essential.

This study aims to analyze the influence of regional government expenditure on addressing economic inequality, using Jayapura City as a case study. This research is significant as it provides empirical evidence on the effectiveness of regional fiscal policy in promoting inclusive development. Furthermore, the findings are expected to offer valuable insights for local governments in formulating more targeted, efficient, and pro-vulnerable-group expenditure policies. By clarifying the relationship between government spending and economic inequality, this study supports the development of more responsive and evidence-based public policies. Ultimately, such an approach is necessary to reduce inequality in a structural and sustainable manner. In addition, this research contributes to the academic literature on development economics and regional fiscal policy, particularly within the context of eastern Indonesia, which continues to face persistent structural challenges.

LITERATURE REVIEW

Economic inequality between regions is a natural phenomenon resulting from differences in natural resources, demographic conditions, and regional capacities to support development activities. Each region typically experiences varying levels of development, with some areas progressing faster than others (Diemer et al., 2022). Kuncoro & Murbarani (2016) emphasizes that inequality refers to disparities in living standards across populations, which subsequently lead to uneven regional development. This issue is particularly evident in developing countries such as Indonesia, where interregional disparities hinder national cohesion and equitable economic growth. The Neo-Classical Growth Theory, as articulated by Douglas C. North, further explains the relationship between national economic development and regional inequality and forms the basis of the Neo-Classical Hypothesis (Diemer et al., 2022).

Income inequality, defined as the uneven distribution of income among individuals or households, represents a central dimension of economic inequality. Household income may originate from wages and salaries, investment returns, social transfers, and pensions, and can be measured in gross or net terms after taxation (Auten & Splinter, 2024). Wage inequality reflects differences in compensation for labor, including bonuses, while wealth inequality arises from unequal ownership of assets such as land, property, stocks, bonds, and pension entitlements. In many cases, wealth inequality generates wider economic gaps than income inequality.

To measure inequality, several indicators are commonly used. The Gini Index is one of the most widely applied measures, ranging from 0 to 1, where values closer to 0 indicate perfect equality and values approaching 1 represent extreme inequality (Todaro & Smith, 2012). The Gini Ratio formula is expressed as:

$$GR = 1 - \Sigma fi (Yi + Yi-1)$$

where fi represents the proportion of income recipients in the i-th class and Yi denotes the cumulative proportion of income in the i-th class. The Gini Ratio therefore ranges from 0 (perfect equality) to 1 (perfect inequality).

Fiscal Policy and Its Instruments

Fiscal policy plays a crucial role in regulating government revenue and expenditure to influence economic performance and reduce inequality. Rahayu (2014) defines fiscal policy as the government's strategic management of state revenues, both tax and non-tax, and expenditures to maintain economic stability, stimulate growth, and improve social welfare. Although fiscal policy operates alongside monetary policy, it primarily focuses on the management of government revenues and expenditures.

Fiscal policy instruments are broadly categorized into revenue and expenditure components. Revenue instruments include taxes, such as income tax, value-added tax, and land and building tax, as well as non-tax revenues derived from natural resources and state-owned enterprises. Expenditure instruments encompass central government spending, equalization funds, and special autonomy funds, which are typically allocated to salaries, capital expenditures, and development programs.

Fiscal policy is generally classified into two forms: expansionary fiscal policy, implemented during economic downturns to increase government spending and reduce taxes, and contractionary fiscal policy, applied during inflationary periods to restrain spending and increase taxes. In Indonesia, fiscal policy is further categorized into functional fiscal policy, aimed at long-term macroeconomic improvement; deliberate or planned fiscal policy, designed to address specific economic shocks; and incidental fiscal policy, which seeks to maintain economic stability for the non-government sector.

The primary objectives of fiscal policy include stimulating national production and economic growth, expanding employment opportunities, stabilizing prices, and controlling inflation. Through its influence on public spending and taxation, fiscal policy also plays a critical role in shaping income distribution and addressing economic inequality.

Fiscal Policy and Economic Inequality

Fiscal policy serves as a key instrument in managing economic inequality, particularly through public expenditure targeted at strategic sectors. Government spending on

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education, health, social assistance, and infrastructure directly affects inequality reduction. Well-designed and effectively implemented fiscal measures can ensure that public resources reach disadvantaged groups, thereby narrowing socio-economic disparities (Van Niekerk, 2020).

Education Spending
Education expenditure is essential for breaking the intergenerational cycle of poverty. Equitable access to quality education enhances skills, employability, and labor market competitiveness. Sustained government investment in educational infrastructure, teacher quality, and scholarship programs for disadvantaged groups can reduce regional disparities in educational outcomes. However, when education resources are concentrated in already developed regions, underdeveloped areas remain marginalized, perpetuating inequality.

Health Spending
Public health expenditure ensures equitable access to healthcare services, particularly for vulnerable populations. Low-income communities often face financial and geographical barriers to medical services. Allocating funds to national health insurance schemes, primary healthcare facilities, and the deployment of medical personnel in remote areas can significantly reduce disparities. Healthy populations tend to be more productive and economically active, underscoring the importance of equitable health spending (Ivankova et al., 2022).

Social Spending
Social assistance programs, including cash transfers, food subsidies, and support for persons with disabilities, play a redistributive role by increasing the purchasing power of low-income households. In Indonesia, programs such as the Family Hope Program (PKH) and Non-Cash Food Assistance (BPNT) represent expenditure-based fiscal policies aimed at reducing poverty and inequality. The effectiveness of these programs largely depends on accurate targeting, transparent governance, and effective monitoring to prevent misallocation and corruption.

Infrastructure Spending
Infrastructure development is another critical determinant of regional inequality. Investments in transportation, electricity, water supply, and telecommunications improve connectivity and market access for remote communities. Adequate infrastructure stimulates local investment, creates employment opportunities, and accelerates economic growth, thereby contributing to the reduction of regional disparities. The Village Fund Program illustrates Indonesia's strategy to promote participatory infrastructure development at the village level and reduce long-standing regional gaps.

Implementation Quality
The impact of public spending on inequality depends not only on the size of the budget allocation but also on the quality and efficiency of its implementation. Large fiscal allocations may fail to reduce inequality if they are poorly managed or subject to corruption. Data-driven planning, strong oversight mechanisms, and community participation in budgeting processes are therefore essential. Equitable allocation should prioritize disadvantaged regions and marginalized communities rather than disproportionately benefiting urban centers or elite groups (Vela-Jiménez et al., 2022).

Empirical Evidence and Redistributive Role of Fiscal Policy
Empirical studies show that countries with lower levels of inequality often combine progressive taxation with targeted social spending, as observed in many Western

European and Scandinavian countries. Conversely, countries with limited social intervention or uneven public expenditure distribution tend to experience higher inequality and less inclusive growth. In Indonesia, despite the implementation of various fiscal programs, inequality persists, particularly in regions outside Java that continue to face limited access to basic services.

The redistributive role of fiscal policy emphasizes the government's responsibility in improving resource allocation through public spending. By directing expenditures toward sectors that enhance welfare for lower-income groups, fiscal policy can effectively reduce socio-economic gaps. Excessive inequality not only hampers economic development but also poses risks to social cohesion and political stability. Therefore, fiscal policy, through investments in education, health, social programs, and infrastructure, remains a strategic tool for addressing economic inequality. Effective implementation ensures that public funds generate tangible benefits for vulnerable populations and support inclusive economic development.

Empirical Review

Several previous studies serve as references for this research. Hartati (2022), in a study entitled "Analysis of Economic Inequality in Papua Province," analyzed economic inequality using the Gini Ratio. The results indicate that the highest expenditure inequality occurred in 2017 and 2018, with a Gini Ratio of 0.398. Urban areas recorded the highest Gini Ratio in 2017 (0.322), while rural areas experienced the highest inequality in 2021 (0.422). The highest expenditure share for the lowest 40 percent income group in urban areas was observed in 2021 (21.65), whereas in rural areas it occurred in 2018 (16.00). Overall, the Gini Ratio declined from March 2017 to March 2018, increased in September 2018, and remained relatively stable until March 2021, with the latest value reaching 0.397.

Irawan (2023), in "The Role of Fiscal Policy in the Economy: A Literature Review," concluded that fiscal policy aims to promote optimal social investment, expand employment opportunities, maintain economic stability amid global uncertainty, control inflation, and improve income distribution. Meanwhile, Parera (2022), in "The Effectiveness of Regional Fiscal Policy on Economic Growth and Community Welfare in Papua," examined the impact of direct and indirect government spending on poverty, the Human Development Index, and the Gini Ratio through economic growth. The findings reveal that direct expenditure has a positive but statistically insignificant effect on economic growth, while it has a negative and significant effect on poverty, both directly and indirectly.

RESEARCH METHOD

The type of research used is quantitative research with a descriptive analysis and multiple linear regression approach. ata was collected from various sources such as regional financial reports, BPS statistical data, as well as policy documents and annual reports of the local government. The researcher conducted a study of fiscal policy documents and development reports to obtain information about budget allocation and its impact on income inequality.

This study use Descriptive Statistical Analysis to describe the characteristics of variables such as the mean, median, and distribution of regional spending and economic inequality indicators and Multiple Linear Regression Analysis to analyze the influence of fiscal policy on economic inequality. This study use model as follows:

$$Y=\alpha+\beta 1X1+\beta 2X2+...+\beta nXn+e$$

Where Y is the income inequality (dependent variable), X1 is social spending (independent variable), X2 is education spending, X3 is health spending, X4 is infrastructure spending, α is constant, β is Regression coefficient and e is error term.

The regional spending variables (independent) are measured using a ratio scale in rupiah. The income inequality variable (dependent) is measured using an interval scale based on the Gini Coefficient value.

RESULTS

This analysis provides a data overview based on minimum, maximum, mean, and standard deviation values.

Table 1. Desctiptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Gini Ratio (Y)	10	0.28	0.35	0.312	0.0269
Social Spending	10	3,230,000,000	9,970,000,000	5,534,000,000	2,315,864,129
Education Spending	10	25,896,000,000	50,700,000,000	36,391,600,000	7,752,500,298
Health Spending	10	121,000,000,000	131,000,000,000	125,000,000,000	3,528,840,068
Infrastructure Spending	10	15,124,500,000	39,189,000,000	28,914,450,000	7,678,732,839

Source: SPSS Data Processing Results, 2025

Table 2. Coefficient of Determination Test

Model Summary				
Model	R	R Square	AdjustedR Square	Std. Error of the Estimate
1	.788[a]	.622	.319	.02224

Source: SPSS Data Processing Results, 2025

Based the Model Summary, R-Square value of 0.622 and an Adjusted R-Square value of 0.319 were obtained. The R-Square value of 0.622, or 62.2%, means that 62.2% of the variation or change in the economic inequality variable (Gini Ratio) can be explained by the independent variables used in this model. These variables are Social Spending (X1), Education Spending (X2), Health Spending (X3), and Infrastructure Spending (X4). The remaining 37.8% is explained by other variables outside the model.

Table 3. F-Test

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	.004	4	.001	2.053	.225[b]
Residual	.002	5	.000		
Total	.007	9			

Source: SPSS Data Processing Results, 2025

The F-test results show that the calculated F-value is 2.053. The significance value (Sig.) is 0.225, which is greater than 0.05. This indicates that the four independent variables together do not have a significant impact on economic inequality in Jayapura City during the 2014- 2023 period.

Table 4. Hypothesis Test (t-test)

Coefficients[a]					
	Unstandardized Coefficients		Standardized Coefficients		
Model	B	Std.Error	Beta	t	Sig.
Constant	-.009	.311		-.029	.978
Social Spending	1.008E-11	.000	.866	2.245	.075
Education Spending	-1.639E-13	.000	-.047	-.143	.892
Health Spending	2.075E-12	.000	.272	.862	.428
Infrastructure Spending	3.719E-13	.000	.106	.363	.731

Source: SPSS Data Processing Results, 2025

The test results are interpreted based on the t-statistics and significance values (Sig./p-value) obtained from the regression analysis. The estimation indicates that social expenditure has a positive coefficient (1.008E−11) with a t-value of 2.245 and a p-value of 0.075, which exceeds the 0.05 significance threshold. Although this effect is statistically insignificant, the result is close to the conventional level of significance, suggesting that social spending may potentially influence income inequality. Specifically, increases in social expenditure tend to be associated with a higher Gini index; however, the statistical evidence remains insufficient to confirm this relationship with certainty.

Education expenditure exhibits a negative coefficient; nevertheless, the effect is extremely small and statistically insignificant, as indicated by a p-value of 0.892. This finding implies that education spending does not have a measurable impact on income inequality within the observed period. One possible explanation is that education programs have not yet effectively reached low-income households, or that their benefits require a longer time horizon to materialize in inequality indicators.

Similarly, health expenditure shows a positive coefficient but remains statistically insignificant, with a p-value of 0.428. This result suggests that government spending on health has not directly contributed to reducing income inequality. This outcome may be attributable to the unequal distribution of healthcare facilities and services, which limits the ability of health spending to generate inclusive benefits across different income groups.

Infrastructure expenditure also yields a positive but statistically insignificant coefficient, as reflected by a p-value of 0.731. This indicates that infrastructure spending has not played a significant role in redistributing income. A plausible explanation is that infrastructure development has been concentrated in relatively developed areas, thereby limiting its capacity to improve economic access and opportunities for disadvantaged communities.

DISCUSSION

The analysis of fiscal capacity in Jayapura City from 2014 to 2023 shows a generally stable and improving trend. Public expenditure was directed mainly toward strategic sectors such as social protection, education, health, and infrastructure. Among these, health spending consistently received the largest share, while infrastructure expenditure was more volatile, reflecting project-based allocations. This pattern suggests that the city's fiscal capacity is relatively strong, although the consistency and equity of spending remain areas for improvement (Wenjuan & Zhao, 2023).

Despite this positive fiscal outlook, the regression analysis indicates that fiscal capacity has not significantly contributed to reducing income inequality. The explanatory power of the model ($R^2 = 0.622$) suggests that government expenditure explains a considerable portion of inequality dynamics, yet the overall effect was not statistically significant. Both the simultaneous (F-test) and partial (t-test) results confirm that none of the expenditure categories had a significant impact, although social spending approached significance. This indicates potential redistributive effects if allocations are increased and more effectively targeted at disadvantaged groups.

The lack of significant impact from education, health, and infrastructure spending highlights structural issues. Education programs may require a longer time horizon to influence inequality, while health and infrastructure projects may have been unevenly distributed, favoring already developed areas rather than addressing disparities in access among low- income populations (Ezeudu & Fadeyi, 2024).

Overall, fiscal policy in Jayapura during this period has contributed to economic stability but has not been optimal in reducing inequality. This can be attributed to weaknesses in targeting, implementation quality, and the time lag required for policy outcomes to materialize. Future fiscal strategies should prioritize more equitable distribution of resources, strengthen targeting mechanisms, and sustain investment in human capital development to enhance the redistributive role of public spending.

CONCLUSION

Based on the discussion of the research results obtained, it can be concluded that the fiscal capacity of Jayapura can generally be regarded as stable and relatively strong, with sustained allocations to key sectors. Nevertheless, the redistributive effect of these expenditures on income inequality remains limited. Although fiscal policy reflects the government's commitment to promoting social and economic development, its capacity to reduce inequality has not been statistically significant. This finding highlights persistent challenges in policy implementation, program targeting, and the equitable distribution of development outcomes across different communities and regions.

Second, the regression analysis indicates that none of the expenditure categories exhibited a statistically significant impact on income inequality, although social expenditure approached significance ($p = 0.075$). The positive association suggests that increases in social spending have not effectively reduced inequality, potentially due to mistargeting or uneven distribution of social programs. Education expenditure produced a small negative coefficient but was not significant, implying that its potential to narrow inequality may only manifest over a longer time horizon. Similarly, health expenditure, despite its substantial and stable allocation, did not significantly influence inequality, likely because access to healthcare remains uneven.

Infrastructure expenditure also failed to yield significant redistributive effects, which may reflect the concentration of projects in already developed areas rather than in disadvantaged regions.

Overall, the fiscal capacity of Jayapura City has not yet been translated into substantial progress in reducing income inequality. To enhance the effectiveness of public expenditure, fiscal policy must prioritize efficiency, accuracy in targeting, and equity in distribution. Furthermore, long-term investment in human capital and the strengthening of planning, implementation, and monitoring mechanisms are essential to ensure that fiscal policy contributes more directly to inclusive and equitable economic development.

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