



# PERSPECTIVES ON REGIONAL DISPARITIES

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## OVERVIEW

- Indonesia's poverty rate has halved between 199-2012, falling from 24-12%
- Gini index based on consumption inequality has increased over the same period from 0.32 to 0.41
- Regional disparities have long been a problem exacerbated by the concentration of economic activity in West Java; early work in 1980s revealed that as much as 80% of the **indirect effects** from investments in Irian ended up in Java and Sumatra
- Present some policy changes and needs

## POLICY CHALLENGES: SPATIAL SCALE

- Indonesia's complex geography raises the immediate issue – what is the appropriate scale at which to conduct analysis
  - Country level                      increased interpersonal disparities
  - Major regions                      disparities widened
  - Provinces                              increase then decrease then increase
  - Districts                                disparities narrowed
- Outcomes sensitive (see Andi Irawan's work) to the choice of **spatial scale and time period**

## POLICY CHALLENGES: POLICY CHOICE AND EVALUATION

- Number of policy options available ranging from sector targeting, cluster-based development strategies and now smart specialization
- How have policies worked in the past and in other contexts?
- Little formal evaluation of regional development policies – example of “faith-based economics.”
- Problem is that the period of time necessary is often long and unexpected macro events (Great Recession) can seriously disrupt efficacy of a policy
- However, analysts have been much more eager to promote policies than to evaluate them

## POLICY CHALLENGES: COMPLICATIONS OF SPATIALLY BLIND POLICIES AND SPATIAL SPILLOVERS

- Regional growth and development not only affected by formal, targeted policies but **spatially blind policies** (e.g. 10% import tariff reduction in Brazil had a uniformly positive affect on the most prosperous regions (South East) and negative impact on 90% of the sector in the less prosperous Northeast)
- Spatially blind policies often have impacts that counter goals and objectives of spatially targeted policies
- Funds allocated to a region do not necessarily stay there – **interregional spillovers** are significant and increase as development proceeds

## STRATEGIES AND MODELING CHALLENGES

- Need not just to measure inequalities but understand **how they are formed and persist** – work in Chicago has revealed strong asymmetry in income formation and propagation
- When rich quintiles receive income, spillover effects to poorer quintiles is small; when poorer folks receive income, significant spillover effects to rich - ?example of trickle-up economics?
- Need to adopt **more effective monitoring and evaluation techniques** (e.g. difference-in-difference, matching similar regions with/without policies etc.)
- Need to focus more on the **demographic drivers of development** – our models persist in using a “representative household” and fail to capture the enormous heterogeneity of consumer behavior, migration, investment in human capital and the oncoming demographic tsunami (ageing of the population)
- Need to convince macro policy-makers that large countries like Indonesia have enormous degree of **internal heterogeneity** that has to be accounted for in the development of both spatial and spatially-blind policy formation