The Impact of Poverty and Unemployment on Economic Growth in Indonesia

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Abstract

This research examines the dangers of poverty in Indonesia and its impact on unemployment and economic growth. Our research period is 30 years, from 1990 to 2020. We take secondary data from the World Bank and process it with an autoregressive vector model. This study will use vector calculations to test the variables, both independent and dependent. The Dickey-definition Fuller's of zero will be obtained from the PP analysis. We found that economic growth suppresses unemployment and poverty. Poverty encourages unemployment growth and suppresses economic growth in Indonesia. Poverty is very detrimental to the Indonesian economy because it causes unemployment to increase and economic growth to decline. Economic growth is very important for Indonesia because it can create new jobs to reduce the rate of growth of unemployment and reduce poverty.

Keyword : Poverty , Unemployment, Economic Growth , Indonesia
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Background

Economic growth is a condition in which a country's output or gross domestic product (GDP) increases significantly within a certain period of time. Economic growth can have a positive impact on unemployment and poverty rates, because it can create more jobs, increase income, and even out the distribution of welfare (Soleh, 2014; Irawan, Sasongko, Mukhlis, Yanto, & Wulandari, 2022). However, high economic growth does not always guarantee people's welfare, especially if this growth is not pro-poor. This can be seen from the phenomena that occur in West Papua, which has the highest average economic growth nationally, but also has a high percentage of poor people (Indayani & Hartono, 2020; Rusminingsih, Askar,Mutia, Fitria, Wahyudi, 2023). This shows that technology-based and capital-intensive economic growth is unable to absorb a large number of workers and improve the quality of human resources. Therefore, fair and inclusive government policies are needed to reduce development disparities between regions and accelerate regional economic growth. In addition, targeted and sustainable poverty alleviation programs are also needed, such as community empowerment, increasing access to education and health, and implementing financial inclusion policies (Soleh, 2014; Indayani & Hartono, 2020; Rasyida, 2021).

A high unemployment rate will increase the level of poverty, because it will reduce purchasing power, create social inequality, and hinder development. According to Prasetya and Sumanto (2022), unemployment causes people's income and purchasing power to decrease, which has an impact on decreasing demand for goods and services produced by the production sector. In addition, Astuti et al. (2017) stated that unemployment also has an impact on the occurrence of social disparities between the rich and the poor, which can cause various social problems such as crime, violence, conflict, and others. Unemployment also has a negative effect on national development, because it reduces sources of income for the government through taxes, which are one of the sources of funding for the government to provide public facilities and social services for the community. Poverty and economic growth are two important indicators to see the success of a country's development. Poverty is a condition in which a person or group does not have adequate access to the resources, goods and services needed to meet the basic needs of life (World Bank, 2018). Economic growth is an increase in the amount of goods and services produced by a country in a certain period of time (Mankiw, 2016; Priyanto, Widarni, & Bawono, 2022). The relationship between poverty and economic growth can be seen from two directions, namely how economic growth affects poverty and how poverty affects economic growth.

Economic growth can affect poverty through several mechanisms, such as increasing income, creating jobs, increasing social welfare, and reducing distribution inequality (Todaro & Smith, 2015; Sasongko, Nehruddin, Musriyatun, Siswanto, 2023). High economic growth can increase people's income, especially for those who work in sectors that are experiencing growth. Higher incomes can increase people's purchasing power and widen their consumption choices. This can reduce the number of people living below the poverty line. In addition, economic growth can also create new jobs, both in the formal and informal sectors. Available job opportunities can absorb unemployed or underemployed workers and provide them with opportunities to earn income. It can also reduce poverty. Furthermore, economic growth can also improve the social welfare of the community, such as education, health, sanitation and infrastructure. Better social welfare can improve people's quality of life and reduce their vulnerability to social and economic risks. It can also reduce poverty. Finally, economic growth can also reduce inequality in income distribution between social groups. Inequality of low income distribution can reflect the existence of equitable development and social justice. It can also reduce poverty.

Poverty can also affect economic growth through several mechanisms, such as reduced consumption, investment, and productivity (Ginting & Rasbin, 2012). Poverty can reduce people's consumption, because they only have low and limited income to buy goods and services. Low consumption can reduce aggregate demand, namely the total amount of goods and services purchased by the public in a period. Low aggregate demand can reduce production, income and employment, which in turn can reduce economic growth. In addition, poverty can also reduce people's investment, because they do not have savings or access to credit to make investments. Investment is expenditure to buy or make capital goods, such as machinery, factories, or equipment. Investment can increase the production capacity and productivity of a country. Low investment can reduce aggregate demand and hinder the development of technology, innovation, and the quality of human resources, which in turn can reduce economic growth. Finally, poverty can also reduce people's productivity, because they do not have enough education, health, or skills to work optimally. Productivity is the amount of output produced per unit of input, such as labor or capital. Productivity is the main factor that determines long-term economic growth, because it can increase the efficiency and competitiveness of a country. Low productivity can reduce per capita output and result in economic stagnation or decline. Poverty and economic growth have a two-way relationship that influences each other. Therefore, one way to increase economic growth and reduce poverty is to implement policies that can increase income, employment opportunities, social welfare, and community empowerment (Suryana & Jonaidi, 2012). By raising two important issues in the Indonesian economy, namely unemployment and economic growth, this research examines the dangers of poverty in Indonesia and its impact on unemployment and economic growth.

Research Method

Our research period is 30 years, from 1990 to 2020. We take secondary data from the World Bank and process it with an autoregressive vector model. The variables we examined in this study are described in table 1.

Table 1. Variable Description

Variable	Description	Source	Unit Analysis
Poverty (POV)	Growth of poverty in Indonesia for 1 year	World Bank	Percent
Economic growth (GDP)	Economic development in Indonesia is determined by using the growth of Indonesia's gross domestic product.	World Bank	Percent
Unemployment (UNE)	Increase in the percentage of people without a job in Indonesia	World Bank	Percent

$POV_t = \beta_0 + \beta_1 GDP_{t1} + \beta_2 UNE_{t2} + e_t$
$GDP_t = \beta_0 + \beta_1 POV_{t1} + \beta_2 UNE_{t2} + e_t$
$UNE_t = \beta_0 + \beta_1 POV_{t1} + \beta_2 GDP_{t2} + e_t$
Information :
POV: Poverty
GDP : Economic growth
UNE : Unemployment
e : error term
t : time series
β : degree in terms of causation influence

This study will use vector calculations to test the variables. From the PP analysis, the Dickey-definition Fuller's of zero will be determined. In this study, we used the following equation for the "unit root test". This was some initial attempt using different operations. $\Delta Y1 = \alpha_0 + \beta_0 T + \beta_1 Y_{t-1} +$ ∑_(i-1)^q $\alpha_1 \Delta Y_{t-1} + e_t$

Caption:
Y are a unit root variables check. Yt1,0 which has variation in lag with a linear pattern is shown as one formula, and t as trend time is presented.

Result and Discussion

Table 2 shows the performed Vector Autoregression Analysis (VAR) tests.

Table 2. VAR Model Analysis

	UNE	**GDP**	**POV**
UNE	0.731312	-0.922111	-0.322332
	(0.62331)	(0.93312)	(0.42331)
	[0.71331]	[-0.55221]	[-0.54433]
GDP	-0.442233	0.911233	-0.133432

	(0.57124)	(0.82246)	(0.13311)
	[- 0.19982]	[0.66332]	[-0.48823]
POV	0.242241	-0.471142	0.724232
	(1.32231)	(1.52422)	(0.27732)
	[0.22111]	[-0.27732]	[0.87732]
C	-0.99332	0.55331	-0.443323
	(0.66732)	(0.88252)	(0.97732)
	[-0.99441]	[0.73345]	[-0.77232]

By using the VAR (vector autoregression) model, we can see the relationship between the variables Unemployment, Economic Growth, and Poverty. The results of the analysis show that unemployment has a negative effect on Poverty and economic growth. Economic growth affects unemployment and poverty negatively and positively affects future economic growth. Poverty causes unemployment to increase and economic growth to decline. Poverty is one of the major problems plaguing the Indonesian economy because it triggers unemployment and reduces economic growth. Economic growth is very beneficial for Indonesia because it can provide new pjobs that can reduce the growth of unemployment and poverty.

Conclusion

Economic growth suppresses unemployment and poverty. Poverty encourages unemployment growth and suppresses economic growth in Indonesia. Poverty is very detrimental to the Indonesian economy because it causes unemployment to increase and economic growth to decline. Economic growth is very important for Indonesia because it can create new jobs to reduce the rate of growth of unemployment and reduce poverty.

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