

Inclusive or Divisive? The Impact of Entrepreneurship and Macroeconomic Drivers on Income Inequality in Indonesia

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Background: Income inequality remains a persistent challenge in Indonesia despite sustained economic growth and poverty reduction. While the country continues to advance toward its Vision 2045 goals of becoming a high-income and equitable nation, disparities in wealth and opportunity remain evident across regions and social groups. Entrepreneurship is widely promoted as a driver of innovation, job creation, and inclusive growth; however, its impact on income distribution is complex. In some cases, entrepreneurial activity fosters equality through employment and productivity gains, while in others, it amplifies disparities when access to capital and markets is uneven.

Purpose: This study investigates the impact of entrepreneurship, economic growth, trade openness, financial development, human capital, and labor force participation on income inequality in Indonesia. It aims to assess whether entrepreneurship fosters inclusive growth or exacerbates disparities, in alignment with Indonesia's Vision 2045 agenda.

Methodology: Using annual time-series data from 1990 to 2024, the study employs the Autoregressive Distributed Lag (ARDL) model to capture both short- and long-run relationships. Robustness is verified through Fully Modified Ordinary Least Squares (FMOLS) and Dynamic Ordinary Least Squares (DOLS) estimations, complemented by comprehensive diagnostic and stability tests.

Finding: The results reveal that entrepreneurship, financial development, and labor force participation exacerbate inequality in the long run, while economic growth, trade openness, and human capital help reduce income disparities. In the short run, GDP growth and human capital serve as strong equalizers, whereas entrepreneurship exerts only a mild effect. These outcomes suggest that without appropriate equity mechanisms, entrepreneurial and financial expansion may disproportionately benefit wealthier groups.

Limitation: This study is subject to several limitations that should be acknowledged. First, it relies on national-level time-series data, which may obscure regional variations in income inequality and entrepreneurial activity across Indonesia's diverse provinces. Second, the available data do not differentiate between necessity-driven and opportunity-driven entrepreneurship, which may have distinct effects on inequality. Third, while the ARDL model effectively captures short- and long-run dynamics, it may not fully account for potential structural breaks or nonlinear relationships arising from policy changes or economic shocks. Lastly, the study focuses primarily on macroeconomic variables, excluding sociopolitical and institutional factors that could also influence inequality dynamics. Future research should consider panel data and spatial approaches to provide deeper insights into regional disparities and the multidimensional nature of inclusive growth in Indonesia.

Originality: This paper offers one of the first Indonesia-specific long-term empirical analyses of the entrepreneurship–inequality nexus. By integrating multiple macroeconomic determinants,

it provides novel insights for achieving a more equitable balance between growth and inclusion in an emerging economy context.

Keywords: Entrepreneur, inclusive growth, income inequality, social equity