

The Effect of Corruption on Income Distribution in Indonesia

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Abstract:- Corruption is an extraordinary crime because of its enormous negative impact on society, the government, and the economy. One of the negative impacts of corruption is that it widens the income distribution gap between individuals in a country. This research aims to analyze the impact of corruption on income distribution gaps in Indonesia. The research results show that the lower the level of corruption, the smaller the inequality in income distribution in Indonesia. The policy implication is the need to continue to improve the prevention and prosecution of corruption in Indonesia. For further research, it is recommended to add a dependent variable as a control variable.

Keywords:- Corruption, Income Distribution, Prevention and Enforcement, Control Variables.

I. INTRODUCTION

According to law in various countries, including Indonesia, corruption is an extraordinary crime. This is because corruption has a very large negative impact on society, the government, and the economy in general.

One of the negative impacts of corruption is that it causes increasing inequality in income distribution. Corruption widens income distribution gaps through several channels.

Several previous studies have shown two different impacts of corruption on income distribution inequality: some have a positive impact, meaning that corruption widens the income distribution gap, but others have found the opposite, namely that corruption has a negative impact on income distribution, meaning that corruption reduces or narrows the income distribution gap between individuals in a country. This research aims to analyze the impact of corruption on income distribution in Indonesia.

II. LITERATURE THEORY

Corruption causes worse income distribution through several channels (Gupta, S., Davoodi, H., and Alonso-Terme, R. 2002.).

First, corruption reduces economic growth. There is a belief that increasing economic growth will lead to a reduction in the number of poor people. If economic growth is not as it should be due to corruption of funds that could have been invested to increase economic growth, the number of poor people will not decrease so that the gap in income distribution will remain or even get bigger if economic growth benefits those with high incomes.

Second, through policy channels that benefit one group of people and harm another group of people. For example: because they were bribed, tax officials gave tax breaks to certain people who should have paid more tax. Meanwhile, for others, taxes are imposed according to the rates and obligations. In this way, the after-tax income (disposable income) between people who bribe and those who do not will become increasingly unequal.

Third, through reduced government spending (due to corruption) for the provision of public facilities and infrastructure as well as assistance or subsidies for the poor. As a result, the number of poor people, which should be decreasing, is increased in fact.

Fourth, through the accumulation of wealth resulting from corruption. People who have access to commit corruption and do so can accumulate wealth or assets resulting from corruption so that their income becomes greater. Meanwhile, people who do not have access to corruption have a fixed income. Then the gap in income distribution will widen.

Several studies have also been conducted to analyze the impact of corruption on income distribution gaps.

Gyimah Brempong K's research (2002) using panel data (a combination of time series and cross section data) with data from 21 African countries in the period 1993 to 1999 shows that corruption has worsened income distribution in these 21 African countries.

Dincer and Burak's research (2008) used panel data from 50 states in the United States (US) over a period of 17 years, namely from 1981 to 1997. The results of the study show that an increase in the level of corruption has increased the inequality of income distribution and poverty in the 50 US states during period 1981-1997.

Other research, namely by Gupta, S., Davoodi, H., and Alonso-Terme, R. (2002) with panel data from several countries in the period 1980 to 1997 shows that the worsening level of corruption has caused a worsening of income distribution in countries in the world which sampled in the period 1980 to 1997.

Research with different results was conducted by Andress and Dobson (2011) for the case of Latin American countries. The results show that corruption reduces inequality in income distribution. There are 3 (three) reasons why this happens. Firstly, in Latin America most businesses are informal businesses that are not legally registered. This informal business absorbs a lot of labor and is a source of income for the most people. To survive and avoid legal action, the informal business actors bribe (which is a form of corruption) public officials.

Second, to carry out poverty projects alleviation to narrow the gap in income distribution, corruption by government officials as implementers is considered as a cost that can still be tolerated. Third, in conditions of bureaucracy and poor governance, for some people and business actors, bribing is much cheaper to obtain ease of doing business or obtain subsidies than using bureaucracy and official procedures. As a result, by bribing the business can run or subsidies can be obtained so that income of the poor increases and income distribution becomes more equal.

III. HYPOTHESIS

Hypotheses are statements made so far, and the truth is still weak. The hypothesis is also considered a preliminary conclusion. Following the research framework above, the hypothesis for this study is formulated as follows:

Corruption proxied by Corruption Perception Index (CPI) has positive and significant impact on distribution income proxied by Gini Ratio or Gini Coefficient. The hypothesis like that because an increase in CPI means the decrease of corruption level, so if the CPI increase or corruption level decrease it makes Gini coefficient decrease or income distribution inequality decrease.

IV. RESEARCH METHOD

This research uses secondary data. Data on the level of corruption is proxied by the Corruption Perception Index (CPI) and obtained from Transparency International. Data on income distribution inequality is proxied by the Gini Ratio or Gini Index obtained from the Central Statistics Agency (BPS). The data used is data from 2011 to 2022.

This research uses linear regression analysis tools. The research model used is:

$$\text{GINI} = \beta_0 + \beta_1\text{CPI} + \epsilon_{ijt}$$

Where:

GINI = The Gini Ratio shows the distribution of income between individuals with a value of

0 (perfectly even) to 1 (not perfectly even). The greater the value of the Gini ratio,

the more unequal the distribution of income between individuals

CPI = Corruption Perception Index he Corruption that shows the level of corruption with a

value of 0 (level very high corruption) to 100 (very low level of corruption) so that it

increase The greater the Corruption Perception Index, the lower the level of

corruption in a country

β_0, β_1 = Regression Coefficients

ϵ_{ijt} = random error.

V. RESULT

Estimation of regression coefficients in the regression equation was carried out using Eviews 12 software. Regression analysis was used to estimate the influence of the Corruption Perception Index on Indonesia's Gini Ratio for the 2011-2022 period. Regression estimation results can be shown at Table 1

Table 1. Regression Estimation Results (GINI Ratio as Dependent Variable)

Variable	Coefficients	t-statistic (prob.)
Constants	48,35967	18,23506 (0.0000)
CPI	-0,262271	-3,486074 (0.0059)
R-square	0,548588	
Adj. R-square	0,503447	
F-ratio (prob.)	12.15271 (0,005861)	
N	12	
Durbin Watson	0,572726	

Source: Secondary Data, Processed 2023.

To obtain the best regression model to produce estimation that are the Best, Linear, Unbiased Estimator (BLUE), a classical assumption deviation detection is carried out. The deviation classical assumption test included: normality test, multicollinearity, autocorrelation, and heteroscedasticity.

The normality test aims to test whether in the regression model the confounding or residual variables have a normal distribution. Judging from the Jarque-Bera value of 0.182528 which is less than 5.99 and with a probability value of 0.912776 which is more than $\alpha = 0.05$, the data accepts the null hypothesis and it can be concluded that the data is normally distributed.

The multicollinearity test is used to find out whether there is perfect intercorrelation between the independent variables used in the regression equation. In this study, to test whether multicollinearity exists or not, it can be seen from the Variance Inflation Factors (VIF). The VIF estimation results show that the VIF value of 1.0000 is less than 10, meaning the VIF value is smaller so that multicollinearity does not occur in this model.

The autocorrelation test aims to test whether there are confounding errors in a certain period with errors in the previous period in the regression model. Decision making without autocorrelation using the Brusch-Godfrey Test. Based on the research results, the value of Prob. F (2,8) is 0.0758. Prob value. F is greater than the significance level of 0.05, so Ho is accepted and H1 is rejected, so there is no autocorrelation.

The heteroscedasticity test aims to test whether in the regression model there is inequality of variance from the residuals of one observation to another observation. If the residual variance from one observation to another is constant then it is homoscedasticity and if it is difference it is called heteroscedasticity. Decision making regarding the absence of heteroscedasticity using the Glejser test. Based on the research results, the value of Prob. The F-statistic of 0.8699 is greater than the significance level of 0.05, so Ho is accepted and H1 is rejected. The conclusion is in this model it does not occur heteroscedasticity.

The F test aims to test whether there is a joint influence, namely the difference in the Corruption Perception Index on Indonesia's Gini Ratio in 2011-2022. Based on the estimation results, it is known that the F-statistics probability value with a real level of 0.05 is 0.005861. And the F-table value is 4.964603 while the F-statistics is 65.90194, so F-statistics > F-table means that H0 is rejected so that the independent variables together have an effect on the dependent variable.

The t statistical test basically shows how far the influence of individual independent variables is in explaining variations in the dependent variable. The T test (t-test) is seen from the comparison between the T-statistic value and the T-table of 2.228139 and the t-statistics probability value with a real level of 0.05. The estimation results show that the CPI variable t-statistic value > t-table, and the prob value. T-statistic < degree of significance of 0.05 so it rejects H0, and accepts H1, which means this variable has a significant impact on the level of corruption.

VI. HYPOTHESIS TEST

Based on Table 1, it is known that the CPI variable shows a negative and significant influence at a significance level of 0.05. This means that an increase in the CPI by 1 index will reduce the Gini ratio value by 0.262271 in Indonesia. It means that an increase in CPI means decrease in corruption level reduce income distribution inequality in Indonesia.

The results of this regression show that the Corruption Perception Index has a negative and significant effect on income distribution inequality in Indonesia, which is proxied by the Gini Index. This means that the higher the Corruption Perception Index, which means the lower the level of corruption in Indonesia, the smaller the inequality in income distribution between the population in Indonesia. Or it could also be read that the higher the level of corruption in Indonesia, the more unequal the distribution of income in Indonesia will be. This is in accordance with the hypothesis and previous studies cited above which found that corruption exacerbates inequality in income distribution (Gyimah Brempong K, 2002; Dincer and Burak, 2008; and Gupta, S., Davoodi, H., and Alonso- Terme, R., 2002).

VII. CONCLUSION AND SUGGESTION

A. Conclusion

The conclusion of this research is that the influence of corruption is positive and significant on the inequality of income distribution between residents in Indonesia. This means that the higher the level of corruption, the more unequal the distribution of income in Indonesia will be.

B. Suggestion

The policy implication that can be drawn from this research is that there is still a need to improve prevention and action against corruption in Indonesia so that income distribution in Indonesia becomes more equal.

This research has limitations, namely that the model is very simple, namely only using one independent variable. Future research could add independent variables as control variables.

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