

## The Dangers of Corruption to the Economy and Human Resources in Indonesia

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### Abstract

This study investigates the dangers of corruption in Indonesia by raising two important issues in the Indonesian economy, namely unemployment and economic growth, and the impact or influence of unemployment and economic growth on corruption. This study aims to reflect on forms of corruption from an economic standpoint and look into potential circumstances that could cause an individual to act corruptly and society tolerating and even supporting such behaviors. We used secondary data from the World Bank and Transparency International with a 30-year research period conducted from 1990 to 2020 using an autoregressive vector model. We found that unemployment suppresses the growth of corruption and economic growth. Vice versa, economic growth suppresses unemployment and corruption. Corruption encourages unemployment growth and suppresses economic growth in Indonesia. Corruption in Indonesia is very damaging to the economy because it increases unemployment and depresses economic growth. Economic growth is very important for Indonesia because economic growth can provide new jobs to reduce the rate of growth of unemployment and reduce corruption.

**Keywords:** Corruption, Economic Growth, Unemployment.

**JEL Classification:** I21, J24, J64, J65, K42, K49

Received: March 6,2024 Accepted: March 25,2024  
DOI : 10.54204/TAJI/Vol132024005

### Introduction

Corruption is a topic that is increasingly discussed in the context of economic and political development (Tacconi & Williams, 2020). However, there is no single vision on this matter. For some people, corruption generally decreases the quality and efficacy of economic policy, corrupts the creation and implementation of rules, and infiltrates and taints acts of justice (Alsaleh & Abdul-Rahim, 2022). Corruption and partisan interests that dominate the country pave the way for economic decay, a solution in such circumstances is only possible by eliminating corruption and corrupt people (Pertiwi & Ainsworth, 2021). Corruption as an economic problem (Hoinaru, Buda, Borlea, Văidean, & Achim, 2020). Corruption thrives when there is no transparent and effective public procurement, as well as ineffective corruption control and prevention mechanisms, especially at the regional and local levels (Jiménez, Hanoteau, & Barkemeyer, 2022).

Cases of political and administrative corruption left citizens with a trail of boredom, disappointment and distrust. But corruption is not just a matter of ethics or politics (Pontell,

Tillman, & Ghazi-Tehrani, 2021). Corruption is the biggest economic problem. Corruption distorts competition, allowing uncompetitive companies to win multi-million dollar contracts without being the best to do the job, so that costs rise not only to the supposed "commissions", but also to the inefficiencies of public spending. At the same time, diversion of the budget from public funds to activities that are not necessarily the most effective or relevant. A growth pattern that is more inclined to sectors that do not collude with the public sector will result in significant growth in total economic productivity (Standing, 2021). Corruption is not merely a moral and ethical issues problem that may be excused at the polls. Corruption poses a serious threat to the institutions required for the economy's smooth operation and is a significant barrier to the creation of jobs and the advancement of social equality (La Rosa, Bernini, & Terzani, 2022). It is corruption and intersectoral collusion that has confounded too much finance, real estate and the public for us to see to understand most of what has happened. Condoning, tolerating or ignoring corruption must be unacceptable behavior for a country that aspires to maintain a leading position in the world (Naseemullah, 2019).

Corruption can have a considerable detrimental effect on levels of investment, growth, equity, and economic well-being, according to research done in a vast number of nations. Others, however, believe that when regulations are poorly crafted or overly restrictive, corruption can be used to grease the wheels of the economy (Cárcaba, Arrondo, & González, 2022). In addition, corruption naturally results from the process of political and economic development of a country (Sharma & Mitra, 2019). Rents that legitimize corruption initially appear as economies begin to grow richer, and when the cost of alternatives is very high, institutions that both discourage and enable corruption evolve (Castro, Phillips, & Ansari, 2020). In this regard, the worrisome rate at which corruption has spread throughout the world, especially to Indonesia, has led some authors to suspect that market economies may have a propensity for higher levels of corruption and that recent economic reforms are fostering its growth (Röell, Osabutey, Rodgers, Arndt, Khan, & Tarba, 2022).

Corruption is certainly a complex problem involving many forces that are difficult to describe and assess (Hutchinson, Balabanova, & McKee, 2019). Social, cultural, political, economic, and historical aspects are a few of them. Corruption, in all of its forms, is a global problem (Marchenko, Akimova, & Akimov, 2021). There is no difference between corruption in Europe or other parts of the world where certain public officials receive substantial commissions on public works projects and defense contracts and in Indonesia where many bureaucrats have monetized their administrative authority (Rajan, 2020). However, the problems and solutions will differ depending on whether it is a society where there are only isolated cases of corruption or a society where corruption is rampant (Kao, Lust, & Rakner, 2022). Corruption, like disease, is found in all parts of the world. However, there are times, organizations or countries with epidemics and others with situations under control (Haseeb & Azam, 2021). In some countries such as Argentina, Venezuela and in most developing countries, epidemics are a natural situation (Cifuentes, 2019).

This study aims to reflect on forms of corruption from an economic standpoint and look into potential circumstances that could cause an individual to act corruptly and society tolerating and even supporting such behaviors. Of course, corruption also has ethical, political and social implications and can be analyzed from that perspective. However, an analysis of corruption from

an economic perspective provides the elements for devising strategies that will enable combating it and mitigating its most harmful effects. Likewise, economic analysis warns us about what conditions can encourage the emergence or generalization of corrupt practices. There is not yet a sufficiently developed body of research, with robust models, to allow a systematic and consistent analysis of the phenomenon of corruption. This study investigate the dangers of corruption in Indonesia by raising two important issues in the Indonesian economy, namely unemployment and economic growth and the impact of unemployment and economic growth on corruption.

### **Literature Review**

Studies related to corruption and the economy still need to be carried out in depth (Song, Chang, & Gong, 2021). Most of the literature describes possible determinants of corruption using economic instruments without using a strict analytical model (Tyburski, Egan, & Schneider, 2020). Regardless of its moral and social implications, corruption has social costs insofar as public officials make decisions arbitrarily and against the public interest without taking into account the potential negative effects they may have (Yuan, Chia, & Gosling, 2023). Corruption is defined as private (improper) appropriation of public goods. The definition of corruption that is also common is an affirmation, there is an act of corruption when someone unlawfully places his personal interests above the public interests that he is obliged to serve (Ritala, Albareda, & Bocken, 2021). The impact of corruption can be briefly grouped into three categories, namely economic impact, political impact, and social impact. It's important to point out that there is no known cure for corruption and that the countries that have been most successful in the fight against corruption use many strategies at the same time (Najih & Wiryani, 2020). Success lies in determining the optimal mix of elements of the strategy, based on the seriousness of the problem and the social, historical and cultural characteristics that characterize every society (Adeleye, Luiz, Muthuri, & Amaeshi, 2020).

Defining what corruption really is is a complex task and there is no general meaning for the term. Different societies have different moral, political and administrative views about what practices are corrupt. However, for purposes of economic analysis, most of the proposed definitions convey the notion that, without being exhaustive, it is sufficient to characterize their underlying causes, operating modalities, and effects (Dincer & Johnston, 2020). Corruption, which is often reflected in acts of bribery, is an umbrella term that includes abuse of power stemming from considerations of personal gain that do not necessarily translate into monetary gain (Sidorova, Tarubarov, Okruzko, Vasiliev, & Pelevin, 2020). Corruption more narrowly as the diversion of public funds for personal gain. Corrupt bureaucrats as people who use their public office as a platform to earn illegal income (Carothers, 2022). In this way, the corrupt civil servant's earnings depend not on a social evaluation of his contribution to the common good, but on market conditions and its ability to extract the greatest resources from public demand. In this case, public officials operate as monopolists who maximize their income (Desta, 2019).

Corruption occurs when a civil servant who is empowered by society to fulfill certain tasks, carries out activities for personal gain that reduce social welfare or harm the public interest (Sahid, Amirullah, Rahman, Senaman, & Yusriadi, 2020). Corruption includes open theft, misuse of state funds or property, nepotism and soliciting favors from friends or family, and abusing public authority for the purpose of obtaining payments or personal gain (Burduja & Zaharia, 2019). Corruption so far only considers situations where civil servants and various

groups or individuals in society interact (MacLean & Titah, 2022). This appears to refute the notion that corruption exists in the private sector. But this is not true. However, many actions of private agents have a negative impact on society, as happens, for example, when several companies agree to increase prices (García, 2019). These acts must be classified and penalized by market regulators or directly by the justice system. Therefore, this is not corruption but an illegal act (misdemeanor or crime). However, there are acts of corruption that occur exclusively in the private sector and do not create externalities for society. Not all illegal acts are corruption, for example, theft (Jamil & Ahmad, 2019).

Corruption will be understood as the use of public office for personal or third party interests and contrary to the interests of institutions or society. It is challenging to properly define the boundaries of this concept because it must be acknowledged that there are certain acts in which a public official's real labor can be mistaken for personal gain (Purba & Syahrin, 2019). Acts of corruption are typically defined as abuse of power, receipt of illegitimate commissions and gifts, receipt of illegitimate contributions to support political parties, full or partial tax fraud or evasion, bribery, seduction or corruption of judges, and nepotism (Sarker, Henningsson, Jensen, & Hedman, 2021). At a deeper level, corruption can be interpreted as a failure of the institutional structure of society, especially its governance capacity. If the institutional structure is effective, acts of corruption will be detected and punished as a general rule and, at the same time, rules will be readily adapted to inhibit acts of corruption (Peeters, 2020). Corruption is committed to obtain services that are prohibited from being provided by officials (Rustiarini, Nurkholis, & Andayani, 2019). Finally, it is important to separate political corruption from bureaucratic corruption. The former refers to the corrupt activities of political entities which, through bribery, falsification of voter records and falsification of election results, obtain an illegitimate share of representation and power. Through them these elites profit and often encourage the bureaucratic corruption described above (Jancsics, 2019). Corruption causes transaction costs to be expensive, thus burdening the economy. Corruption affects a nation's economy negatively by causing price distortions for products and services that the government both demands and provides (Wawrosz, 2022). Corruption results in the delegitimization of the State and political organizations (Moynihan, 2022).

Corruption impairs the effectiveness of businesses, makes public and private resource allocation ineffective, and distorts public policy (Hao, Gai, & Wu, 2020). The hardest issue to solve is probably the temptation to utilize public office for personal benefit. Typically, anyone accessing an administrative position assumes that everything surrounding that position is his or her own for his or her benefit, something which is definitely wrong, but rarely seems insurmountable (Landa & Pevnick, 2021). That's why, when approaching the study of corruption, it is important to do it from a different knowledge perspective, to explain all the relationships that characterize this phenomenon. One such vision is the economic vision, which allows us to examine the impact it has on the allocation of resources and other economic variables (Sadeghi, Nkongolo-Bakenda, Anderson, & Dana, 2019; Widarni & Bawono, 2023).

The notion that politicians and bureaucrats are not any different from other economic actors and, in particular, that their actions are driven by their own interests rather than those of society or the general public. Therefore, when making decisions, they will only consider social welfare insofar as it is in accordance with their own personal interests, for example, because in this way they will be able to obtain, keep or improve their jobs, increase their wages, develop careers, personal prestige. and social (Dahlström & Lapuente, 2022). Thus, corruption is a common and

unavoidable occurrence, at least as long as some agents are in a position to take advantage of their power to make decisions (Pozsgai-Alvarez, 2020). Corruption may be a rational response of economic actors to opportunities to earn higher incomes. But it is evil, of course for society, and also for individuals (Latif, 2019). Economics has undertaken a useful and realistic analysis of corruption, as it starts from a theory of human action based on key variables for understanding corruption, opportunities, benefits, and costs (Othman, Nordin, & Sadiq, 2020).

The lowest quality of products and services offered by public bodies as a result of carelessness and inadequate planning and control mechanisms is regarded to be the most significant determinant of corruption, inducing customers to offer money in return and officials to engage in such deals (Sun, Edziah, Sun, & Kporsu, 2022). The high degree of latitude in public officials' decision-making, which is based on a series of administrative activities that ultimately distribute their responsibilities, makes it difficult to determine the consequences of acts of corruption and thereby hinders the imposition of fair and timely sanctions (Uddin, Hossain, Chen, Siriwong, & Boonyanuphap, 2019). The monopoly on the provision of certain services by the State results in an accumulation of power, due to the lack of transparency and availability of information in certain procedures which hinders the clarity and objective action of public officials and, at the same time, facilitates the extraction of bribes from those who need to use the services, due to the application of regulations that overdoing the procedure (Svazas, Navickas, Bilan, & Vasa, 2022). Low chances of being caught, and weak sanctions or penalties, are the best incentives to act imprudently to give rise to corruption. The underdevelopment and failure in criminal legislation is evidenced by the low quality of the mechanisms for controlling the results of public management or, that failure, by non-compliance with them, by the low priority given to the problem of corruption in all its manifestations by the justice system and the lack of a strong hand at the time of imposing penalties (Meyers, 2022).

The existence of low salaries for civil servants is a stimulus or invitation to commit and continue to commit acts of corruption that are contrary to the interests of the institution where they work, because because of the low wages officials tend to seek additional economic benefits obtained through discretionary abuse in their work activities, facilitated by the possibility low to be found, and by inefficiencies in the application of penalties and sanctions (Subakdi, Iswahyuni, & Efianda, 2021). The low moral sanction for acts of corruption is a very worrying factor, as a causal element, because in society it has become fashionable to get money by any means. Clientelist bureaucracy, understood as the systematic replacement of meritocratically elected public employees by clientelistically elected others, as an element that derives the principles of structured bureaucracy, allows tolerance that can justify the preservation of (possibly corrupt) public officials in their positions and contributes to the creation unorganized bureaucracy, which for obvious reasons, encourages corruption (Olaiya, Lamidi, & Bello, 2020). In addition, the direct influence of several socio-political factors such as patronage practices, partisan monopoly, lack of actual electoral representation and legitimate government, among others, cannot be overlooked, essentially due to the close relationship that exists between political and economic opportunity, which become an important source of corruption (Yang, Ali, Hashmi, & Jahanger, 2022).

Corruption creates macroeconomic distortions and hinders growth; it creates favoritism in the private business sector and contributes to administrative inefficiencies in public sector operations and projects (Chadee, Martin, Mwashu, & Otuloge, 2022). Officials are no longer service providers, but rent-seeking agents, by virtue of their privileged position to decide goods and

services in the economy. The agents most affected are the innovators, who do not adapt to bribes. Therefore, their activities are at a disadvantage, because they have no lobby and are not part of the government elite (Espinosa, Peña-Ramos, & Recuero-López, 2021). Corruption also damages the economy and in aggregate suppresses the rate of economic growth. Increasing corruption in the private sector has an impact on the risk of business bankruptcy which drives up the unemployment rate (Hu, Chen, Chang, & Chu, 2021). Corruption in government also threatens the real sector so that business expenses are increasing and impacting on employee reductions (Perwej, 2020). Increased economic growth can encourage control of the supervisory system so as to reduce corruption and unemployment (Ragmoun, 2023). However, the increase in unemployment has resulted in an increase in crime which threatens the economy (Poblete-Cazenave, 2020). An increase in unemployment has an impact on the decline in the rate of economic growth (Korotayev, Vaskin, & Tsirel, 2021). What is surprising is that the increase in unemployment has resulted in a decrease in the growth rate of corruption (Asteriou, Pilbeam, & Tomuleasa, 2021). Based on previous research we obtained the following hypothesis.

- H1. Corruption depresses economic growth and increases unemployment
- H2. Economic growth suppresses corruption and unemployment
- H3. Unemployment suppresses economic growth and corruption

**Research methods**

We used secondary data from the World Bank and Transparency International with a 30 year research period conducted from 1990 to 2020 using an autoregressive vector model. Description of the variables in this study are presented in table 1.

**Table 1.** Variable Description

Variable	Description	Source	Unit Analysis
Corruption (Cr)	Corruption data collected in the form of an index in Indonesia	Transparency International	Index
Economic growth (GDP)	Economic growth in Indonesia is estimated using the growth of gross domestic product in Indonesia	World Bank	Percent
Unemployment (UN)	The growth of the unemployment rate in Indonesia	World Bank	Percent

$$CR_t = \beta_0 + \beta_1 GDP_{t1} + \beta_2 UN_{t2} + e_t$$

$$GDP_t = \beta_0 + \beta_1 CR_{t1} + \beta_2 UN_{t2} + e_t$$

$$UN_t = \beta_0 + \beta_1 CR_{t1} + \beta_2 GDP_{t2} + e_t$$

Information :

CR: Corruption

GDP : Economic growth

UN : Unemployment

e : error term

t : time series

$\beta$  : degree in terms of causation influence

In this study, the variables used both independent and dependent will be tested using vector calculations. Dickey-definition Fuller's of zero as obtained from PP analysis, and  $p=1$  with  $\Delta y_t = (\rho - 1)y_{t-1} + u_t$  being prepared, when  $\Delta$  – This is some start attempt, diff operations were used. To “unit root test,” In this investigation, the following equation was used:

$$\Delta Y_t = \alpha_0 + \beta_0 T + \beta_1 Y_{t-1} + \sum_{i=1}^q \alpha_i \Delta Y_{t-i} + e_t$$

Caption:

Y are a unit root variables check.

T “linear pattern” variant portrayed, with “various in lag” are  $Y_{t-1}$ , 0 was showed as “one formula,” and “t” as “trend’s time” are indicated. The alternative theory ( $H_0$ ) and alternative unit root test hypotheses include the ones listed below:

$H_0 : \alpha=0$

$H_1 : \alpha \neq 0$

### Results and Discussion

Unit root testing is used to ensure stationary data because in an autoregressive vector model stationary data is needed. The test results are presented in table 2 below, as follows:

**Table 2.** The test of ADF’s Unit Root

Variable	Unit Root	Incorporated in the evaluation formula	Examination of the Augmented Dickey-Fuller Test results	5%, Critical Value	Description
Corruption	Level	Intercept	-1.482231	0.0082	Stationary
	First Diff	Intercept	-2.210121	0.0071	Stationary
	Second Diff	Intercept	-2.912312	0.0069	Stationary
Economic growth	Level	Intercept	-0.428121	0.0671	Not Stationary
	First Diff	Intercept	-0.722312	0.0731	Not Stationary
	Second Diff	Intercept	-0.912822	0.0372	Stationary
Unemployment	Level	Intercept	-0.813261	0.0911	Not Stationary
	First Diff	Intercept	-1.211321	0.0771	Not Stationary
	Second Diff	Intercept	-2.142231	0.0139	Stationary

The results of the ADF Unit Root test on the variables Corruption, economic growth, and unemployment have second difference stationary After confirming the data is stationary on the second difference, we perform an optimum lag test to determine the lag used in the estimation. The optimum lag test results are presented in table 3.

**Table 3.** The Optimum Lag Test.

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-27.31121	0.000121	0.098121	2.331122	3.711226	4.114221
1	-16.12322	21.31226	0.007811	2.991431	3.934232	1.426122

2	-6.712312	9.81223	0.007811	2.991131	3.962213	2.943212
3	10.48116	12.11322*	0.003421	1.813211	2.377221	1.982231
4	19.82213	6.212322	0.002932*	0.621734*	1.223328*	1.086241*

The results of the above tests on the lowest AIC and SC values are found in Lag 4 so that Lag 4 is selected. Next, the Vector Autoregression Analysis (VAR) test is carried out as shown in Table 4.

**Table 4.** VAR Model Analysis

	UN	GDP	CR
<b>UN</b>	1.612124	-3.021116	-0.281221
	(1.13428)	(1.91221)	(0.51526)
	[ 1.02712]	[-1.22314]	[-0.68122]
<b>GDP</b>	-0.271142	1.028122	-0.182124
	(0.57124)	(1.18137)	(0.12422)
	[- 0.19982]	[0.72114]	[-0.59112]
<b>CR</b>	0.131132	-0.592231	0.613121
	(1.21662)	(1.61348)	(0.18224)
	[ 0.12762]	[-0.18221]	[ 1.78221]
<b>C</b>	-18.15224	48.37226	-5.111212
	(26.22321)	(38.22361)	(9.36621)
	[-1.15524]	[ 1.15171]	[-0.48112]
.R-squared	0.823112	0.811321	0.831224
.Adj. R-squared	0.771821	0.783122	0.781113

The model vector autoregression (VAR) table shows the relationship between the variables Unemployment, Economic Growth, and Corruption. The results show that unemployment reduces the level of corruption and economic growth. Economic growth suppresses unemployment and corruption and significantly increases future economic growth. Corruption increases unemployment growth and suppresses economic growth. Corruption in Indonesia is very damaging to the economy because it drives up unemployment and depresses economic growth. Economic growth is very important for Indonesia because economic growth can provide new jobs to reduce unemployment growth and reduce corruption.

**Conclusion**

Unemployment suppresses the growth of corruption and economic growth. Vice versa, economic growth suppresses unemployment and corruption. Corruption encourages unemployment growth and suppresses economic growth in Indonesia. Corruption in Indonesia is very damaging to the economy because it increases unemployment and depresses economic growth. Economic growth is very important for Indonesia because economic growth can provide new jobs to reduce the rate of growth of unemployment and reduce corruption.

**Limitation**

This research is limited by data availability, data affordability, and timeframe. This research only focuses on data available from the world bank and Transparency International in the research year period 1990 to 2020.



### **Suggestion**

The results of this study show the dangers of corruption in Indonesia to the economy so that the government must immediately improve and suppress corruption in Indonesia as much as possible. The Indonesian people must also be active in participating in corruption monitoring because corruption is very dangerous for the Indonesian economy. Future research should also participate in deepening qualitative data on vital government agencies.

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