

## UNRAVELLING ECONOMIC AND SOCIAL INEQUALITY: A LITERATURE REVIEW OF ITS CAUSES AND IMPACTS

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### Abstract

Economic and social inequality in Indonesia has become an increasingly serious problem in recent decades. This article aims to examine the causal factors and impacts of such inequality through a literature review. The results show that economic and social inequality is caused by various interrelated factors, such as differences in access to economic resources, the quality of infrastructure and public services, the taxation system and government spending, the quality of human resources, as well as the political situation and economic policies that are less favourable to the interests of the lower classes. These factors reinforce each other and create a vicious cycle of poverty that is difficult to break. Widening inequality is detrimental to social stability, economic growth, and human development. Widening inequality can trigger social conflict, hamper purchasing power and aggregate demand, and make it difficult for the poor to access basic services such as education and health. Efforts to reduce inequality are crucial in order to maintain social harmony, promote more inclusive economic growth, and realise justice and prosperity for all. Therefore, comprehensive and sustainable efforts are needed to address the root causes of inequality, through policies that promote equitable economic and social access, improve the quality of human resources, and reform the tax system and government spending that is more pro-people. Only then can Indonesia realise a more just and equitable development for all people.

**Keywords:** Inequality, Economic, Social, Causal Factors, Impacts

### Introduction

Economic and social inequality is one of the most important issues in a country's development. Economic inequality, which is reflected in income and wealth disparities between groups of people, can impact social and political stability. Meanwhile, social inequality, such as differences in access to education, health, and infrastructure, can also affect the overall well-being of society (Jackson et al., 2020).

Therefore, equalising economic and social inequality is crucial to maintaining the stability and prosperity of a country. Widening inequality can trigger various social problems, such as increasing poverty, limited access to education and health, and the potential for conflict between groups (Nguyen & Nasir, 2021). This can threaten social cohesion and worsen overall development conditions.

In addition, high economic inequality can also have a negative impact on long-term economic growth. When most of the wealth is only enjoyed by a few, the purchasing power and aggregate demand of the society as a whole is low. This can discourage investment and innovation, hindering the potential for sustainable economic growth. Therefore, economic and social equity efforts are crucial to realising more equitable and inclusive development (Baloch et al., 2020).

Several studies show that the level of economic and social inequality in many countries, including Indonesia, has tended to increase in recent decades. According to World Bank data, Indonesia's Gini index, which reflects the level of income inequality, increased from 0.30 in 1980 to 0.39 in 2019. This indicates that there has been a significant increase in income inequality over the period (Liao & Maio, 2021).

Various factors are believed to be responsible for economic and social inequality, including non-inclusive economic growth, ineffective fiscal and monetary policies, lack of access to education and health, and other structural issues. Widening inequality can also lead to various negative impacts, such as increased poverty, decreased social mobility, and the potential for social conflict (Guyon & Huillery ., 2021)

Therefore, this study aims to comprehensively examine the causes and impacts of economic and social inequality based on a literature review. By understanding the root causes and consequences of inequality, it is expected to provide input for policy makers to design a more equitable and inclusive development strategy.

## **Research Methods**

The literature study approach is used to examine the factors that cause and impact economic and social inequality. This method was chosen because it can provide a comprehensive theoretical and empirical foundation through analysis of various reference sources, such as scientific journal articles, textbooks, institutional reports, and other literature sources (Hidayat, 2009) ; (Afiyanti, 2008) . The literature search process is conducted systematically using relevant keywords, such as "economic inequality", "social inequality", "causes of inequality", and "impact of inequality". The literature will be critically analysed to identify trends, factors, and implications of the inequality issues studied (Syahrizal & Jailani, 2023) . The synthesis of this literature review is expected to provide a comprehensive picture of economic and social inequality issues and the necessary policy recommendations.

## **Results and Discussion**

### **Conditions of Economic and Social Inequality**

Economic and social inequality is still a major challenge faced by many countries, including Indonesia. Data shows that income distribution in Indonesia is still very unequal, with the Gini coefficient tending to be high in recent years. This indicates that

the gap between high-income groups and low-income groups is widening (Hailemariam et al., 2020).

In addition, disparities are also evident in people's access to basic services, such as education and health. People in urban areas and upper middle economic groups generally have much better access than people in rural areas and lower middle economic groups. This condition further strengthens the cycle of poverty and narrows social mobility (Czymara et al., 2021).

The problem of inequality can also be seen in the disparity of development between regions. Most of the development and economic growth is concentrated in Java, while other regions are still far behind. This has led to a significant welfare gap between people in Java and outside Java (Bywaters et al., 2020).

In addition, inequality also occurs based on gender. Women generally have more limited access to economic resources, such as asset ownership and decent work. This causes women to tend to be in more vulnerable economic conditions than men (Richmond-Rakerd et al., 2020).

The various dimensions of inequality above have had an impact on social stability, community cohesion, and poor quality economic growth. Therefore, efforts to equalise and reduce inequality are crucial issues to be addressed comprehensively by the government and all stakeholders (Guo et al., 2022).

In addition to affecting social stability, economic and social inequality can also hinder sustainable economic growth. High inequality can reduce social mobility, create political instability, and encourage social conflict. These can lead to high economic costs for a country (Whitehead & Dahlgren, 2021).

On the other hand, inequality can also worsen people's access to public services and economic opportunities. This condition will ultimately hamper efforts to alleviate poverty and improve overall community welfare. Therefore, reducing inequality should be a top priority in the Development agenda (Bapuji et al., 2020).

To overcome these problems, a comprehensive and integrated policy strategy is needed, including improving people's access to education, health, and other basic services; developing the local economy and MSMEs; and strengthening the social protection system. Efforts to equalise development between regions must also be the main focus. Only with planned and sustainable efforts can Indonesia realise more inclusive and equitable economic growth.

Overall, the condition of economic and social inequality in Indonesia is still a major challenge that requires serious handling from the government and all stakeholders. Various dimensions of existing inequality must be addressed through comprehensive and integrated policy strategies in order to encourage more equitable economic growth and social justice.

## **Factors Causing Economic and Social Inequality**

One of the main factors causing economic and social inequality in Indonesia is differential access to economic resources and business opportunities. People with better capital and skills tend to have greater opportunities to achieve better positions and incomes. Meanwhile, people who are poor and less empowered are often constrained in accessing available economic resources and opportunities (Beaunoyer et al., 2020).

In addition, differences in the quality of infrastructure and public services between regions also contribute to inequality. Development that tends to be concentrated in Java and a few other major cities leads to significant disparities in public facilities and services between urban and rural areas, as well as between Java and outside Java. This in turn affects the economic and social opportunities available to the people (Cinnamon, 2020).

Furthermore, a less progressive taxation and government spending system can also increase inequality. A tax system that is not effective in imposing higher taxes on high-income groups, as well as government spending allocations that are not well-targeted, can exacerbate income inequality and people's access to public services (Shim, 2021).

Another contributing factor is the low quality of human resources, especially among the poor and disadvantaged. Their limited access to quality education and adequate health services narrows their opportunities to improve their capacity and income. This condition then makes it more difficult for them to get out of the poverty cycle (Heimberger, 2020).

In addition to the above factors, the political situation and economic policies that are less favourable to the interests of the grassroots also contribute to widening inequality. Policies that tend to be pro-elitism and pay less attention to equity and empowerment of the poor and marginalised, such as providing greater incentives for large companies than MSMEs, can worsen the distribution of wealth and income in society (Wang et al., 2023).

Overall, the economic and social inequality that occurs in Indonesia is caused by various complex factors ranging from differences in access to economic resources, the quality of infrastructure and public services, the taxation system and government spending, the quality of human resources, as well as the political situation and economic policies that are less in favour of the interests of the lower society. Efforts to reduce inequality must be done thoroughly and comprehensively, by encouraging equitable economic and social access, improving the quality of human resources, and more pro-people policies.

## **The Impact of Economic and Social Inequality**

Growing economic and social inequality is detrimental to the stability and harmony of society. The widening gap between the rich and the poor can lead to jealousy, discontent and even social conflict. This can threaten security and public order, as well as hamper development efforts and equitable distribution of prosperity (Anser et al., 2020).

In addition, high inequality can also have a negative impact on overall economic growth. Concentration of wealth in a small group of people can reduce purchasing power and aggregate demand, and lead to less investment. This can ultimately slow down the pace of economic growth and hinder improvements in people's welfare (Varona & Gonzales, 2021).

In health and education, economic inequality can also make it more difficult for the poor to access quality basic services. Their lack of access to proper education and health can hinder efforts to improve the quality of human resources, thus further exacerbating poverty and inequality in the future (Lee & Vu, 2020).

Ultimately, widening economic and social inequality can have a variety of negative impacts, both in terms of social, economic and human development. Efforts to reduce inequality are crucial to maintain stability, promote inclusive economic growth, and realise justice and prosperity for all people.

## **Conclusion**

Economic and social inequality in Indonesia is caused by various interrelated factors, such as differences in access to economic resources, the quality of infrastructure and public services, the taxation system and government spending, the quality of human resources, as well as the political situation and economic policies that are less favourable to the interests of the lower classes. These factors reinforce each other and create a vicious cycle of poverty that is difficult to break.

Widening inequality is detrimental to social stability, economic growth and human development. Widening inequality can trigger social conflict, constrain aggregate purchasing power and demand, and make it difficult for the poor to access basic services such as education and health. Efforts to reduce inequality are crucial in order to maintain social harmony, promote more inclusive economic growth, and realise justice and prosperity for all.

Therefore, comprehensive and sustainable efforts are needed to address the root causes of inequality, through policies that encourage equal economic and social access, improve the quality of human resources, and reform the tax system and government spending that is more pro-people. Only then can Indonesia realise a more just and equitable development for all people.

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