INTERPLAY BETWEEN INCOME INEQUALITY AND CORRUPTION IN ASEAN

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Abstract

Corruption contributes to rising income inequality by worsening access to social services, education, and economic opportunities. This study aims to examine the relationship between corruption and income inequality. Panel data was used to analyze six ASEAN countries over the period 2013-2022 with the main variables including Gini Ratio, economic growth, government spending, population, tax revenue, government effectiveness, and Corruption Perception Index (CPI). The results show that income inequality and corruption significantly affect each other. High inequality increases the risk of corruption, while corruption worsens income distribution. Other variables such as population, tax revenue, and government effectiveness also contribute to this dynamic. The study highlights the importance of effective redistribution policies and strengthened governance to reduce inequality and corruption, creating greater social and economic stability. Therefore, an integrated and complementary policy approach between reducing inequality and fighting corruption is key in creating cleaner and fairer governance.

Keywords: Income Inequality; Corruption; ASEAN; Gini Ratio; Governance

JEL Classification: D31, D73, 015, 043, P37

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INTRODUCTION

Income inequality in a country attracts attention in the study of development economics as a phenomenon that reflects an imbalance in the distribution of wealth (Hacibedel et al., 2023). This issue has become a serious focus for policymakers who consider its impact on economic growth, social stability, and the overall well-being of society (Makhlouf, 2023; Song et al., 2022). High levels of income inequality not only hinder access to basic services such as education and healthcare, but also reduce social mobility and widen the gap between socio-economic group. Over time, this disparity can lead to frustration, weaken institutional trust, and fuel political unrest. Furthermore, when income and opportunities are concentrated in the hands of a few, it undermines

inclusive economic development and limits the full potential of human capital (Uslaner, 2006). In the context of developing regions like ASEAN, this challenge is often intertwined with governance issues—particularly corruption—which further distorts resource allocation and exacerbates inequality.

As shown in the Figure 1, several ASEAN countries—such as the Philippines, Indonesia, and Thailand—display relatively high levels of inequality, with Gini coefficients approaching or exceeding 0.45. This places them among the more unequal economies globally. In contrast, some countries in the region, such as Vietnam and Malaysia, exhibit moderate levels of inequality, though still notable. The spatial distribution of Gini coefficients in ASEAN reflects deep-rooted structural and institutional disparities, including unequal access to education, health services, and employment opportunities. In addition to income inequality, Southeast Asia is also prone to corruption. The persistence of corruption in public institutions exacerbates these inequalities by distorting resource allocation and reducing the effectiveness of redistributive policies. Southeast Asia has a higher tolerance for corruption, perhaps due to weak institutions or fragility. Based on the ASEAN corruption perception index data in 2023 in Figure 2, it can be seen that almost all countries in ASEAN have a score below 50 except Singapore, which is a developed country with a score of 83. A corruption perception score of less than 50 means that the level of corruption in the country is quite high. Some ASEAN countries even have lower scores than Sub-Saharan Africa, which averages 33, namely Laos, Cambodia, and Myanmar. According to the Transparency Report, the causes of high corruption are due to dysfunction of the rule of law, increasing authoritarianism, and systemic corruption.

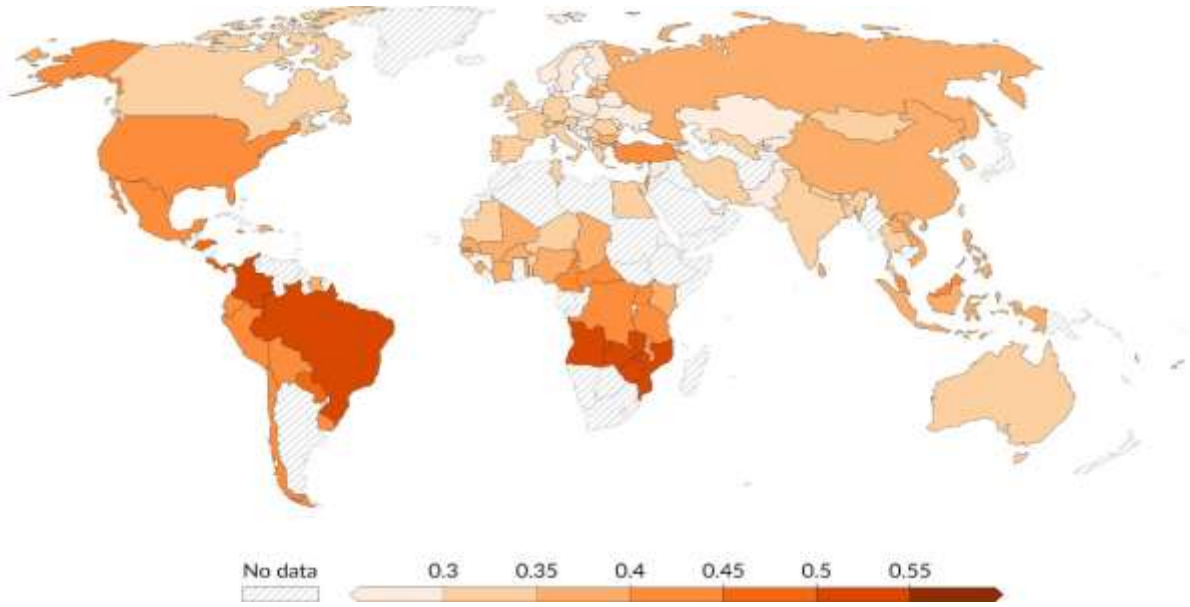

Figure 1. Gini Coefficient in ASEAN in 2023
Source: ASEAN (2023)

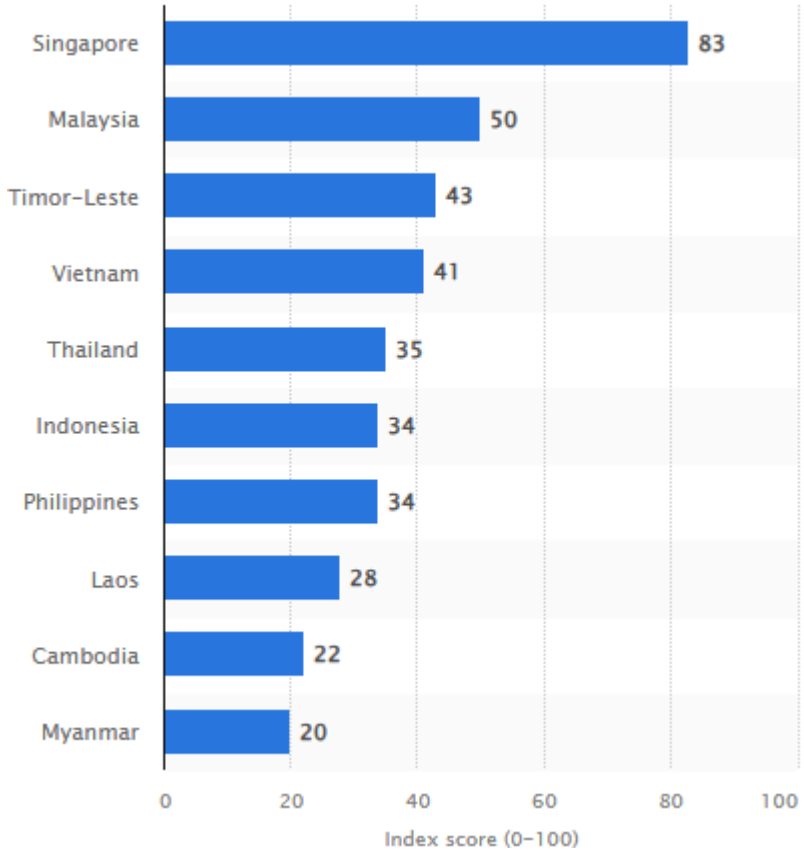

Figure 2. Perception Corruption Index in ASEAN Countries in 2023
Source: Transparency International 2023

Income inequality and corruption are serious structural challenges to economic development in the ASEAN region. Inequality is a complex problem that is influenced by various factors such as unequal access to education, infrastructure, unequal economic growth (Syadullah et al., 2019). Apparently, income inequality has an influence on corruption. Corruption can increase poverty by reducing the level of social services available to the poor (Yan & Wen, 2019). Nguyen et al. (2020) found that corruption tends to benefit better-connected individuals, who usually come from high income groups, while the poor receive negative impacts. While Dincer & Gunalp (2012) in their research found that corruption creates an increasingly unequal distribution of income in society. Corruption can further hamper economic growth by increasing transaction costs, reducing the efficiency of public investment, and creating distortions in resource allocation. Therefore, understanding the link between income inequality and corruption is crucial in formulating sustainable and inclusive development strategies. This study aims to analyze how income inequality and corruption influence each other.

LITERATURE REVIEW

Income inequality and corruption

Corruption and inequality contribute negatively to a country's economic performance (Anyanwu et al., 2021). Corruption leads to major efficiency losses in society, adversely affecting business competitiveness and economic development (Arnone & Borlini, 2014). The impact of corruption on the economy (as well as on society at large) includes the fact that corruption can hamper economic growth, affect business operations and investment and encourage income inequality in society (Wong, 2025). Other studies argue that the effect

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of corruption on economic growth is context specific and will depend on the country's political regime, institutions and laws. Choi & Woo (2011) state that in highly corrupt countries, economic liberalization may lead to faster economic growth but does not improve distributive justice, thus maintaining or increasing inequality. In this line of thought, In environments with limited economic freedom and high regulation, corruption can facilitate economic growth by allowing entrepreneurs to bypass inefficient policies and regulations (Ba Trung & Kaizoji, 2017). This is often referred to as the "grease the wheels" hypothesis, where corruption acts as a mechanism to overcome bureaucratic delays and inefficiencies (Heckelman & Powell, 2010).

In general, corruption is not explicitly blamed for these growing inequalities (Heckelman & Powell, 2010), but several authors have documented how these elites gain protection from the state through practices related to deregulation (Heckelman & Powell, 2010), transfer of public assets at bargain prices (Mahmalat et al., 2023), favorable licenses, permits or public contracts (Ertürk, 2020; Korkut Alp, 2022). Corruption can affect income inequality in various ways, directly, through a biased tax system that favors the wealthy and well connected or indirectly. High taxes and inefficient administrative systems, often a result of corruption, can lead to tax evasion, reducing government revenue and increasing economic disparity (Özker et al., 2025). The level and effectiveness of social spending and unequal access to education and public services, taking into account especially public health services (Hermann, 2016).

Income inequality can impact levels of corruption and poverty (Apergis et al., 2011).This can create a divide between the rich and the poor, where well-off individuals have a higher risk of engaging in corrupt practices, while poor individuals are more vulnerable to extortion and find it difficult to hold those who are wealthier to account (Tikum, 2025; You, 2021). As a result, the economic gap widens, enriching the rich and marginalizing the poor. But the impact of income inequality on corruption will differ between more democratic and less democratic countries. In more democratic countries, the wealthy elite may capture policymaking processes and corrupt electoral systems, leading to a vicious cycle of high inequality and high corruption (You, 2021). In less democratic or authoritarian regimes, electoral authoritarian regimes with multiple parties may have lower levels of inequality compared to non-electoral authoritarian regimes (Teo, 2021). In developing countries with uneven political power distribution, corruption may paradoxically reduce income inequality as non-dominant groups engage in corruption to access public services and support income-generating activities (Teo, 2021).

RESEARCH METHODS

This research was conducted in ASEAN countries but due to data availability, it only involved 6 countries from 10 countries listed as ASEAN countries, namely Indonesia, Malaysia, Singapore, Thailand, Philippines, Vietnam, Cambadia. This research was conducted from 2013 to 2022. This study uses the panel data method, using the variables of gini ratio (GR), economic growth (EC), government expenditure (ExpG), population (Pop), tax revenue (Tax), government effective (effectG), corruption perception index (Corp) (See Table 1).

This study employs a quantitative approach using the Two-Stage Least Squares (2SLS) estimation technique to analyze the simultaneous relationship between income inequality (GINI ratio) and the Corruption Perception Index (CPI). The choice of 2SLS is based on the existence of a simultaneous relationship between the two variables, which may result in endogeneity if estimated using

Ordinary Least Squares (OLS), thus producing biased and inconsistent results. The 2SLS estimation is conducted using statistical software such as Satat.

Equation model:

$$Corpit = \beta_0 + \beta_1 EC_{it} + \beta_2 ExpG_{it} + \beta_3 Pop_{3it} + \beta_4 Tax_{it} + \beta_5 EffectG_{it} + \beta_5 GR_{it\ it} + \mu_{it} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (1)$$

$$GRit = \beta_0 + {}_1 EC_{it} + \beta_2 ExpG_{it} + \beta_3 Pop_{3it} + \beta_4 Tax_{it} + \beta_5 EffectG_{it} + \beta_5 Corp_{it\ it} + \mu_{it} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (2)$$

Description:
GR= Gini Ratio
EC= Economic Growth
ExpG= Government Expenditure
Pop= Population
Tax= Tax Revenue
EffectG= Government Effectiveness
Corp= Corruption
μ_0, β_0= Intercept
μ, β= Variable coefficient value
i= Cross-section data of developing countries
t= Time series data for 10 years (2013-2022)
$u_{1,t}, u_{2,it}$= error term

Justification of Study

High inequality can hamper economic growth as most of the income is concentrated in a small group (Hudson et al., 2022). In addition, high inequality can lead to social instability, which negatively affects investment and productivity. Therefore, the relationship between the gini ratio and economic growth is negative (Andoh et al., 2023). While income inequality decreases as government spending increases. If government spending is focused on redistribution programs or pro-people spending, the Gini Ratio tends to decrease. A large population leads to rapid urbanization without effective income redistribution, so an increase in population can lead to an increase in the Gini Ratio (Andoh et al., 2023). A higher level of tax revenue, if a progressive tax policy is implemented, will reduce the Gini ratio more significantly. Conversely, if the tax system is regressive (e.g. a consumption tax that burdens the poor proportionally more), the Gini ratio may increase as the poor bear a heavier tax burden. Government effectiveness reflects the extent to which public policies are well designed and executed. The relationship between the Gini ratio and government effectiveness tends to be negative, meaning that an increase in government effectiveness will generally reduce the Gini ratio (Ariely & Uslaner, 2016). Corruption tends to increase the Gini ratio, which means worsening economic inequality. Corruption hinders the fair and equitable redistribution of income, and hinders opportunities for the poor to improve their welfare.

RESULT AND DISCUSSION

The data characteristics are shown in Table 2 by identifying the data distribution and overview of the variables studied. The descriptive statistical results show that there are significant inequalities across regions. Perceptions of corruption remain high with an average CPI of 42.47, reflecting large inter-regional variations in governance. Economic growth averaging 4.33% also shows stark differences, with some regions experiencing economic contraction. The uneven population, with an average of 84,534 people, points to challenges in public service provision and economic capacity. Tax revenues are relatively stable, but some regions are still lagging behind. Moderate government effectiveness (average 0.42) indicates the need for improved public services and development policies. Income inequality as reflected by the Gini Index averaging 0.418 indicates the need for more inclusive policies to reduce social and economic disparities.

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Table 1. Description of Variables

Variables	Description	Measurement	Data Source
Corruption	A composite indicator to measure perceptions of public sector corruption on a scale of 0 (very corrupt) to 100 (very clean)	Score : 0 – 100 (very corrupt) – (very clean)	www. transparansi.org
Gini Ratio	Measures the extent to which the distribution of income or consumption among individuals or households in an economy deviates from an equitable distribution.	Score : 0-100 (equality-inequality)	www.worldbank.com
Economic Growth	The percentage increase in a gross national product	Percentage (%)	www.worldbank.com
Government Expenditure	General government final consumption expenditure	Dollar AS	www.worldbank.com
Population	The number of people living in a certain area	Person	www.worldbank.com
Tax Revenue	The amount of money the government collects through taxes, such as income tax, payroll tax, and goods and services tax.	% of GDP	www.worldbank.com
Government Effectiveness	Perceptions of the quality of public services, the quality of public services and their level of independence from political pressure, the quality of policy formulation and implementation, and the credibility of government commitments.	Score : -2.5 (less effective) to 2.5 (more effective)	www.worldbank.com

Table 2. Characteristics of Research Variables

	Observasion	Min.	Max.	Mean	Std. Deviation
giniindex	70	.35	.55	.4180	.05575
cpi	70	20	86	42.47	19.026
EcGrwoth	70	-9.52	9.69	4.3341	3.47639
population	70	5399.00	275501.00	84534.2857	82761.46824
taxrev	70	8.31	19.73	13.5689	2.12482
goveffec	70	-.91	2.28	.4231	.86585

Sumber : Data Processed, 2024

Regression Results Model Fit Selection Model 1

Panel data analysis methods can use three modeling models that can be selected, namely Pooled Least Square (PLS), Fixed Effect Model (FEM), and Random Effect Model (REM). The best model selection will be known by conducting the Chow test and Hausman test.

The Chow test was obtained to select the Pooled Least Square model and the Fixed Effect Model, obtained a probability value of 0.0000 which is smaller than α = 5 percent (0.05) which means accepting the hypothesis to use the Fixed Effect Model. Furthermore, the Hausman test is carried out to select the Fixed Effect Model or Random Effect Model. The results of the Hausman test statistical test obtained a probability value of 0.0000 which is smaller than α = 5 percent (0.05) which means accepting the hypothesis to use the Fixed Effect Model (See Table 3).

Model 2

Panel data analysis methods can use three modeling models that can be selected, namely Pooled Least Square (PLS), Fixed Effect Model (FEM), and Random Effect Model (REM). The best model selection will be known by conducting the Chow test and Hausman test.

The Chow test was obtained to select the Pooled Least Square model and the Fixed Effect Model, obtained a probability value of 0.0000 which is smaller than α = 5 percent (0.05) which means accepting the hypothesis to use the Fixed Effect Model. Furthermore, the Hausman test is carried out to select the Fixed Effect Model or Random Effect Model. The results of the Hausman test statistical test obtained a probability value of 0.0000 which is smaller than α = 5 percent (0.05) which means accepting the hypothesis to use the Fixed Effect Model (See Table 4).

Regression Estimation Results

The estimation model selected and used is the fixed effect panel data model. In essence, the fixed effect model can handle heteroscedasticity because its approach focuses on inter- individual or inter-entity variability (Wooldridge, 2002). Fixed Effect automatically reduces autocorrelation in the model by controlling for fixed individual variables (Saihu, 2021). Multicollinearity in panel data models is tested less frequently because variables that do not vary across individuals are automatically eliminated in the Fixed Effect approach. The assumption of normality of residuals is not a major concern in panel data because the Central Limit Theorem states that the error distribution will approach normal as the sample size increases (Baltagi, 2013).The Fixed Effect approach emphasizes more on controlling individual unobserved heterogeneity by eliminating individual or time fixed effects. Therefore, classical assumptions are not fully relevant for this model, as the estimation relies primarily on within variation (variability within individuals or entities over time) (Gujarati, 2003). Panel data has the advantage of overcoming several violations of classical assumptions due to its nature of combining dimensions across time and across individuals.

Table 3. Model 1 Fit Selection

Model Test	Probabilities Chi-Square
Uji Chow	0.0000
Uji Hausman	0.0000

Source: Author, 2024

Table 4. Model 2 Fit Selection

Model Test	Probabilities Chi-Square
Uji Chow	0.0000
Uji Hausman	0.0440

Source: Author, 2024

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Table 5. Model 1 Estimation Results

Dependent: Corruption (CPI)				
Variable	**Variable Code**	**Coefficient**	**Standard Error**	**Probability**
Constanta	Cons	29.65727	.0693809	0.008*
Economic Growth		-.0072004	.0693809	0.918
Population		.000024	.0000784	0.761
Tax Revenue		-.3800109	.18493	0.044*
Government Effectiveness		6.537821	1.954062	0.001*
Gini ratio		31.59047	15.38054	0.044*
R sqOverall	= 0.8389			
Prob F stat	= 0.0000*			

Variable Dependent: Corruption
Note: *(alpha < 5%)

Table 6. Model 2 Estimation Results

Dependent: Gini Rasio (GR)				
Variable	**Variable Code**	***Coefficient***	**Standard Error**	**Probability**
Constanta	Cons	.4518133	.001045	0.000*
Constanta		.0004181	5.92e-07	0.466
Economic Growth		-1.99e-06	.0015483	0.001*
Population		.002353	.0173466	0.134
Dependent: Gini Rasio (GR)				
Variable	**Variable Code**	***Coefficient***	**Standard Error**	**Probability**
Government Effectiveness		.0223206	.0173466	0.203
Corruption		.0021463	.0005693	0.044*
R sqOverall	= 0.1313			
Prob F stat	= 0.0000*			

Variable Dependent: Gini Rasio
Note: *(alpha < 5%)

Model equation 1 where the corruption variable is the dependent variable based on Table 5, it is known that the overall R-square value is 0.8389, meaning that the model is able to capture 83.89% of the variation in the dependent variable by considering both variation between countries and variation over time. Meanwhile, 16.11% of the variability of the dependent variable is explained by other independent variables not included in the model. Based on the calculation results, the probability value (p-value) of the F-statistic is 0.0000. This p-value is smaller than the real level (significance) α of 5 percent or 0.05. This result shows that based on the F-Statistic test, the null hypothesis is accepted that the independent variables used in the model jointly affect the dependent variable. With a confidence level of 95 percent (1 - α), it can be concluded that the independent variables used in the model together have a significant influence on the dependent variable.

The estimation results show that the corruption index when all independent variables in the model are considered constant is 29.66 points, including very high corruption. This study uses a significance level of 5% as a tolerance limit for the level of confidence in the effect of the independent variable on the dependent variable. When using a two-way hypothesis test, the variables that have a statistically significant effect on the level of corruption are tax revenue, government effectiveness, and gini ratio. Meanwhile, economic growth and population have no statistically significant effect on the level of corruption.

Model equation 2 where the corruption variable is the dependent variable based on Table 6, it is known that the overall R-square value is 0.1313, meaning that the model is able to capture 13.13% of the variation in the dependent variable by considering both variation between countries and variation over time. Meanwhile, 86.87% of the variability of the dependent variable is explained by other independent variables not included in the model. Based on the calculation results, the probability value (p-value) of the F-statistic is 0.0000. This p-value is smaller than the real level (significance) α of 5 percent or 0.05. This result shows that based on the F-Statistic test, it accepts the null hypothesis that the independent variables used in the model jointly affect the dependent variable. With a confidence level of 95 percent (1 - α), it can be concluded that the independent variables used in the model together have a significant effect on the dependent variable. The estimation results show that the level of inequality if all independent variables in the model are considered constant is 0.45 points, including not lame. This study uses a significance level of 5% as a tolerance limit for the level of confidence in the effect of the independent variable on the dependent variable. When using the two-way hypothesis test, the variables that have a statistically significant effect on the level of inequality are corruption and population. Meanwhile, economic growth, tax revenue, and government effectiveness have no statistically significant effect on the level of corruption.

Discussion

This study uses two equations to determine how the corruption variable affects the gini ratio variable and how the gini ratio variable affects corruption accompanied by other independent variables such as population, tax revenue, and government effectiveness. Based on the results in Table 6 and Table 7, it is known that the economic growth variable has a very low real effect on both equation 1 (dependent variable: corruption) and equation 2 (dependent variable: gini ratio) of only 8.2% and 53.4%. Corruption and inequality work simultaneously in restraining the positive effects of economic growth. In fact, in the long run, the combination of corruption and inequality creates social and political instability that undermines the investment climate and slows down development (Triatmanto & Bawono, 2023). As stated by Kouadio & Gakpa (2022), there is a trade-off relationship between inequality and economic growth. Although economic theory expects that economic growth will reduce inequality and corruption, the results of this study show that the relationship is not always linear or significant, which may be due to the complexity of other factors that are not covered by this model.

Population has different results in equation 1 (dependent variable: corruption) which does not show any real effect statistically even only 23.9% compared to equation 2 (dependent variable: gini ratio) which has the highest real effect. The significant effect of population in equation 2 is due to the fact that population is directly related to the distribution of resources and economic opportunities, which affects income inequality (Ortega et al., 2014).The larger the population, the greater the potential disparity between the

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rich and the poor, especially if resources are limited or socio-economic inequality is high. Although it has a very statistically significant effect, the magnitude of the effect is very small, given the very small coefficient (-1.99e-06). This means that although there is a relationship, the effect of an increase in population on income inequality (Gini ratio) is minimal. The coefficient of population of -1.99e-06 on the Gini ratio means that every one unit increase in population will decrease the Gini ratio by 0.00000199 (or -1.99e-06). In other words, the negative coefficient indicates an inverse relationship between population and income inequality: if population increases, the Gini ratio tends to decrease slightly. This result may be influenced by the fact that most of the population growth comes from the lower economic classes or from sectors that are underrepresented in the economy, so an increase in population may have a positive impact in reducing inequality (Tebaldi & Mohan, 2010). This finding aligns with previous studies suggesting that rapid population growth can strain public resources and services, disproportionately affecting lower-income groups and widening the income gap. In the context of ASEAN, where population density and urbanization rates are high in several member states, the effects become more pronounced (ASEAN Sekretariat, 2022). Rapid population increases, if not accompanied by proportional growth in employment, education, and social services, exacerbate inequality. Moreover, demographic pressures may also increase competition for limited economic resources, contributing to uneven income distribution. These results highlight the need for ASEAN governments to adopt population-sensitive economic planning that prioritizes inclusive growth and equitable access to resources.

Meanwhile, the size of the population cannot reflect a real influence on the level of corruption, because corruption leads more to the quality of human resources or population so that it will be more related to the quality of education or even the quality of government (Hysa, 2016). These results are validated in the effect of government effectiveness which has a statistically significant effect and also the tax revenue variable which is statistically significant. Although the results of government effectiveness show a positive coefficient value of 6.537821, meaning that an increase in government effectiveness will increase corruption. In contrast to the results of government effectiveness which has a positive effect, tax revenue has a negative effect on the level of corruption. Effective governance—characterized by efficient public service delivery, strong institutional capacity, and low levels of bureaucratic corruption—can create a more equitable distribution of economic opportunities (Keneck-massil et al., 2024; Mota, 2021). Higher government effectiveness has the opportunity to increase administrative power and control, which makes it easier to commit corruption or abuse positions for personal gain (Njideka & Chukwuebuka, 2014). In the ASEAN, countries with higher governance standards tend to implement redistributive policies more successfully, reducing inequality and corruption (Susilowati et al., 2024; Ambassa Messy, 2024). Conversely, weak governance often leads to corruption, as a result, not only widens income inequality, but also exacerbates the cycle of poverty, and impedes inclusive growth. In addition, the government effectiveness variable used in this model is measured by perceptions of public services, which do not reflect excess or good administration but rather political influence or success on the surface, which is not always followed by sufficient transparency or accountability, which triggers an increase in corruption. Government effectiveness that increases corruption may occur in countries with high administrative power but low oversight. In this case, even if the government manages to implement policies effectively, the lack of oversight and trans-

parency may create opportunities for more widespread corrupt practices (Rahimi et al., 2023). These insights underscore the importance of strengthening institutional frameworks and governance mechanisms across the region to achieve more inclusive and sustainable development. The findings reveal that government effectiveness plays a critical role in mitigating income inequality within ASEAN countries. This supports the theoretical view that institutional quality is a key determinant of development outcomes.

On the other hand, higher tax revenue reflects a more transparent and accountable government in managing public resources. This increase can help lower the incentives for corruption, as the government no longer needs illegal means to fill state coffers. Evidence from previous research suggests that there is a complex relationship between tax revenue and corruption. Research by Zumba et al. (2021) reinforces the results, that the difference in the sign of the coefficient between government effectiveness and tax revenue can be attributed to the fact that corruption loopholes are not in tax-related matters, but in other matters, such as investment, by using administrative defects as a means of corruption. Research by Alarcón-García et al. (2017) shows that accountability is usually carried out by conducting financial reporting, in this case related to tax revenue, can use several tricks to avoid tax expenditures so that it is possible that there is misuse of project or activity reporting. This may sound counterintuitive, however, corruption can be more effective under governments that are more powerful or effective in controlling resources, especially if there are weaknesses in transparency and accountability Ariely & Uslaner (2016). Effectiveness without accountability can exacerbate corruption as it increases the ability to manage and hide corrupt acts. Many ASEAN countries, corruption has weakened the effectiveness of the tax system (Firman & Munim, 2022). Practices such as tax evasion, bribery in the collection process, and weak enforcement of tax laws significantly reduce the country's revenue potential. When tax revenues are low due to corruption, governments lose the ability to provide adequate public services and conduct equitable wealth redistribution. This has a direct impact on increasing social and economic inequality. Therefore, transparent and accountable tax reforms, as well as strict law enforcement against tax violations, are essential to break the cycle of corruption and strengthen the fiscal base to support inclusive and equitable economic growth in ASEAN.

Finally, both the effect of the gini ratio variable on the level of corruption, and the level of corruption on inequality show a statistically significant effect. The effect of the level of inequality on the level of corruption has a coefficient of 31.5904, meaning that an increase in inequality will increase corruption. Similarly, the level of corruption will increase the level of inequality by .0021463, meaning that an increase in corruption will increase inequality. Both corruption and inequality measures are in the range of 0 to 100, so it can be concluded that inequality has a greater influence on corruption with the result that corruption is categorized a high. Countries with a high Gini ratio generally also face greater levels of corruption. Extreme income inequality creates social conditions that are prone to corrupt practices, where elites tend to utilize their position and power to maintain their privileges, while the poor do not have equal access to justice and public services (Ambassa Messy, 2024). This is in line with the theory that high levels of income inequality can create social tensions and dissatisfaction among the poor, which can trigger corruption among individuals or government officials who feel a lack of economic opportunity. For example, Dobson & Ramlogan-dobson (2010) found that countries with high income inequality tend to have higher levels of corruption.

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This is linked to sociological and political economy theories that suggest that social inequality can exacerbate distrust of government and increase incentives for individuals or groups to seek advantage through corrupt practices. Research by Saha et al. (2021) also shows that high income inequality can lead to public policies that are more prone to corruption as wealthier elites often have greater political influence and can more easily exploit the system for personal gain. Corruption in this context is not only a symptom of inequality, but also a structural cause that worsens wealth distribution (Gupta et al., 1998). When corruption goes unchecked, public policies tend to favor certain groups, strengthen wealth concentration, and weaken social mobility. Therefore, controlling corruption is not only important for improving economic efficiency, but also a fundamental requirement for reducing the Gini ratio and creating a more equitable and inclusive social system.

On the other hand, the effect of corruption on inequality has results that are still in the equality category although the effect is smaller than the effect of inequality on corruption. This indicates that while corruption may contribute to economic inequality, its effect may be more limited in this context. Scientific evidence from studies such as Jungo et al. (2024) suggest that corruption exacerbates inequality because wealth acquired through corrupt practices is more often controlled by elite individuals or groups, which narrows income distribution and exacerbates social inequality. Berggren & Bjørnskov (2020) also found that corruption can affect income distribution as resources that should be used for economic development and poverty reduction are instead diverted or misused.

CONCLUSION AND RECOMMENDATION

The larger effect of Inequality on Corruption indicates that countries or regions with high income inequality are more likely to experience increased corruption. The smaller effect of corruption on inequality suggests that while corruption may indeed exacerbate inequality, its direct effect may be more limited or more complex. It is possible that inequality is not only affected by corruption, but also by other factors such as access to education, employment, and broader social policies. The larger effect of inequality on corruption and the slightly smaller effect of corruption on inequality leads to the understanding that corruption and inequality have a reciprocal relationship, meaning that addressing one can help address the other. The results of this study reinforce the theory that corruption is not only an institutional problem, but also has a broad impact on income distribution and people's welfare. This suggests the importance of policies that not only focus on controlling corruption, but also on reducing social and economic inequality to create a more transparent and fair government. In addition, policies that promote economic equity, such as progressive tax reforms and investments in education and the public sector, can help reduce income inequality and promote sustainable economic growth.

Limitation

The model used considers some economic and institutional variables, but does not include other factors such as the quality of the legal system, political culture, or the role of the informal sector that may also affect inequality and corruption.

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