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THE PHENOMENON OF 'MIDDLE CLASS SQUEEZE': ANALYSIS OF CAUSES AND IMPLICATIONS FOR SOCIAL STABILITY AND SUSTAINABLE DEVELOPMENT IN INDONESIA

Febyana Putri Komalasari[1*], Ajeng Faizah Nijma Ilma[2], Anandhiya Intan Prabandari[3], Sausan Nuhaa Maisarah[4]

[1-4] Faculty Economic and Business, Jenderal Soedirman University, Indonesia
[*]Email corresponding author: ajeng.faizah@unsoed.ac.id

Abstract

The concept of "Middle Class Squeeze" refers to the economic pressures exerted on the middle class, which can result in a segment of this demographic descending into lower social classes. This study aims to investigate the factors contributing to this phenomenon and its repercussions on social stability and sustainable development in Indonesia. Employing a qualitative research methodology, this investigation utilizes a literature review complemented by secondary data analysis. The results indicate that the primary factors influencing this phenomenon encompass income stagnation, inflationary trends, escalating living costs, job insecurity, and economic policies that fail to adequately promote the growth of the middle class. The implications of the Middle Class Squeeze include an increase in social inequality, a decline in purchasing power, and a weakened contribution of the middle class to economic growth. Consequently, the formulation of comprehensive policies is imperative to sustain the viability of the middle class and to mitigate its adverse effects on national development.

Keywords: *Middle Class Squeeze, Middle Class, Social Stability, Sustainable Development, Economic Inequality*

INTRODUCTION

The middle class has a strategic role in driving the economy and social stability of a country through innovation, investment, domestic consumption, and contributing to the strengthening of human capital (Chun et al., 2017). The existence of the middle class is an educated and skilled human resource that has the ability and power to demand public services and good governance, so that it has a significant influence on economic growth and political stability (Ngo, 2023). In Indonesia, the middle class has been the main driver of national economic growth, especially through its contribution to household consumption, which has grown by an average of 12% per year since the early 2000s (World Bank, 2020). At its peak in 2018, the middle class population reached around 59.5 million people, or around 21.5% of the total population (B, 2018).

Macroeconomic data in Indonesia shows positive trends such as aggregate growth and a significant reduction in poverty, with Indonesia's poverty rate falling from 11.22 per cent in March 2015 to 9.36 per cent in March 2023 (BPS, 2023b). However, there are indications of increasing financial pressures on middle-class households as inflation rises by 0.76 per cent by 2025, characterised by increases in most basic necessities, namely food, energy, transport, higher education costs and healthcare (BPS, 2025). In addition, government policies often focus on conditional cash transfer, protection and social assistance programmes aimed at the poor, while the middle class is often not similarly supported (Bakhshinyan et al., 2019; Molyneux et al., 2016; Pratomo, 2020). The consequence for the middle class is to take away from them the taxes and regulations that favour the poor. The pressure on the middle class is compounded by structural challenges including increased precarious employment in the informal sector and limited access to stable employment (World Bank, 2020). Thus, the middle class's opportunities to increase real income have always been out of line with the rate of inflation.

The characteristics of Indonesia's middle class, often measured by monthly per capita expenditure levels in the range of IDR 3.7 million to IDR 6 million according to the World Bank (2020), put them in a vulnerable position to such pressures. Many of them work in the formal sector, are professionals, or are small and medium-sized entrepreneurs who are highly dependent on macroeconomic stability and supportive policies, so changes in economic conditions directly impact their well-being and financial security. This indicates that the segment of the population that is supposed to be the engine of the economy is facing significant challenges in maintaining their standard of living. If left without proper intervention, the middle-class squeeze phenomenon has the potential to cause widespread and systemic negative impacts.

Prolonged economic pressure can lead to a decline in quality of life, increased financial stress, and difficulty in affording daily necessities, leaving individuals socially and economically disadvantaged and even worse off than before. At the macro level, the decline in middle-class purchasing power hampers domestic consumption, which is a vital component of Indonesia’s economic growth, given that household consumption accounts for more than 50 per cent of Indonesia's GDP (BPS, 2024). The middle class squeeze phenomenon can widen the gap of social inequality, as the pressure on the middle class can trigger a shift in wealth distribution towards the upper group and increase economic vulnerability, trigger public frustration and discontent, and ultimately have implications for the country's social and political stability.

Therefore, it is necessary to conduct in-depth research on the phenomenon of 'middle class squzee" in Indonesia. Comprehensive analyses are needed to examine the underlying factors contributing to Middle Class Stress and explore its implications for social stability and sustainable development in Indonesia. By understanding the challenges faced by the middle class, we can better evaluate the potential risks to societal cohesion and overall economic health.

LITERATURE REVIEW AND HYPOTHESIS FORMULATION

This section contains literature that is referenced and linked to hypothesis research and development. This section also contains theories and literature that are referenced and connected to article writing. It is highly recommended that the referenced literature be published **no more than 10 years** in advance in the following order: well-known international journals, accredited national journals, national journals, international symposiums, national symposiums, textbooks, and daily reputations.

1. Middle Class Squeeze Conceipt

According to the World Bank, the middle class in Indonesia is defined as individuals with daily per capita expenditure between US$10 and US$50 (PPP), which is generally equivalent to a monthly expenditure of around Rp1.2 million to Rp6 million (World Bank, 2020). In Indonesia, the Central Bureau of Statistics (BPS) uses expenditure-based criteria to identify the middle class, which typically includes those with monthly expenditure between twice and three times the poverty line expenditure (Statistik, 2020). This classification system is expanded by some experts who see the middle class not only based on income but also lifestyle and access to education and health. Cattaneo (2022) added that the middle class includes individuals who have higher education, job stability, and the ability to access quality-of-life-based consumption. This definition is in line with Weberian social class theory that notes the middle class as a group that has a social position that can be maintained through access to productive and consumptive resources.

The ‘Middle Class Squeeze’ (MCS) refers to a condition in which the middle class experiences economic pressure that results in stagnation or decline in their purchasing power, despite possible macroeconomic growth (Piketty, 2014). It is a manifestation of the broader theory of economic inequality, where the distribution of wealth and income is becoming increasingly unequal. Income stagnation, accompanied by cost-of-living inflation, leads to a ‘squeeze’ that threatens the well-being of the middle class and widens the economic gap.

2. Factors Affecting Middle Class Squeeze

Various factors contribute to the emergence of the Middle Class Squzee phenomenon and its impact on social stability and sustainable development:

a. Economic Inequality
   - Unequal Distribution

     One of the main factors causing pressure on the middle class is the worsening inequality in income distribution. Despite Indonesia's impressive economic growth, which has averaged around 5% per year over the past decade, wealth remains disproportionately concentrated. According to data from the World Bank, the richest 1% of Indonesians control around 30% of the country's wealth (World Bank, 2020)w, leaving the middle and lower socioeconomic classes to struggle with stagnant wages and declining purchasing power (Lomer & Lim, 2022; Popov et al., 2021) (Negre et al., 2020; Rodríguez-Pose et al., 2023). This inequality creates a significant gap between the wealthy few and the majority of the population, which directly burdens the ability of the middle class to improve their living standards.
   - Limited Access and resource constraints

     Inequalities in access to quality education and healthcare further exacerbate these inequalities. Most individuals in the middle class face significant barriers in obtaining higher education due to expensive tuition fees, as well as low teacher quality in some regions (Dahlum & Knutsen, 2017; Monzurul Huq & Huque, 2014; Páez & Teelken, 2016). This has a direct impact on their ability to improve their skills and employment prospects, exacerbating existing economic inequalities.
   - Impact on Social Stability and Sustainable Development

     Impact on Social Stability and Sustainable Development

     The resulting sharp economic disparities can drive social polarisation, leading to significant discontent among the middle class and increased social tensions (Acemoglu & Robinson, 2012). Research suggests that such economic inequality often correlates with lower levels of social mobility; consequently, individuals may perceive limited avenues for upward progress (Granados & Sánchez, 2025). This perception can reduce trust in government institutions, fuel political discontent and ultimately jeopardise social cohesion, leading to potential unrest (Löhr et al., 2021).

b. Inflation and Rising Living Cost

   Persistent inflation affecting consumer goods such as food, energy and transport costs further exacerbates the economic pressure on the middle class. Indonesia has experienced significant increases in food prices. The average price of staples such as rice and cooking oil has risen by more than 10% annually in recent years (BPS, 2023a), while wage growth has been relatively low, at around 3% annually (ILO, 2024). This gap creates a widening gap between income and expenditure, which strains the financial stability of the middle class (Saez & Zucman, 2020). As a result, the middle class faces growing difficulties to maintain their lifestyle (Suyanto et al., 2019; Visagie, 2015). Frequent fluctuations in monetary and fiscal policies complicate the economic landscape, affecting price stability and the economy as a whole. For example, government policy changes regarding fuel and electricity subsidies have created uncertainty that has a direct impact on the middle class' cost of living (Cahyani, 2023; Dartanto, 2013).

As the cost of living increases disproportionately to income levels, the middle class experiences increasing economic pressure, leading to a decline in their overall quality of life and rising levels of dissatisfaction (Livingston et al., 2022; Ryu & Fan, 2023; Tayefi Nasrabadi et al., 2024). Surveys show that dissatisfaction with government policies related to inflation has led to a decline in public trust, contributing to political instability (Daniel, 2024)d . As a result, sustainable development efforts may be hampered if the middle class is unable to engage strongly in the economy, as they are usually the main drivers of consumption and economic activity ((OECD), 2019). This disempowerment could undermine the economic stability necessary for broad-based development and social progress in Indonesia.

c. Unemployment and Labour Issues

Indonesia recorded economic growth of around 5% per year over the past decade, and unemployment and underemployment rates, especially among individuals with tertiary education, remain very high (BPS, 2023a). Despite this, around 20% of university graduates are unable to find jobs that match their academic qualifications, often accepting positions that offer much lower wages than their educational investment would suggest (ILO, 2024). The failure to absorb educated labour into a suitable job market exacerbates the gap between expectations and realities faced by the middle class.

Indonesia's labour market is characterised by an excess of skilled labour compared to the availability of suitable job opportunities. This oversupply is compounded by the lack of businesses willing to hire new graduates without practical experience (Asiedu et al., 2024; Graham et al., 2019). As a result, individuals from the middle class entering the workforce face significant difficulties in finding positions that match their skill sets and at lower wages, resulting in a phenomenon known as "brain waste," where highly educated individuals are employed in unskilled roles (Geraldene, 2014; Hafford-Letchfield et al., 2014).

The failure to incorporate large numbers of educated individuals into the productive labour market has serious implications for social mobility (Choi, 2021). Decreased mobility not only fuels increased frustration and dissatisfaction among the middle class but also contributes to wider societal divisions, potentially leading to social unrest. As unemployment rates continue to rise, social stability may be jeopardised. Historical precedents show how high unemployment rates can trigger protests and civil unrest, as seen in various socio-political movements in Indonesian history. Growing frustration with government inaction can also lead to increased distrust of political institutions. The prospects for sustainable development become increasingly uncertain if the economic landscape fails to absorb skilled labour, especially in sectors that drive innovation and growth . The resulting stagnation could hamper long-term economic expansion and reduce the purchasing power of the middle class, which plays a crucial role as consumers in the economy.

d. Globalisation and Technology

The forces of globalisation have increased competition for Indonesia's middle class, who must not only face domestic challenges but also compete with a competitive international workforce (Faizah, 2020)w. The situation is exacerbated by rapid capital flows and the relocation of foreign investment, so local workers must adapt quickly to global standards and expectations (Daniel, 2024).

The rise of automation and technological advancements are fundamentally changing the labour market. Specific sectors, especially traditional manufacturing and services, are experiencing job losses due to automation technologies, such as robotics and artificial intelligence, which streamline operations and reduce reliance on human labour. (Ing et al., 2017; Singh & Tiwari, 2020). As a result, the types of jobs that have historically provided stable employment for middle-class workers are becoming less available.

Perceptions among the middle class that they are being left behind by global competition and technological advances can lead to declining social cohesion (Putnam, 2000). When individuals feel threatened by the evolving labour market and economic disparities, social stability becomes increasingly fragile, increasing the likelihood of protests and civil unrest. Structural unemployment emerges as a significant problem when the middle class struggles to adapt to the skills required in a rapidly changing economy (Bergin et al., 2019; Yue Shun, n.d.).If initiatives to upgrade and retrain workers are inadequate, this can lead to long-term economic stagnation, hinder sustainable development, and undermine overall economic resilience. Failure to address these challenges may further perpetuate cycles of poverty and inequality, undermining the social fabric.

e. Government Policy

Government strategies that under-emphasise wealth redistribution or neglect investment in sectors conducive to the development of the middle class such as education, healthcare and infrastructure, are likely to exacerbate the economic pressures experienced by this demographic . Regressive tax frameworks and ill-targeted subsidies often disproportionately favour the top of society or certain interest groups, marginalising the middle class (Stiglitz, 2001). Government policies that are not inclusive can lead to increased social inequality, fuelling discontent among the middle class and resulting in social instability (George, 2025).Furthermore, policies that do not prioritise sustainable development may hinder the capacity of the middle class to actively participate in inclusive economic growth, thereby undermining the sustainability of society's overall development (Nugroho et al., 2021)

f. Social and Cultural Change

Shifting social and cultural norms often drive changes in lifestyle and consumption expectations among the middle class, which may not keep pace with their income growth (Bourdieu, 1984). This can create additional financial pressure to maintain a certain social status or aspiration. A rapidly changing society can trigger a shift in middle-class identity, which creates a sense of vulnerability to their social status amidst economic uncertainty and changing social paradigms (Ghazi et al., 2013; Livingston et al., 2022). Social identity crises can lead to growing discontent among the middle class, exacerbating social tensions and intensifying polarisation in society (Bakhit, 2020; Rougier et al., 2025). In addition, instability in middle-class lifestyles and expectations can hinder processes that are important for sustainable development, as social uncertainty often limits investment and participation in the economy.

RESEARCH METHODS

This research will adopt a quantitative approach to systematically examine the phenomenon of the 'Middle Class Squeeze' (MCS). The method used combines case studies with content analysis, allowing for an in-depth exploration of the economic pressures faced by the middle class in a specific context. The data to be analysed are secondary data sourced from reputable institutions such as Indonesia's Central Bureau of Statistics (BPS) and the World Bank, supplemented by official government reports and relevant literature. The data is analysed descriptively to describe the characteristics and trends of the middle class, as well as causally to identify the factors causing the phenomenon, such as inflation, rising living costs, consumptive debt, the impact of the Covid-19 pandemic, and global economic instability. In addition, causal analysis is also used to evaluate the social and economic implications, including the impact on social and political stability and domestic economic growth. With this approach, this study aims to provide deeper insights into the impact of the 'Middle Class Squeeze' phenomenon on sustainable development and social stability in Indonesia.

RESULTS AND DISCUSSION

This research comprehensively confirms that the Middle Class Squeeze (MCS) in Indonesia is the result of a complex interaction of various factors, including real income stagnation, inflationary pressures and rising living costs, job insecurity due to a flexible but fragile labour market, a disproportionate tax burden, and government policies that have not fully supported the sustainability of the middle class. This finding is in line with the concept of the 'squeezed middle' which emphasises the erosion of the middle group's purchasing power from two directions: pressure from poverty at the bottom, as well as wealth concentration at the top (Chun et al., 2017; George, 2025).

Real income stagnation is the main driver of the Middle Class Squeeze (MCS) in Indonesia. Although Indonesia's GDP growth in 2024 was recorded at 5.1% (Sufni, 2024), this growth rate has not been fully reflected in an increase in middle-class household income. BPS' National Labour Force Survey (SAKERNAS) data shows that the average nominal monthly wage of formal workers in August 2024 reached IDR 3.42 million, only up by around 5.6% compared to the previous year. However, if adjusted for cumulative inflation over the 2020-2024 period, the real increase in formal wages was only around 1.2% per year, far behind the average increase in the price of basic necessities which reached 2.5% per year over the same period (BPS, 2024).

Perceptions among the middle class that they are being left behind by global competition and technological advances can lead to declining social cohesion (Putnam, 2000). When individuals feel threatened by the evolving labour market and economic disparities, social stability becomes increasingly fragile, increasing the likelihood of protests and civil unrest. Structural unemployment emerges as a significant problem when the middle class struggles to adapt to the skills required in a rapidly changing economy (Ngo, 2023; Todaro & Smith, 2020). If initiatives to upgrade and retrain workers are inadequate, this can lead to long-term economic stagnation, hinder sustainable development, and undermine overall economic resilience. Failure to address these challenges may further perpetuate cycles of poverty and inequality, undermining the social fabric.

This phenomenon is consistent with (George, 2025) argument that even moderate levels of inflation can continuously erode the real value of assets and fixed income, especially for the middle class who tend to have less diversified asset portfolios. While the upper class can protect their wealth by investing in financial assets and property whose value tends to rise with inflation, the middle class relies on fixed income and cash savings that are eroded by inflation. Furthermore, the structure of Indonesia's economic growth, which is oriented towards capital-intensive sectors such as mining, energy, and construction, has also widened the inequality in the distribution of growth benefits. A World Bank report (2020) notes that the contribution of the agricultural sector and MSMEs, which absorb most of the labour from the middle and lower classes, to GDP has remained relatively stagnant, while the productivity of capital-intensive sectors has increased rapidly, creating economic dualism. This is as described by Milanovic (2019) through the Elephant Curve, where the middle class

Vol. 01 No. 01 Year 2025, Page 883-897

in many developing countries tends to lag behind global growth as the distribution of economic output is favoured by the top 10%.

In the context of Indonesia, the level of inequality (Gini ratio) did fall slightly from 0.384 in 2022 to 0.375 in March 2024 (BPS, 2024), but remains at a high level for a country with a large population structure in the lower middle class. World Bank data (2020) also shows that the bottom 40% of incomes enjoy only 17% of total national income, while the top 20% control almost 46%, indicating persistent inequality. Thus, the stagnation of real incomes that has not kept pace with the rising cost of living, exacerbated by a less inclusive economic structure and the long-term impact of high inflation, has markedly fuelled the erosion of middle-class purchasing power in Indonesia. This reinforces the risk of downward mobility, where the middle class loses the ability to maintain its standard of living and slips downward. Trend chart of Real Wage vs. Inflation vs. Cost of Living (2020-2024) that It is clear that the cost of living is rising faster than real wages, while inflation jumps sharply in 2022:

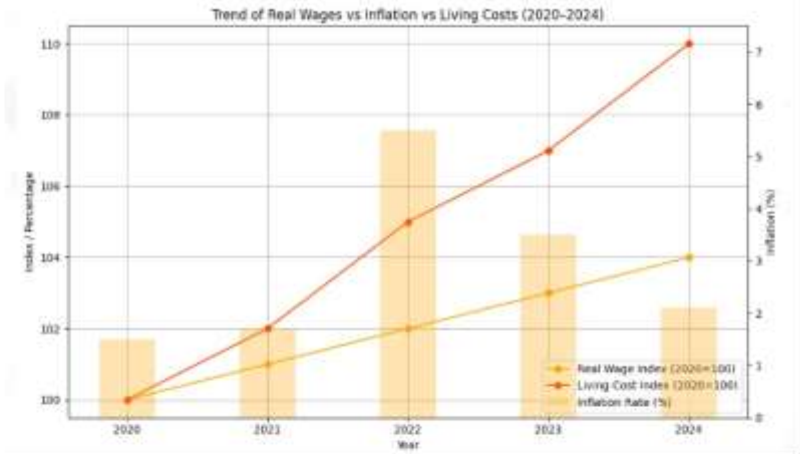

Figure 1. Secondary Data Processed (BPS)

The rising cost of living exacerbates the pressure on middle-class purchasing power and is one of the most obvious factors in the middle class squeeze. Rising prices of basic necessities, housing, education, health, and transport during 2023-2024 have a significant impact on the expenditure structure of middle-class households, which is becoming increasingly strained.

The increase in the price of basic necessities throughout 2023 was still higher than the rate of increase in real income. Data from Statistics Indonesia (BPS, 2024) shows that food price inflation throughout 2023 reached 4.18%, with commodities such as rice rising by up to 15% in some regions due to crop failure and global supply constraints. The price of eggs increased by 12% and beef prices rose by around 7% over the same period. The pressure on food is significant, as according to the National Socio-Economic Survey (SUSENAS, 2023), lower middle class households still allocate around 45-55% of their expenditure to food.

Housing costs, especially in big cities, have also risen significantly. Data from Bank Indonesia (Bank Indonesia, 2024)shows that the residential property price index rose by an average of 5.2% per year, with the sharpest growth in the subsidised housing segment, which is mostly accessed by the lower middle class. This increase was fuelled by rising land prices, building materials, and higher mortgage interest rates compared to the pandemic era. In Jakarta and Surabaya, the rental increase for middle-class apartments will reach an average of 6%-7% throughout 2023.

The cost of primary to secondary education increased by an average of 3.4% in 2023 (Badan Pusat Statistik, 2024), especially in private schools due to post-pandemic operational cost increases. The cost of higher education has risen even higher, with the average UKT increase at public universities reaching 5-7% per year (Subarkah, 2018). This burden of education adds to the psychological pressure of middle-class households who have higher education aspirations for their children as a way to maintain socio-economic status.

Health costs also continue to rise, influenced by increases in the cost of medical services and medicines. The average health cost index rose by around 2.9% per year in 2020-2024 (BPS, 2024), while middle-class health services in private hospitals increased by 4-5% per year. Meanwhile, BPJS Kesehatan's service coverage has not fully reached the need for higher quality services for the middle class.

Transport costs, which include both public transport and private vehicles, are increasing by an average of 3.5% per year, with spikes in the price of unsubsidised fuel such as Pertamax affecting households with private vehicles (IESR, 2024).

This phenomenon is in line with Maslow's (Maslow, 1943) hierarchy of needs, which suggests that when basic needs are not adequately met, individuals are driven to seek alternative means, such as extending working hours or taking on additional work, to maintain their physiological and security needs. Psychologically, this pressure can lead to financial stress, which also impacts the quality of life of middle-class households.

A faster increase in the cost of living than real income growth narrows the fiscal space of Indonesia's middle-class households. Consequently, they have to adjust consumption patterns, take on additional work, and in many cases sacrifice long-term quality of life in order to fulfil basic needs. This is not only an economic challenge but also a social risk, as the erosion of purchasing power and job insecurity could weaken the middle class' thrust as the engine of economic growth.

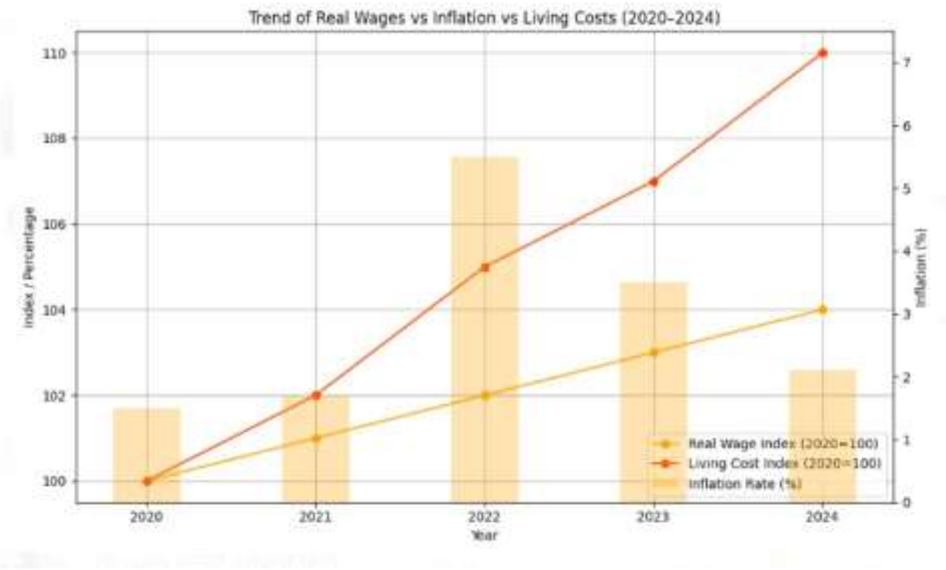

Figure 2. Trends Living Cost for Middle Class Income (BPS)

This data reinforces the justification that cost-of-living pressures in almost all major expenditure items of middle-class households are rising faster than their incomes. Job insecurity and labour market flexibility are significant factors putting pressure on Indonesia's middle class. BPS data (BPS, 2024) shows that the proportion of labour in the informal sector increased from 38.29% in 2019 to 40.64% in 2024, indicating a structural shift towards low-wage jobs with minimal social protection and relatively low productivity. Meanwhile, the Labour Force Participation Rate (TPAK) has stagnated at around 68-69% over the same period, indicating that while the labour force is growing, quality formal employment opportunities are not increasing proportionally.

This phenomenon is in line with the concept of job polarisation proposed by Siena (2024), Fonseca (2018), and Longmuir(2020), where middle-level jobs are shrinking, replaced by low-wage jobs in informal services or high-wage jobs in specialised professions. A World Bank report (2023) also noted that around 25 per cent of Indonesian workers are underemployed, i.e. working less than full-time hours or in jobs that do not match their skills. This exacerbates the brain waste phenomenon, where higher education graduates work in positions far below their qualifications due to limited quality formal employment opportunities.

Furthermore, ILO data (ILO, 2024) shows that more than 55% of Indonesian workers do not have formal employment contracts, up from around 50% in 2019, as labour market flexibility increases. In fact, only around 23% of workers have labour social security, down from 30% in 2019 . Informal workers who are increasingly dominant also experience income volatility, as there is no certainty of monthly income and they are vulnerable to economic shocks such as inflation or recession.

Low social security coverage suggests that middle-class households are increasingly vulnerable. This is consistent with Standing dalam Hung (2024) notion of the precariat, a segment of workers living in economic uncertainty, with limited mobility opportunities and minimal social security. On the other hand, the shrinkage of middle-class jobs due to labour market polarisation, as explained by Siena (2024), Fonseca (2018), and Longmuir(2020) , leaves many workers trapped in low-wage sectors or having to compete in the more competitive upper levels.

Figure 3. Indonesia Labour Market Trend Chart 2019-2024 (BPS)

The increase in Value Added Tax (VAT) from 11% to 12% effective from January 2025 (Indonesia, 2025) further strains the consumption of the middle class, most of whose expenditure is on taxable goods and services. Data from the Fiscal Policy Office (2024)estimates that this increase has the potential to reduce the purchasing power of lower-middle-class households by 1-1.2%, especially since 62% of their household consumption goes to basic needs such as food, transport, education, and health.

Indonesia's still relatively regressive tax structure is evident from the contribution of indirect taxes (such as VAT, excise, PBB) which account for 52% of total tax revenue (PWC Indonesia, 2025), while personal income tax only contributes around 9%, lower than the OECD average (24%). This suggests that the tax burden is borne more by the consumption of the general public than by the wealthy with large assets.

Energy subsidy policies also show distributional inequity. Data from the Ministry of Energy and Mineral Resources (2024) reveals that 80% of the Pertalite subsidy is enjoyed by the top 30% of households, even though this group has stronger purchasing power and owns more private vehicles. In addition, the 3kg LPG subsidy is also enjoyed by 56% of the non-poor, reinforcing the distribution bias (World Bank, 2020).With an energy subsidy budget of IDR 339 trillion (2024.

This phenomenon is consistent with Piketty's (E.A et al., 2019; Yulitasari Lis & Haida, 2023)Analysis suggests that without progressive fiscal reforms, wealth distribution will increasingly concentrate in the upper group, leaving the middle class at risk of downward mobility. Data from the World Bank (2024) show that over the last five years, approximately 9.48 million people fell from the middle class category to the lower middle class, indicating that around 12% of the total middle class population in 2019 were back on the brink of poverty. This is also reflected in a decline in the proportion of the middle class from 56.5% of the population. (2019) to 51.2% (2024), as the proportion of vulnerable people increases (2021)

This study reinforces the international literature by showing that the middle class squeeze (MCS) phenomenon, which has been previously studied in developed countries (Autor et al., 2017), is also relevant in developing countries such as Indonesia with local dynamics such as the dominance of the informal sector, low social security coverage, and biased subsidy policies. The findings of rising informal employment and brain waste among higher education graduates reinforce the theory of occupational polarisation and point to a new dimension of mobility reversal in developing countries.

Furthermore, the findings confirm the existence of a development trap. (Diemer et al., 2022; Erlando et al., 2020; Roessler, 2024), where moderate economic growth (around 5% per year over the last decade) does not automatically improve welfare equally. Inequality remains high, with the Gini ratio stagnating at around 0.38-0.39 (Badan Pusat Statistik, 2024), indicating a non-inclusive distribution of growth.

The combination of regressive taxes and ill-targeted energy subsidies demonstrates the weakness of fiscal policy in promoting more equitable distribution and strengthening the purchasing power of the middle class. The additional burden on consumption, rather than on the income and wealth of the upper group, exacerbates the pressure on the middle group that is already vulnerable to income stagnation, inflation, and job insecurity. These results have urgent policy implications:

1. Fiscal and Monetary Reform

   The government needs to review the tax structure to make it more progressive and redistributive by broadening the tax base of the rich and improving targeted subsidy schemes to reduce the cost of living for the middle class.

2. Strengthening the Labour Market

   Creating formal jobs with living wages and social protection, as well as expanding reskilling and upskilling programmes, is crucial to protect the middle class from the risks of deskilling and job polarisation (Frey & Osborne, 2017).

3. Invest in Basic Needs

   The government needs to improve the quality and affordability of education, healthcare, and housing for the middle class. OECD data (2024) shows that every 1% increase in public spending on primary and secondary education can improve social mobility by 0.5 Gini points.

4. Inclusive Economic Policy

   Focus on developing high-value-added sectors, strengthening technology-based MSMEs, and diversifying the economy.

CONCLUSION

The ‘Middle Class Squeeze’ (MCS) phenomenon in Indonesia is a multidimensional economic and social challenge, resulting from the complex interaction of various fundamental factors. The research underscores that persistent real income stagnation and inflation, even amid steady economic growth, are significantly eroding the purchasing power of the middle class. This burden is compounded by sharp increases in essential living costs such as education, health, and housing, forcing many middle-class households to seek second jobs to fulfil basic needs. The structural shift towards job insecurity and the dominance of the informal sector further weakens their financial stability and prospects for social mobility. In addition, less progressive government policies in wealth redistribution, such as a regressive tax framework and untargeted subsidies, substantially exacerbate the economic pressures experienced by this group, evidenced by the significant decline in the number of people in the middle class category.

The implications of this MCS are far-reaching and profound. Socially, a decline in middle-class welfare has the potential to increase social inequality, fuel political discontent, and erode community cohesion. A squeezed middle class may lose trust in existing institutions and systems, leading to potential instability. Economically, the reduced purchasing power of the middle class directly hampers domestic consumption, which is the main pillar of Indonesia's economic growth, and can reduce tax revenue and increase the burden of government subsidies. Furthermore, limited social mobility, especially for educated youth who struggle to find formal employment, threatens long-term sustainable development and the ideal of a just society.

Addressing the ‘Middle Class Squeeze’ is an urgent imperative for Indonesia. A comprehensive and inclusive policy approach is needed that focuses on increasing the real income of the middle class, controlling the sustainable cost of living, and creating quality formal employment. Fiscal and subsidy policy reforms should be geared towards supporting the middle class more effectively, while investments in quality education and healthcare need to be strengthened. Without meaningful intervention, the MCS phenomenon will continue to be an obstacle to Indonesia's social stability and inclusive and sustainable economic progress.

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