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THE POLITICAL ECONOMY AND SOCIAL INEQUALITY: CASE STUDIES IN DEVELOPING COUNTRIES

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Abstract

Socio-economic inequality refers to significant disparities in the distribution of resources and opportunities among individuals or groups in society. Social inequality is a structural issue faced by most developing countries, including Indonesia. Using a qualitative approach with a literature review method, this study analyzes the relationship between political economy and social inequality in developing countries, especially the dynamics in Indonesia. The study found that factors that reinforce social inequality are economic liberalization, fiscal policy decentralization, and the dominance of political elites in decision-making. In addition, the lack of wealth democracy reform further deepens the gap between the rich and the poor. The study suggests that developing countries without state intervention will inevitably exacerbate socio-economic inequality. Therefore, in the long run, reducing social inequality requires effective redistributive policies, strong local financial institutions, and limits on oligarchic domination of economic and political power.

Keywords: Socio-Economic Inequality, Political Economy, Socio-Economic Inequality

Introduction

Indonesia, with a population of more than 270 million, faces serious challenges in reducing the ongoing socioeconomic disparities in its various regions (Achmad Nur Sutikno 2020). Economic inequality illustrates that wealth is not spread evenly as a result of the development that has been carried out. If not addressed, economic inequality can lead to a variety of problems, including disruptions to security stability. Interestingly, although many developing countries experience high economic growth, economic inequality often remains high.

According to research (Febriana & Ariani, 2022), economic inequality is often considered a condition for sustainable income growth. However, this inequality can in turn lead to social and political instability, which ultimately disrupts income growth. Therefore, it is important to explore the factors associated with economic inequality and its implications for the overall well-being of society.

In the case of Indonesia, socio-economic inequality is hardly a new phenomenon. The impact of this economic inequality cannot be ignored, as it creates social instability, economic injustice and reduced economic growth. This situation has the potential to lead to social conflict, community discontent, as well as hinder overall economic progress (Herlin, 2018) Wealth and access to economic resources have, since the colonial period, been the monopoly of the elite class. After independence, government policies aimed at reducing inequality were often sub-optimal due to socio-political factors as well as a dysfunctional bureaucratic system. This was further exacerbated in the context of economic globalization and liberalization, where intensified oligarchic competition, along with the oligarchs' grip on the national economy, widened the gap between the rich and the poor.

In addition, the physical decentralization carried out since 2001 through regional autonomy was initially intended to increase public support and accelerate regional development. Instead, in practice, decentralization has widened the arena of power competition at the local level dominated by local political elites. As a result, public discourse that should be used to raise public awareness is often used for political purposes or simply to be read by interested groups, resulting in increasingly tense inter-religious relations. In this context, economic policy plays a crucial role in determining the direction of development and the distribution of wealth in society. Economic policy is not only concerned with the economic policies implemented by the government, but also considers the resilience of the implementation and execution of these policies. The dominance of political-economic elites, weak civil society control, and lack of transparency and accountability in public policy-making. Poverty is unevenly distributed, with higher rates in rural areas than urban areas, indicating significant regional disparities (Sianturi, Syafii, & Tanjung, 2021).

Methods

This research uses a qualitative approach with a library research method as the main basis for data collection and analysis. This approach was chosen because it is suitable for understanding complex social phenomena, such as socio-economic inequality and political economy dynamics, which cannot only be measured quantitatively but also need to be analyzed in depth through interpretation of the context, narrative, and power structure that surrounds them. This type of research is exploratory and descriptive-analytical. Explorative research aims to dig deeper into the relationship between political economy policies and social inequality in developing countries, while descriptive-analytical is used to explain and interpret data based on relevant theories. The location of the study is conceptual, with a geographical focus on developing countries, especially Indonesia as the main case study. This research was conducted from January to March 2024.

The data source in this research is secondary data obtained from various credible and relevant literatures. The sources include national and international indexed scientific journals, academic books, reports of international organizations such as UNDP, World Bank, and OECD, as well as policy documents from Indonesian government agencies. The literature used was purposively selected by considering the relevance of the topic, the accuracy of the information, and the actuality of the data. Data collection techniques were conducted through systematic searches in various academic databases such as Google Scholar, DOAJ, SINTA, and ProQuest. The keywords used included: "socio-economic inequality", "political economy", "liberalization", "fiscal decentralization", and "developing countries". The data collected was then classified based on broad themes, such as factors causing inequality, the role of political and economic actors, and the impact of public policies on welfare distribution.

Data analysis was conducted using the content analysis method. This technique is used to identify, categorize, and interpret various issues that appear in the literature, both in the form of narrative text and secondary statistical data. The main focus of the analysis is to reveal the relationship between political-economic structures and social inequality as reflected in economic policies in developing countries. The researcher examines how the dominance of political and economic elites, decentralization mechanisms, and economic globalization contribute to unequal distribution of wealth and access to resources.

The validity of the research results was maintained through triangulation of data sources and peer debriefing to minimize subjective bias. In addition, data taken from various sources were also compared to ensure consistency of information and relevance to the Indonesian context as the main case study. With this method, the research is expected to provide a comprehensive and critical understanding of the dynamics of political economy and its impact on socio-economic inequality in developing countries.

Results and Discussions

The results of this study show that socio-economic inequality in developing countries, especially in Indonesia, is strongly influenced by the dynamics of the political economy. Based on the analysis of the literature collected, several main factors that reinforce these inequalities are economic liberalization, fiscal decentralization, the dominance of political-economic elites in the public decision-making process, and the weak control of civil society over government policies.

First, economic liberalization, which has been implemented since the era of globalization, has provided ample space for large investors, both domestic and foreign, to control strategic sectors of the economy. This condition narrows the access of the lower classes to economic resources and widens the gap between social groups. In practice, foreign investment in developing countries does encourage economic growth, but it is not always followed by income equality. The studies reviewed also reveal that without strong state intervention, liberalization tends to worsen income inequality and community welfare (Herlin, 2018).

Second, the implementation of fiscal decentralization since 2001 in Indonesia, which was originally intended to accelerate regional development, has in practice expanded the arena for political competition at the local level. Decentralization was supposed to encourage equitable development and improvement of community welfare in various regions. In reality, however, the concentration of power in the hands of local elites and the dependence of local governments on central transfers have led to uneven distribution of budgets and development programs. Some regions experience development stagnation due to weak bureaucratic capacity and the dominance of dynastic politics and the interests of certain groups (Sianturi, Syafii, & Tanjung, 2021).

Third, the dominance of political and economic elites in the public policy formulation process is a factor that determines socio-economic inequality. The involvement of oligarchic groups in practical politics causes policies that are born to accommodate the interests of certain groups rather than the interests of the wider community. Inequality in resource control and economic access between the elite and marginalized communities is widening, especially with the lack of control from civil society over the decision-making process.

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Furthermore, this research also highlights the absence of wealth democracy reform in Indonesia. The distribution of economic asset ownership is still concentrated in certain groups, making social inequality difficult to overcome with short-term policies such as social assistance. This structural inequality is hereditary and causes difficulties in vertical social mobility in society. In the long term, reducing socio-economic inequality requires effective redistribution policy reforms, strengthening regional financial institutions, and limiting the influence of oligarchs in national politics and the economy.

In addition to these factors, economic inequality in developing countries can also be seen from the comparison of per capita income between countries. Based on the data shown in Figure 1, there is a very significant gap between developing countries. Algeria has the highest per capita income of 3,926, followed by El Salvador (3,380), West Bank and Gaza (3,148), and Honduras (2,836). On the other hand, countries like Chad (484), Mali (469), Mozambique (435), and Burundi are at the bottom with only 292. The average per capita income of developing countries is 1,567.

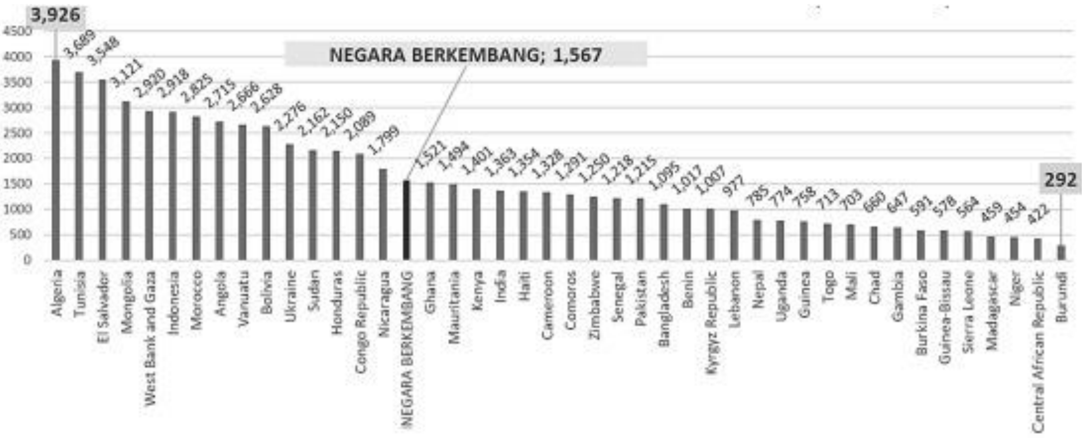

Figure 1
Distribution of Per Capita Income in Developing Countries

These figures show that despite being in the same category as developing countries, the economic reality of each country is very diverse and inequality is very high. Countries with abundant natural resources, relatively maintained political stability, and good economic management capabilities tend to have higher per capita income. In contrast, countries with prolonged conflicts, weak bureaucracies, high dependence on foreign aid, and control of resources by oligarchic groups are at the bottom.

This fact shows that economic inequality does not only occur within a country, but also between developing countries themselves. This is a challenge for the international community in realizing the Sustainable Development Goals (SDGs) agenda, especially the 10th goal on reducing inequality. Inequality between countries has the potential to trigger international political tensions, migration crises, and regional instability, if not addressed through economy.

One of the roots of socio-economic inequality in developing countries, including Indonesia, can be traced historically back to colonialism. During colonialism, economic structures were designed for the exploitation of resources and not for the long-term development of local communities. In Indonesia, the system of forced cultivation and mining concessions controlled by the colonial government and foreign companies created a dualistic economic structure - where one side of the economy was controlled by elites and foreigners, while the other side was the subsistence economy of the people. This structure was inherited after independence and proved very difficult to overhaul, even after political reform.

When Indonesia entered the New Order era, economic development was growth-oriented without regard to equity. Policies of industrialization and foreign direct investment boosted GDP growth, but were not accompanied by equitable income distribution. This was exacerbated by the emergence of rent-seeking behavior among bureaucrats and crony entrepreneurs who accumulated wealth through power relations, not productivity. Thus, despite high economic growth rates, inequality, especially in the agricultural sector and rural areas, continues to widen.

After the reform era, although democratization occurred politically, economic transformation has not been inclusive. Direct elections and decentralization have created a new arena for local elites to consolidate their political-economic power. In many cases, land tenure, mining contracts or local budget management are still dominated by local political elites affiliated with certain parties or groups. This creates a new form of structural inequality.

In the global context, economic globalization and world market integration also have an ambivalent impact on inequality. On the one hand, globalization opens access to trade and investment, but on the other hand, it increases the dependence of developing countries on world market mechanisms. When exchange rates fall, commodity prices plummet, or there is a global crisis such as the 2008 financial crisis or the COVID-19 pandemic, developing countries are the most vulnerable. For example, during the pandemic, developed countries were able to carry out a large amount of economic stimulus to maintain the purchasing power of their people, while developing countries were constrained by limited fiscal space, thus deepening domestic and global inequality.

The issue of gender inequality is also important to consider in terms of socio-economic inequality. In many developing countries, women still face structural barriers in accessing education, formal employment and financial services. These inequalities are multidimensional, rooted in patriarchal social norms, lack of legal protection for women workers, and the absence of gender-based economic empowerment programs. In Indonesia, although the Gender Development Index (HDI) continues to increase, many women in rural areas still work in the informal sector with low wages and no social security.

In response to these conditions, solutions to reduce inequality must be holistic, multidimensional and long-term. First, reform of the tax system is needed to impose higher taxes on high-income groups and speculative sectors, such as property and financial investments. The funds collected from these progressive taxes should be allocated to finance public services, such as education, health, and basic infrastructure that can be accessed by the poor.

Second, the state needs to develop a comprehensive social protection system, not only in the form of direct cash transfers, but also through universal health insurance, pensions for the elderly poor, higher education subsidies for poor families, and vocational training for informal workers. Countries such as Brazil (through the Bolsa Familia program) and Mexico (with Prospera) have shown that such programs can reduce poverty and narrow inequality when managed in a transparent and accountable manner.

Third, it is important for the state to strengthen the capacity of the regional bureaucracy. One of the main weaknesses of decentralization is the lack of competence of local officials in formulating and executing data-driven policies and social justice. Improving the quality of education and training for state civil servants, as well as implementing a meritocracy system in the appointment of local officials, will help ensure that local policies are implemented by those who are truly competent and not caught up in conflicts of interest.

Fourth, there is a need for affirmative policies towards vulnerable and marginalized groups. Affirmative action programs can include education quotas for students from disadvantaged areas, community-based entrepreneurship training for indigenous peoples, and the establishment of women's cooperatives to reduce gender-based inequality. This policy does not aim to create privileges, but to correct long-standing structural inequalities.

Fifth, the role of digital technology must be maximized to expand economic access equally. Digitalization of public services, fintech-based inclusive financial systems, and online learning allow individuals from remote areas to gain access that was previously limited. However, this can only be achieved if the state first builds equitable and affordable digital infrastructure.

Finally, synergy between the state, private sector and civil society is needed to promote equitable development. The concept of public-private-people partnership is important, where the private sector is not only profit-oriented, but also has a social responsibility to support economic inclusion. Large companies need to be encouraged to apply ESG (Environmental, Social, and Governance) principles in all their business processes.

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