Determinants of Poverty in Indonesia

Tri Anita[1], Cicih Ratnasih[2], Meirinaldi[3]
{itatrianita18@gmail.com[1], cicih_ratnasih@Borobudur.ac.id[2], Meirinaldi2505@gmail.com[3]}

[1]Universitas Borobudur, Indonesia

Abstract. In more detail, poverty is a state in which basic human needs, such as food, shelter, and clothing, cannot be met. It also refers to a lack of ownership and low income. The Central Bureau of Statistics develops a Rp-based community standard. Rp. 400,995 per month for urban residents 370,910 for the village as the poor group's foundation. The issue of poverty will impede economic expansion. Economic growth is the growth of economic activities that result in an increase in the community's output of goods and services, which has an effect on the community's own prosperity. There are many factors that influence and determine economic growth, including labor force participation, Investment Flow, Inflation Rate, Net Exports, Government Expenditure or Government Consumption or State Expenditure, Public Consumption or Disposible Income and Public Debt, and Interest Rates. The purpose of this study was to determine the effect of these factors on poverty in Indonesia.The analysis technique or method used in this study is time series data regression analysis, namely observations on a subject/object where the subject/object has a certain period of time. The results of the study showthat Poverty in Indonesia fluctuated from 1980 to 2020 indicated by descriptive statistical data that the mean 16.68%, median 16.54%, Maximum 28.60%, Minimum 9.26%, Standard deviation 4.94%, and Koef. Variance 29.63%. This means that overall, from 1980 to 2020, the poverty rate continues to decline.

Keywords: labor force participation rate, inflation, interest rates, investment, Net Export Growth, public debt, public consumption/ disposable income, government expenditures, poverty in Indonesia

1 Introduction

Development is a systematic step in order to increase economic growth, reduce inequality, and alleviate poverty within a country (Todaro, 2011). However, the fact is that economic growth without paying attention to other factors results in an imbalance in the distribution of income (Suryanto, 2011). The poverty that exists on the territory of Indonesia has not been eradicated by the sustainable development that has been carried out in various fields up until this point. The community's needs have not been met by the uneven development that has taken place in each sector. Indonesia's national development process is plagued by a number of serious issues, one of which is poverty. Despite the government's efforts to implement a variety of packages and programs that involve a number of experts in poverty both domestically and internationally, it appears that this issue cannot be effectively resolved. In essence, neither the current regime nor the previous one can sustain a sustainable poverty management system.

In addition, poverty is characterized by a lack of ownership and low income, or more specifically, by the inability to meet basic human needs like food, shelter, and clothing. Kurniawan defines poverty as a community's income falling below a predetermined poverty

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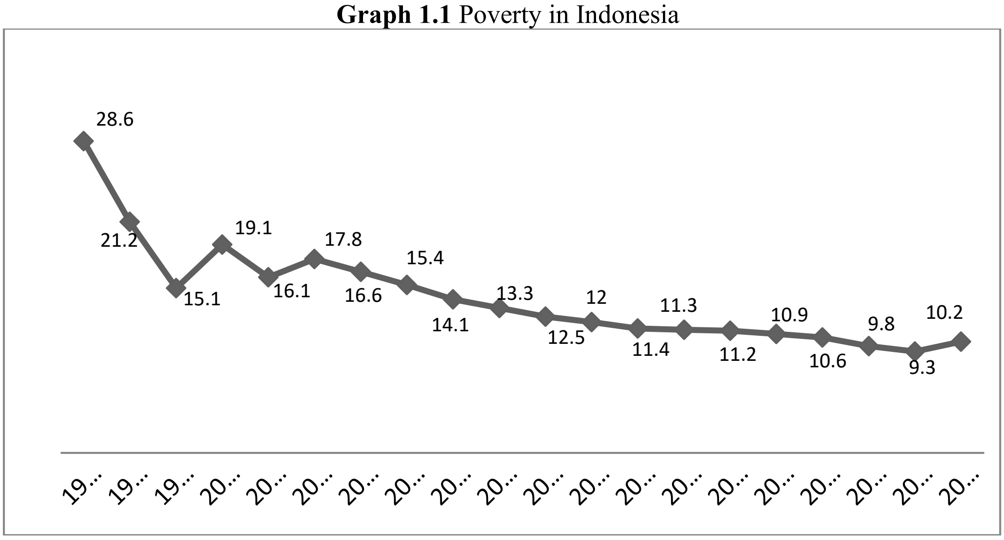
line. Lack of social needs, such as social isolation, dependence, and inability to participate in a decent society, are also indicators of poverty. According to the European Union, poverty is the state of having very few (material, social, and cultural) resources (Khomsan et al.), which is another common definition. 2015).

The Central Bureau of Statistics makes a community standard whose expenditure is Rp. 400,995/month for urban people and Rp. 370,910 for the village as the basis for the poor group. Indef is of the opinion that the percentage increase in expenditure and the decrease in the average number of poor people are due to a survey conducted by BPS which is approaching the period of providing social assistance and farmers carrying out large harvests throughout the region. On average 60% of the poor work in the agricultural sector, by becoming farmers. When the big harvest takes place, it is depicted as if inequality is decreasing. Judging from the segment of the population group, the top 20% should have high or increased spending, but spending has decreased. The amount of spending for the rich who loses high is considered an effort to contain consumption. Meanwhile, low public consumption may experience a decline due to inequality in income distribution. It is suspected that the amount of public consumption can affect economic growth, this can be determined by people's income.

To be clear, the following is a graph of poverty in Indonesia based on percentages, namely:

Graph 1.1 Poverty in Indonesia



Source: (UNCTAD 2021)

In line with the problem of poverty, then we will be faced with the problem of economic growth. The growth of economic activities that result in an increase in the community's output of goods and services, which has an impact on the community's own prosperity, is known as economic growth.(Sukirno 2013). Without taking into account the reorganization of the economy, economic growth can be understood as an increase in GDP/GNP regardless of whether the rate of increase is greater or less than the rate of population growth (Arsyad, 2010). As a developing country, Indonesia implements sustainable development, while still referring to the level of equity and economic stability. Good economic growth indicates a good level of economic growth. And vice versa (Arsyad, 2010).

There are many factors that influence and determine economic growth. Several references or scientific articles, both national and international scientific articles, literatures, previous studies have examined the determinants of economic growth. In the research that the author will do, the authors choose several factors that influence economic growth, among others; Investment Flow, Inflation Rate, Net Export, Government Expenditure or Government Consumption or State Expenditure, Public Consumption or Disposible Income and Public Debt, and Interest Rates.

Good economic growth can be indicated by good GDP or gross domestic product. As the findings of research conducted by Cicih Ratnasih and Yolanda (2018) that simultaneously the financial sector (interest rates, strengthening of the rupiah exchange rate, access to expectations, asset price channels, and access to credit) and capital have a significant effect on gross domestic product. However, the t-test shows the interest rate variable positively but not significantly in increasing gross domestic product.

It is further argued that economic growth in developing countries should be driven by consumption rather than driven by investment, especially since private consumption's share of GDP in these countries typically ranges between 70 and 75% (Radulescu et al., 2019). The economy of a country becomes advanced if it is supported by sustainable economic growth. One indicator that can be measured in economic growth is Gross Domestic Product (GDP) for the national scale or Gross Regional Domestic Product (GDP) for the regional scale. All government activities carried out both directly and indirectly greatly affect economic growth. To make good economic growth an investment or investment climate is needed, because investment is the priority of initial capital in building an economy so that it grows stable.

2 Theory

Economic growth is a process of increasing the quality and quantity of sustainable aggregate production of goods and services for the people of a country (Kuznet, 2014). Economic growth that is quite good, stable, and sustainable is something that is said to be ideal for increasing the standard of living of people in a country. The population growth rate tends to indicate an increase in public consumption. So that people's incomes have to increase. In addition to the supply side and the demand side (consumption), population growth necessitates an increase in employment opportunities (income source). If there is economic growth but still a lot of unemployment, there will be a disparity in how income is distributed (other factors are assumed to remain constant), which will raise the poverty rate (Tambunan, 2003:40).

According to the World Bank, economic growth is an increase in gross domestic product over a relatively long period of time, regardless of whether the population increases or decreases, and whether the economic structure is good or not.

In this case, Aghion's opinion is that the problem of economic growth can be classified into two. The first is regional/regional growth. While the second is the implication of economic growth on poverty, unemployment, and disparities between regions. Although nationally the economy is growing well, it does not mean that the growth is good in the regions. This is natural because each region, say, each province has different characteristics (Hidayat, 2017: 94). Meanwhile, Kuznet (2014) argues that there is a close relationship between economic growth and poverty. This is logical because when the initial government was aggressively building, the number of poor people increased significantly. However, when development is in progress until strategic projects are nearing completion,

The view of neo-classical economists such as Solow states that economic growth can increase or decrease depending on the development of production factors and technological changes. Is the change in technology for the better or not. The better/advanced, then economic growth increases and vice versa, bad technological changes will result in economic decline

(Sadono, 2000). Financial development is an important condition to see the progress of improvement and is a condition for decreasing neediness levels. The situation is that every social class, including the poor, shares the benefits of economic growth. This directly indicates that growth must be ensured in the low-wage industries (such as agriculture and labor-intensive industries). As for indirectly, it means that a government that is quite effective in redistributing the benefits of growth obtained from the modern sector such as services and manufacturing are capitalized.

Education has an important role in the problem of poverty. Without education people cannot improve the conditions of poverty they experience. Conversely, people who have sufficient education or at least have basic reading skills, the problem of poverty can be more easily overcome. In addition, Climate change can also have an impact on the causes of poverty. In this case, a variety of natural disasters may be brought on by climate change. ranging from drought to windstorms and floods. The absence of infrastructure is yet another significant factor in poverty. Roads, bridges, the internet, public transportation, and a variety of other public services make up the infrastructure here. People now have easier access to affordable infrastructure, making it easier for them to purchase everyday necessities. People can find decent jobs if they have sufficient access to public transportation. People who do not have this access, on the other hand, will be isolated and have trouble raising their standard of living.

The next variable regarding the labor force, the size of the quantity of the labor force depends on the size of the population in an area itself. The rate of population growth, especially those belonging to the working age/productive age, will be able to increase the rate of the labor force as well. The large number of the workforce is intended to trigger economic acceleration which leads to a better level of welfare or community prosperity. However, the fact is that the demographic bonus does not necessarily make a good contribution to the level of welfare (Disnaker, 2008). Working age is the age level of a person who is intended to have obtained a job and earns income. The working age group is from 15 years to 65 years. Apart from the working age group, there are also groups outside the working age, namely those aged less than 15 years and those aged over 65 years. This means that they are school children, retirees, and the elderly. Furthermore, there is a share of the population belonging to the working age but not the labor force.

Inflation is a tendency to increase the price of goods and services on an aggregate basis continuously for an uncertain period. This means that the increase in prices for some goods and some services cannot be said to be inflation. However, if the increase affects almost all goods and services, it is appropriate that what is called inflation has occurred (Boediono, 1999). In the economy, inflation can be categorized into several types, both in terms of severity and in terms of the origin of inflation. The parameter used to determine the inflation category is the Consumer Price Index (CPI) or in international terms called the Consumer Price Index (CPI). The CPI measures general spending or consumption of goods at different times. The goods include; food, drink,

Interest rate is an interest rate that is represented in the form of a percentage, a certain tenor (per month or per year). Deposited funds, which are saved according to classical theory are a function of interest rates, the greater the interest rate, the greater the funds stored in banks by the public. In other words, when interest rates are higher, this will encourage people to limit spending or consumption to increase their savings. While interest is the "price" of (utilization) loanable funds, or can be interpreted as funds that already exist to be distributed or capital funds, because of the classical theory view, interest is the "price" that occurs in the investment market (Boediono, 2001: 76). Keynes's theory reveals that interest rates are influenced by the demand and supply of money, From this theory there are three motives, why someone provides cash on hand, this reason is a transaction motive, a precautionary motive, and a speculative motive. These motives were the beginning of the emergence of the demand for money which is commonly called Liquidity preference (Nopirin, 2000:95). The theory is based on the general public's view that every human being wants fixed liquidity to fulfill these motives. This theory also focuses on the personal correlation between people's willingness to pay interest rates with elements of demand for money for speculative purposes, in this case demand increases when interest rates are low, on the other hand demand decreases when interest is high. These motives were the beginning of the emergence of the demand for money which is commonly called Liquidity preference (Nopirin, 2000:95). The theory is based on the general public's view that every human being wants fixed liquidity to fulfill these motives. This theory also focuses on the personal correlation between people's willingness to pay interest rates with elements of demand for money for speculative purposes, in this case demand increases when interest rates are low, on the other hand demand decreases when interest is high. These motives were the beginning of the emergence of the demand for money which is commonly called Liquidity preference (Nopirin, 2000:95). The theory is based on the general public's view that every human being wants fixed liquidity to fulfill these motives. This theory also focuses on the personal correlation between people's willingness to pay interest rates with elements of demand for money for speculative purposes, in this case demand increases when interest rates are low, on the other hand demand decreases when interest is high.

The market for loanable funds illustrates the relationship between demand and supply for loan money and its implications in determining the quantity of money and interest rates. The interest rate is the price that must be paid for the activity of loanable funds. The basic concept of the emergence of the supply of loanable funds is that it begins with the human desire to leave some of their income for saving. We can see how the demand for money loans has a negative slope/gradient, shifting downwards from the top left to the bottom right. If the interest rate is small, the demand for borrowed funds will increase because investment will also increase (other factors are considered unchanged). Vice versa. Requests for funds/money loans consist of domestic/domestic business activities, the general public in the country, and the government.

In an economic study, it is explained that investment can be interpreted as expenditure/capital expenditure, purchase of land, buildings, and equipment and production equipment to carry out activities of producing goods and or services in the future. It can also be interpreted that investment is capital expenditure activities in order to achieve optimal economic output (Sukirno, 2011). In line with the opinion that has been expressed earlier, Samuelson (2011) defines that investment includes adding capital/capital or adding goods in a country, for example; buildings, machinery for production, and several other inventory items for the year. Investment is the stage of sacrificing costs in order to obtain future economic benefits. Usually, investment or capital costs can be divided into four parts, including; investment in several private companies, costs to build domiciles, fluctuating inventory of companies, as well as investments run by the government. Current investment activity is closely related to the expectation of achieving future profits. If the profits are more promising, the people's desire to invest is greater (Gunawan, 2009).

Export is an economic activity in the form of international trade, where goods and or services originating from within the country are sent/sold abroad. Exports are all production originating from one country that is sold to other countries including the sale of goods and or services within a certain period (Triyoso, 2004). One important variable that stimulates economic growth is exports. Exports can increase a country's spending capacity in increasing global output, as well as providing access to scarce resources in various global markets. Exports can also help other countries in carrying out the development business activities of these other countries by promoting various potential economic sectors, has a comparative advantage in the form of abundant availability of certain production factors or efficiency advantages, namely labor productivity. In addition, exports are able to overcome each country in taking benefits based on the scale of the economy they have (Todaro, 2011). Export prices and costs, real exchange rates, global income, and devaluation regulations can all have an impact on export demand. Export prices and costs, domestic prices and costs, real exchange rates, production capabilities that can be approximated through investment, raw material imports, and deregulation-related policies all contribute to exports on the supply side. According to Todaro (2011), exports are able to outperform each nation in terms of profit (Todaro, 2011). Export prices and costs, real exchange rates, global income, and devaluation regulations can all have an impact on export demand. Export prices and costs, domestic prices and costs, real exchange rates, production capabilities that can be approximated through investment, raw material imports, and deregulation-related policies all contribute to exports on the supply side. According to Todaro (2011), exports are able to outperform each nation in terms of profit (Todaro, 2011). Export prices and costs, real exchange rates, global income, and devaluation regulations can all have an impact on export demand. Export prices and costs, domestic prices and costs, real exchange rates, production capabilities that can be approximated through investment, raw material imports, and deregulation policies all contribute to exports on the supply side.

3 Methods

In this study, the data used are annual data ranging from 1981 to 2020. It means that there are n as many as 40 observers in each variable. The amount of data observed is considered adequate to analyze and evaluate both the medium-term and long-term effects of the determinants of economic growth and their implications for poverty. The independent variables or the predictors in this study are; Labor Force Participation Rate (X1), Inflation (X2), Interest Rate (X3), Investment (X4), Net Export Growth (X5), Public Debt (X6), Public Consumption/Disposible Income (X7), and Government Expenditure (X8). There are two response variables or dependent variables, namely Economic Growth (Y) and Poverty (Z).

In accordance with the framework of thinking, the regression analysis model can be shown as in Figure 1. namely:

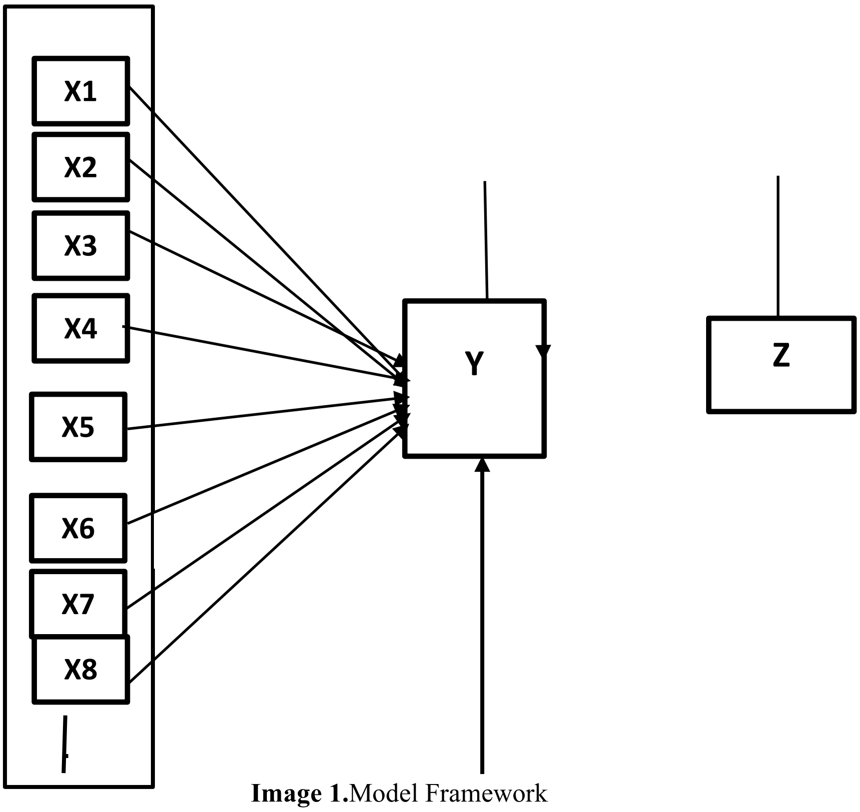


Image 1. Model Framework

Information:
X1 = Labor Force Participation Rate
X2 = Inflation
X3 = Interest Rate
X4 = Investment
X5 = Net Exports
X6 = Public Debt
X7 = Public Consumption
X8 = Government Expenditure
Y = Economic Growth
Z = Poverty
xiy = Regression coefficient of variable X 1, 2, … X i to variable Y
yzi =Regression coefficient of variable Y to the i-th variable Z

Based on the regression analysis above, the following equations can be formulated:

$$Y = \beta_0 + \beta x_1 x_1 + \beta x_2 x_2 + \beta x_3 x_3 + \ldots\ldots. + \beta x_8 x_8 + \varepsilon_1$$
$$Z = \beta_0 + \beta y + \varepsilon_2$$

4 Results and discussion

Poverty in Indonesia which is obtained through the percentage of people living below the poverty line, as a whole during the period 1980-2020, has a range between 9.26% - 28.60% with an average of 16.68% and a median value of 16, 54%. The standard deviation is 4.94% and the coefficient of variance is 29.63%. In the period 1980 - 2020, the highest poverty rate of 28.60% occurred in 1980. While the lowest poverty rate occurred in 2019 which was only 9.26%. In accordance with the results of the equation below:

$$Y = \beta_0 + \beta x_1 x_1 + \beta x_2 x_2 + \beta x_3 x_3 + \ldots\ldots + \beta x_8 x_8 + \varepsilon_1$$
$$Z = \beta_0 + \beta y + \varepsilon_2$$

Y=8.060457 - 0.073136 - 0.147706 - 0.061955 -0.013631 -0.013631 + 0.102271 -0.003375 + 0.512356 + 0.158215

(-1.210) (1.9525) (-1.2100) (-2.6899) (-0.9208) (-0.2806) (3.9048) (-0.2449) (6.8205) (2.8761)

The magnitude of the influence of the independent variable shows the magnitude of the variation in Economic Growth which can be explained by all the causal variables simultaneously, namely Adjusted R2 = 87.3%. While the remaining variation is 12.7% or 1 – Adjusted R2 87.3%. This shows the influence of LFPR, Inflation, Interest Rates, Investment, Net Exports, Public Debt, and Public Consumption, as well as Government Expenditures on Economic Growth simultaneously. The integration of these eight factors enhances the achievement of Economic Growth. The strength of the simultaneous effect and the magnitude of the simultaneous effect are shown by the multiple regression correlation coefficient and the coefficient of determination (R2).

Table 1. Descriptive Statistics of Poverty in Indonesia

	Poverty (%)
mean	16.68
median	16.54
Maximum	28,60
Minimum	9.26
Standard Deviation	4.94
coef. Variance	29.63

Source: BPS, UNCTAD, OECD 2022, Processed

Furthermore, in Figure 1. the following shows that Poverty in Indonesia fluctuated from 1980 to 2020. However, the graph shows a negative trend. This means that overall, from 1980 to 2020, the poverty rate continues to decline.

5 Conclusion

Based on the results and discussion of the research, the authors can draw the following conclusions:
Labor Force Participation Rate, Inflation, Interest Rates, Investment, Net Exports, Public Debt, and Public Consumption, as well as Government Expenditures simultaneously have an influence

on Economic Growth in Indonesia.Partial Labor Force Participation Rateinfluential but not significant to Economic Growth in Indonesia.Partial inflationeffect on Economic Growth in Indonesia.Partial Interest Ratehas a positive and significant effect on Economic Growth in Indonesia.Partial investmenthas a positive and significant effect on Economic Growth in Indonesia.Partial Net Exportseffect on Economic Growth in Indonesia.Partial Public Debtsignificant effect on Economic Growth in Indonesia. However, it has a negative effect.Partial Public Consumptionpositive and significant effect on Economic Growth in Indonesia.Partial Government Expenditurepositive and significant effect on Economic Growth in Indonesia.Economic growthshows that it can significantly reduce poverty and can also increase poverty in Indonesia, this is because economic growth is still unstable caused by factors outside of this study. Poverty that has occurred in Indonesia during the last 40 years until 2020 has always decreased along with the participation rate of the labor force who was able to find work with a percentage exceeding the number of those who did not find work. In addition, public consumption increases along with the growth of the real sector which is supported by investment.

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