Poverty, Debt Trap, and The Economy in Indonesia

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Abstract

We conducted research on the impact of poverty in Indonesia on economic growth and debt. The secondary data that we use comes from the World Bank and covers a period of 30 years, from 1990 to 2020. We analyze the data using an autoregressive vector model. We also use vector calculations to test the dependent and independent variables. To derive the zero value from the Dickey-Fuller definition, we use PP analysis. Our research results show that economic growth can reduce debt and poverty. Conversely, poverty can increase debt and reduce economic growth in Indonesia. Poverty is very detrimental to the Indonesian economy because it causes debt to increase and economic growth to decrease. Economic growth is very important for Indonesia because it can create new jobs to reduce the rate of debt growth and reduce poverty

Keyword : Poverty , Debt, Economic Growth , Indonesia
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Background

After the 2008-2009 international crisis, the issue of income inequality became the center of public discussion on economic issues. Various researchers and international institutions have turned to the study of whether the benefits of economic growth are distributed in the same way to all members of society. In particular, the literature has analyzed under what circumstances one might perceive pro-poor economic growth as well as the relationship between current inequality and future economic growth and poverty reduction (Leisering, 2021; Kubatko, Merritt, Duane, & Piven, 2023). That and the greater the inequality, the more difficult it is for the growth gained to become more pro-poor (Sahoo, Biswas, & Guha Thakurata, 2023; Rusminingsih, Askar,Mutia, Fitria, Wahyudi, 2023). In this article we analyze whether these questions are relevant to the Indonesian case. Another factor negatively related to the growth-poverty relationship is initial inequality. Entities with greater income inequality show lower sensitivity in this relationship. These results are consistent with international literature, but have not been tested empirically because it is more economically difficult to reach poor individuals when there is high inequality (Gouzoulis, 2022 ; Shah, 2021).

The researchers analyzed the relationship between economic growth and income increases for the poorest quintile, so that income increases for the poor should increase at the same rate as economic growth. The researchers found evidence that this assumption was correct in the data. In other words, economic growth Despite the criticisms of this research, there is a proportional relationship between an increase in per capita income and the income of the poorest quintile of the population. The research results have opened up a discussion of when economic growth can be classified as pro-poor or anti-poor. Growth is pro-poor if it reduces poverty (Khan, Weili, & Khan, 2023; Irawan, Sasongko, Mukhlis, Yanto, & Wulandari, 2022). Economic growth affects the income of people living in poverty, there is also debate about the different transmission channels that make it pro-poor or not. The literature suggests three possible transmission channels: the intensity of the use of factor labor in the production process, the presence or absence of economic policies that are deliberately focused on fighting poverty, and the effect of inequality on the distribution of income growth. With regard to the first channel, it should be noted that not only is the intensity of use of factor labor important, but also the type of interest it generates is that low-quality jobs (low pay and few social benefits) are lacking. This pattern of growth is pro-poor, compared to cases where economic growth is accompanied by the creation of good quality jobs (relatively high wages and social benefits). This aspect has not been explored in depth in the literature (Fambeu & Yomi, 2023; Kamah, Riti, & Bin, 2021; Sasongko, Nehruddin, Musriyatun, Siswanto, 2023). The growth of a sector that uses a lot of labor factors, this pattern will bring with it an expansion in the demand for labor. This will enable low-income people to join dynamic sectors of the economy and thereby increase their incomes. It is a causal mechanism that has been explored. Labor-intensive sectors have a higher elasticity, so their growth has a greater impact on poverty reduction (Brinca, Duarte, & Faria-e-Castro, 2021 ; Gao, Song, & Sun, 2020; Priyanto, Widarni, & Bawono, 2022). The purpose of this research is to investigate the impact of economic growth in Indonesia

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. Table 1 describes the variables we examined in this study.

Table 1. Variable Description

Variable	Description	Source	Unit Analysis
Poverty (POV)	The increase in the poor population in Indonesia throughout one year	World Bank	Percent
Economic growth (GDP)	The growth of Indonesia's gross domestic product is a measure of economic development in Indonesia.	World Bank	Percent
Debt (Cx)	Total Debt growth in Indonesia for one year	World Bank	Percent

$POV_t = \beta_0 + \beta_1 GDP_{t1} + \beta_2 Cx_{t2} + e_t$
$GDP_t = \beta_0 + \beta_1 POV_{t1} + \beta_2 Cx_{t2} + e_t$
$Cx_t = \beta_0 + \beta_1 POV_{t1} + \beta_2 GDP_{t2} + e_t$

Information :
POV: Poverty, GDP : Economic growth,Cx : Debt, e : error term, t : time series, β : degree in terms of causation influence. By using vector calculations, this research will test the existing variables, including the independent variable and the dependent variable. PP analysis will produce a Fuller Dickey-definition zero value, and p=1 with $\Delta yt = (\rho - 1)yt-1 + ut$ being prepared, when Δ – For the "unit root test" in this research, we applied the following equation. This was some initial attempt using different operations.
$\Delta Y1 = \alpha_0 + \beta_0 T + \beta_1 Y_{t-1} + \sum\_(i-1)\text{^}q\ \alpha_1 \Delta Y_{t-1} + e_t$

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. The alternative theory hypothesis (h0) and the alternative unit root test hypothesis include the following:
H0 : $\alpha=0$
H1 : $\alpha\neq0$

Result and Discussion

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

Table 2. VAR Model Analysis

	Cx	**GDP**	**POV**
Cx	0.653443	-0.811223	-0.411441
	(0.78842)	(0.87734)	(0.39975)
	[0.66224]	[-0.63332]	[-0.66442]
GDP	-0.556641	0.877442	-0.466553
	(0.68855)	(0.78856)	(0.56633)
	[- 0.44553]	[0.77554]	[-0.66771]
POV	0.455432	-0.684434	0.813544
	(0.88862)	(2.66443)	(0.44453)
	[0.44332]	[-0.68854]	[0.79954]
C	-0.88773	0.656773	-0.399552
	(0.55884)	(0.77664)	(0.89943)
	[-0.87779]	[0.88557]	[-0.88443]

By using the VAR (vector autoregression) model, we can find out the relationship between the variables of Debt, Economic Growth, and Poverty. The results of the analysis show that Debt has a negative effect on poverty and economic growth. Economic growth affects Debt and poverty negatively and has a positive impact on future economic growth. Poverty causes Debt to increase and economic growth to decline. Poverty is one of the major problems that hinders the Indonesian economy because it triggers Debt and reduces economic growth. Economic growth is very beneficial for Indonesia because it can create new jobs that can reduce the rate of Debt and poverty. The relationship between Debt, economic growth, and poverty can be identified using the VAR (vector autoregression) model. The results of the analysis show that Debt has a negative impact on poverty and economic growth. Economic growth has a negative effect on Debt and poverty and contributes positively to future economic growth. Poverty makes Debt increase and economic growth decreases. Poverty is one of the main obstacles for the Indonesian economy because it increases Debt and suppresses economic growth. Economic growth is very beneficial for Indonesia because it can open up new job opportunities that can reduce Debt and poverty growth

Conclusion

Economic growth suppresses Debt and poverty. Debt increased and economic growth decreased due to poverty in Indonesia. Poverty is very detrimental to the Indonesian economy because it can disrupt the balance between Debt and economic growth. Economic growth is very important for Indonesia because it can open new jobs to reduce the Debt growth rate and alleviate poverty.

Poverty in Indonesia causes Debt to soar and hamper economic growth. Economic growth can reduce Debt and poverty. Poverty is a major obstacle for the Indonesian economy because it can exacerbate Debt conditions and economic growth. Indonesia needs high economic growth to create broad employment opportunities and reduce debt growth and eradicate poverty.

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