

The Role of Government Subsidies in Increasing Consumption and Economic Growth in Efforts to Reduce Poverty in Indonesia

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Abstract

This study examines the role of government subsidies in increasing consumption and economic growth in poverty reduction efforts in Indonesia. This study uses secondary data from world banks and is processed by regression using the moving average autoregression method. We find that subsidies without empowering the poor in contributing to the economy only increase public consumption without reducing the number of poor people. Where more and more subsidies are given, it increases the number of people living in poverty line with an income below 3.2 USD per day.

Keywords: Technology Inclusion, Indonesia, Health Services

JEL Classification: C0, J24, J64

Background

Poverty is a common problem for every country where not all residents have access to economic contributions so that they do not get enough income to live properly. Inadequate income to be used for a decent life creates many problems ranging from nutritional deficiencies, low human capital to crime (Spicker,2020).

Efforts to reduce poverty are actions that the Indonesian government continues to pursue. One form of poverty reduction is the subsidy program for people who are underprivileged or fall into the poor category. The subsidies are expected to be able to help residents who are in poverty line to fulfill their lives properly (World Bank,2020).

Subsidies have an impact on increased consumption and increased consumption has an impact on increasing demand so that it becomes a signal for producers to produce more. Increased production has an impact on economic growth. When the economy grows rationally, it will absorb a lot of labor and it is hoped that it will provide opportunities for people who do not have a decent job to get a job with a decent income so that they can get out of poverty (Zhang et al,2020).

This study examines the role of government subsidies in increasing consumption and economic growth in poverty alleviation efforts in Indonesia. We use the absolute income hypothesis where consumption is a reflection of income. When consumption increases, it indicates that income is increasing. So that when consumption can be increased, economic growth can grow so that collectively or the aggregate income of the population also increases. This increase in income is expected to help alleviate poverty.

Literature review

Government subsidies are assistance from the government to help the poor or underprivileged economically so they can live properly. Subsidies can be used by recipients to meet their daily needs which creates new consumption (Kang et al,2020).

Subsidies stimulate new consumption and form a multiplier effect that increases consumption. Increased consumption has an impact on increasing demand which provides a signal for producers to increase production (Nie et al,2021).

Increased production has an impact on increasing gross domestic product. An increase in gross domestic product is an indicator of increasing economic growth and allows it to assist poverty reduction efforts (Zubair et al,2020).

Research methods

This research studies the Role of Government Subsidies in Increasing Consumption and Economic Growth in Poverty Alleviation Efforts in Indonesia. This study uses secondary data from world banks and processed regression using the moving average autoregression method with the following equation:

$$GDP_t = C_t + \beta_1 G_{t1} + \beta_2 CO_{t2} + \beta_3 POV_{t3} + e_t$$

Where,

GDP = Gross Domestic Product

C = Constant

G = Government subsidies

Co = Consumption

POV = Poverty

e = Error Term

All financial data is calculated in USD. Poverty is calculated based on the number of poor people in Indonesia who earn below USD 3.2 per day

Results and Discussion

The estimation results are as follows:

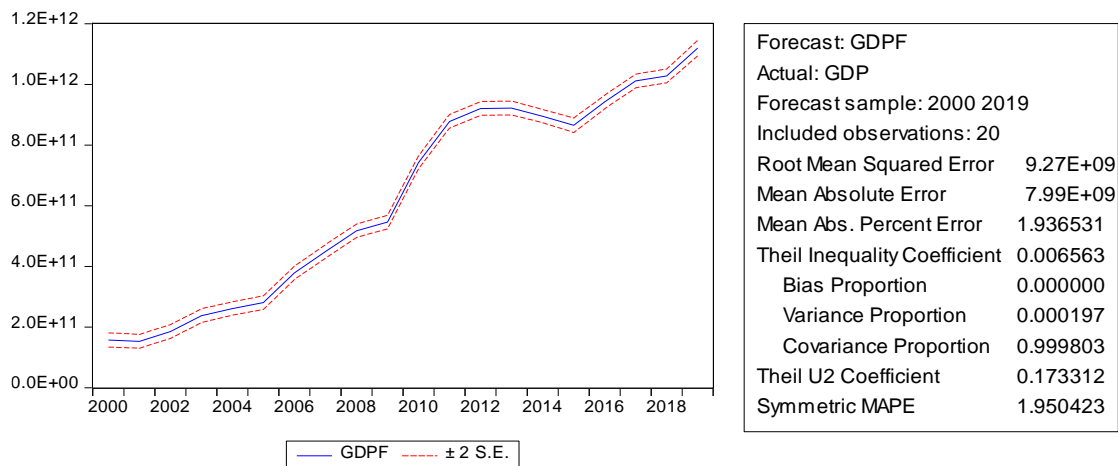
$$GDP = -162902327793 + 1.55101416971*CO + 0.916340064462*G + 1754.22806285*POV$$

From the estimation results, consumption (CO), government subsidies (G) and poverty (POV) have a positive relationship with economic growth. This shows that subsidies without empowering the poor in contributing to the economy only increase public consumption without reducing the number of poor people. Where more and more subsidies are given, it increases the number of people living in poverty line with an income below 3.2 USD per day. Table 1 illustrates the estimation results as follows:

Table 1. Estimation Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.63E+11	4.55E+10	-3.583604	0.0025
CO	1.551014	0.159938	9.697591	0
G	0.91634	0.947725	0.966884	0.348
POV	1754.228	543.6741	3.226617	0.0053
R-squared	0.999214	Mean dependent var		6.24E+11
Adjusted R-squared	0.999067	S.D. dependent var		3.39E+11
S.E. of regression	1.04E+10	Akaike info criterion		49.1385
Sum squared resid	1.72E+21	Schwarz criterion		49.33765
Log likelihood	-487.385	Hannan-Quinn criter.		49.17738
F-statistic	6782.531	Durbin-Watson stat		1.212494
Prob(F-statistic)				0

Based on the estimation results described in Table 1., it can be seen that the R-square is quite high, namely 0.999214 so that the quantitative calculation results show a 99% level of truth. Figure 1. Shows the forecasting of economic growth in Indonesia

Figure 1. Forecasting Economic Growth in Indonesia

Source: Author Computing

From the results of forecasting, it can be seen that economic growth in Indonesia is experiencing very rapid growth by taking into account consumption (CO), government subsidies (G) and poverty (POV) in the process of building economic growth forecasts in Figure 1. Subsidies without empowering the poor in contributing to the economy only increasing public consumption without reducing the number of poor people. Where more and more subsidies are given, it increases the number of people living in poverty line with an income below 3.2 USD per day.

Conclusion

Subsidies without empowering the poor in contributing to the economy only increase public consumption without reducing the number of poor people. Where more and more subsidies are given, it increases the number of people living in poverty line with an income below 3.2 USD per day.

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