Implementation of Public Economic Policies in Overcoming Externalities, Public Goods, and Income Redistribution

Arya Nanda Karyono[1*], Aloisius Sado[2], Islugin[3], Febriana H[4], Dafyar Eliadi Hardian[5]

[1,2,3,4,5]Universitas Islam Syekh-Yusuf Tangerang, Banten, Indonesia
Corresponding Author:
2507010020@students.unis.ac.id

Abstract.
Public economic policies play a crucial role in aligning market efficiency with social justice. This study aims to examine how public policy optimization is able to overcome various fundamental challenges, such as the impact of negative externalities, obstacles to the provision of public goods, income inequality, and the injustice of the tax system. Using qualitative methods based on literature studies on various recent scientific works, the findings show that the design of integrated and data-based public economic policies is significantly able to improve people's welfare and encourage inclusive economic growth. Therefore, strengthening the effectiveness of implementation and cross-sector synergy are the key so that the resulting policies can be more effective and sustainable.
Keywords: *Public Economic Policy, Externalities, Public Goods and Income Redistribution.*

I. INTRODUCTION

Public economic policy is one of the main foundations in a country's economic system which aims not only to improve the efficiency of market mechanisms, but also to realize social justice in the midst of ongoing changes in economic conditions. In its implementation, market mechanisms are not always able to function optimally. Market failure can occur in various forms, such as negative externalities, obstacles in the provision of public goods, inequality in income distribution, and a tax system that does not fully reflect the principles of justice. These problems can give rise to various imbalances that have the potential to disrupt social and economic stability if not responded to through effective and targeted public policies.

Externalities, both positive and negative, occur when the results of an economic activity have an impact on a third party without compensation, and are one of the main concerns in the public economy. For example, air pollution associated with industry has a detrimental impact on society as a whole, yet the benefits of education outweigh the benefits for the people who receive them. Markets often ignore these impacts without government intervention, resulting in ineffective resource allocation. To internalize this externality, policy instruments such as subsidized taxes are needed (Riofita, 2023, p. 147).

In addition, the provision of public goods, such as highways, state defense, and public street lighting, cannot be completely left to market mechanisms because they have non-rival and non-excludable characteristics. These characteristics cause the private sector to generally be less interested in providing it because it does not provide adequate economic benefits. Therefore, the government needs to play a role as the main provider of public goods to ensure the availability and equitable distribution of access for all people (Riofita, 2023, p. 149).

More than just the provision of public goods, disparity in income equity is a crucial element in the realm of public economic policy. If not managed properly, these gaps can trigger social friction and jeopardize economic progress over a longer period. To overcome this, the government is required to implement various redistributive strategies, including the distribution of social assistance, subsidies, and protection guarantee programs designed for vulnerable segments of society. The successful implementation of redistribution policies not only contributes to equal living standards and social justice, but also strengthens people's consumption capacity and supports the country's economic stability (Riofita, 2023, p. 672).

However, the formation of a fair economic structure is also highly dependent on the tax system. One tool to guarantee that high-income groups contribute more to the country's growth is progressive taxation. However, the tax system often faces difficulties during its implementation, including non-compliance, inadequate databases, and leakage of state revenues. Therefore, to increase public effectiveness and trust, it is necessary to reform the tax system that is more accountable, transparent, and digital-based (Riofita, 2025, p. 15).

The function of the government as an antidote to market imperfections is very important in this situation. In addition to making policies, the government is responsible for ensuring that the policy is implemented effectively and fairly. Therefore, it is crucial to have a deep understanding of the mechanisms of the public economy and to continuously develop policy instruments. A more balanced and sustainable economic system can be produced by public economic policies that are sensitive to market conditions and adaptive to the needs of society (Riofita, 2023, p. 671).

II. RESEARCH METHODS

This research utilizes a literature study approach, which is categorized as descriptive qualitative research. The choice of this methodology is based on its suitability for the study and analysis of theoretical and practical concepts relevant to public economic policy. Through a literature review, researchers can delve into information from a variety of verified written references to form a comprehensive understanding of public economics topics, including externalities, public goods, and revenue redistribution.

The data used in this study are categorized as secondary data. The data was collected from a variety of sources, including books, scientific journal articles, research reports, and other related documents published in the 2020 to 2025 time frame. The researcher focuses the analysis on scientific publications compiled by Hendra Riofita and colleagues, which have made substantial contributions to the discussion of economic policy and public administration in the current era. Crucial references include Riofita's work published in the Journal of Balance: Economics, Management, and Accounting (2023) and Innovations in Education of the Archipelago (2025). These works provide an essential conceptual framework for interpreting the role of government in managing the distribution of resources and achieving social well-being (Riofita, 2023, p. 671; Riofita, 2025, p. 13).

The main concepts are then categorized and synthesized to implement data analysis procedures. These concepts are then linked to real-world issues that governments face when developing and implementing public economic policies. The goal of this analysis technique is to offer a thorough and interpretive understanding of the dynamics of sustainable public policy, not to test theories. To map conceptual ideas and offer policy recommendations that are actionable and relevant to current issues, this literature review uses a qualitative-descriptive approach.

III. RESULTS AND DISCUSSION

This influence can vary between positive or negative. One illustration of negative externalities is public economic policy which plays a crucial role in directing the economic development of a country. This policy not only focuses on efficiency, but also ensures the realization of social justice. Markets that operate without government intervention tend to create inequality, failure to allocate resources, and various forms of negative externalities that adversely affect society at large. Consequently, the state, as a key stakeholder in public policy, must come up with appropriate, responsible, and sustainable instruments. Based on a review of the existing literature, there are four fundamental principles in public economic policy that require serious attention, namely: externality management, provision of public goods, income redistribution, and implementation of progressive taxation schemes.

Externality Management: Pigovian Taxes and Subsidies as Corrective Instruments

Externality occurs when the economic activities of one party have an impact on the other party without going through the price mechanism of air pollution from industrial factories that harm the surrounding community without compensation, while an example of positive externality is an individual who plants trees and provides environmental benefits to the surrounding area**.** The government has the authority to correct this market failure through fiscal instruments, one of which is the Pigovian tax. This tax aims to internalize external costs that are not reflected in market prices. For example, carbon taxes are enacted to encourage industry players to reduce carbon emissions, so that they consider the social costs of their production activities (Riofita, 2023, p. 146).

However, the effectiveness of this instrument is highly dependent on its planning and implementation. Taxes that are too high can reduce the competitiveness of the industry, while taxes that are too low do not provide an incentive for behavior change. Therefore, the determination of tariffs must go through academic studies and public consultation in order to produce fair policies. In addition to taxes, the government can also provide subsidies for activities that have positive externalities such as research and development (R&D), education, and vaccination. However, the provision of subsidies must also be accompanied by a system of accountability and continuous evaluation so that it is not abused.

In the Indonesian context, fiscal policies directed at managing externalities are still experiencing challenges in terms of data, supervision, and inter-institutional coordination. Therefore, institutional improvements and strengthening the capacity of the fiscal bureaucracy are needed to support the implementation of more effective and efficient instruments.

Provision of Public Goods: Equitable Distribution of Basic Services and Needs-Based Development

Public goods have two main characteristics: non-rival (consumption by one individual does not reduce consumption by other individuals) and non-excludable (no party can be excluded from the consumption of the goods). Due to this nature, the private sector tends to be reluctant to provide public goods because it does not generate direct profits. Therefore, the state plays an important role in the provision of public goods such as public roads, state defense, security, basic education, and health services. According to Riofita (2023, p. 149), the provision of public goods must be based on a map of community needs. This approach emphasizes the use of spatial, social, and economic data in formulating development priorities. For example, areas that do not have basic education facilities and proper road access must receive the main attention in the state budget allocation. That way, equitable development can be achieved and regional inequality can be reduced.

Education and infrastructure are two strategic sectors that have a multiplier effect on economic growth. Quality education increases workforce productivity and opens up opportunities for social mobility, while infrastructure promotes interregional connectivity and logistics efficiency.

However, the challenges that are often faced are planning inconsistencies, lack of coordination between regions and ministries, and weak public project supervision systems. As a result, the provision of public goods is often ineffective and not in accordance with the needs of the community.

For this reason, it is necessary to implement a performance-based budgeting system, community involvement in development planning (participatory planning), and the use of information technology for real-time monitoring of public goods projects.

Income Redistribution: Bridging Social and Economic Inequality

The gap in income and wealth is a fundamental issue that cannot be solved solely through economic growth. Thus, the implementation of redistribution policies is crucial to ensure an equitable distribution of development benefits. Income redistribution includes various means, ranging from the provision of social assistance, subsidies, to asset ownership restructuring.

Social assistance that has certain conditions, such as the Family Hope Program (PKH), is designed to improve the standard of living of underprivileged families while motivating constructive behavior, including in terms of children's education and periodic health check-ups. However, the effectiveness of social assistance depends heavily on the accuracy of the identification of the recipient. As revealed in the Riofita study (2023, p. 672)

Many social assistance initiatives are constrained by outdated data, overlapping coverage between programs, and limited administrative capabilities. The integration of social data through DTKS (Integrated Social Welfare Data) is an important step to ensure the accuracy of beneficiaries. In addition, improving digital literacy and village-based social information systems also supports accountability and transparency in aid distribution.

On the other hand, energy subsidies that have been sucking up large budgets need to be reformed to be more targeted. Electricity and fuel subsidies, if not directed at the poor, have the potential to benefit the upper middle class and create new inequality. Furthermore, income redistribution can also be done through access to productive assets such as land, higher education, job training, and business capital. This kind of intervention not only helps vulnerable groups, but also promotes economic independence in the long term. This is where the importance of a redistributive approach that is oriented towards empowerment, not solely consumption.

Synergy Between Policy Instruments and Long-Term Implications

The success of public economic policies is highly determined by the integration of various policy instruments implemented by the government. Externality management, for example, cannot run optimally without the support of fiscal policies that are able to ensure the sustainability of state financing. Similarly, the provision of public goods requires a strong, stable, and equitable state revenue system so that services to the community can take place in a sustainable manner. Revenue redistribution efforts must also be supported by a tax system that is effective, efficient, and able to increase taxpayer compliance. In addition, public policy formulation needs to be based on accurate data, *evidence-based evaluation*, and community involvement in the decision-making process. The development of information technology also makes an important contribution to improving the quality of policies through the provision of data quickly, accurately, and in real time. In the long-term perspective, countries that are able to control the impact of externalities, provide public goods equally, implement equitable income redistribution, and implement a transparent and progressive tax system will have better social and economic resilience. This condition is the basis for creating a balance between economic growth, equitable distribution of welfare, efficiency, and inclusiveness of development.

IV. CONCLUSION

Public economic policy has a very important role in realizing an economic system that is able to combine economic efficiency with the principles of social justice. Based on the results of the discussion, there are several main aspects that need to be strengthened so that the policies implemented can overcome various forms of market failure and reduce socio-economic inequality.

1. First, controlling externalities through fiscal instruments, such as Pigovian taxes and subsidies, has been proven to be able to encourage economic actors to take into account the social impact of their activities. However, the success of its implementation is greatly influenced by the quality of policy design, supervision mechanisms, and consistency of implementation.
2. Second, the provision of public goods needs to be adjusted to the real needs of the community so that the benefits can be felt more widely. The use of spatial data, regional needs analysis, and the implementation of a performance-based budgeting system can increase the effectiveness of resource allocation while strengthening the equitable distribution of development.
3. Third, income redistribution remains an important instrument in reducing economic inequality and strengthening social solidarity. The effectiveness of this policy is highly dependent on the accuracy of social assistance distribution, the integration of welfare databases, and various empowerment programs that are able to increase the independence of low-income groups.

Overall, the success of public economic policy optimization requires close coordination between agencies, strengthening government institutional capacity, active community involvement, and utilizing information technology to support the process of planning, implementing, and evaluating policies more effectively and responsibly.

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