

The Effect Of Economic Growth And Income Inequality On Poverty In Indonesia

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Abstract: *The purpose of national development is to realize a just, competitive, progressive, and prosperous Indonesian society of the Republic of Indonesia. This study aims to determine the economic growth, inequality of development and its effect on poverty reduction in Indonesia by using 33 provincial panel data from 2009 until 2015. It analyzed by using descriptive and multiple linear regression analysis. The research found that the poverty rate in Indonesia has decreased in line with the improvement in economic conditions which is marked by an average economic growth above 5 percent per year. The result of regression analysis found that there is the positive and significant effect of Gini index variable to the increase of poverty. It means that any increase in income inequality (Gini index) occurring in Indonesia, could lead to the rise in debt in Indonesia. The human development index variables affect negative and real to poverty. Meanwhile, the growth of Gross Regional Domestic Product (PDRB) has a negative but not real impact on poverty reduction. It shows that every increase of Human Development Index and GDP growth can reduce the poverty rate in Indonesia.*

Jel. Classification: *E64, O11*

Keywords: *Economic growth, inequality, poverty rate in Indonesia*

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I. Introduction

The objective of national development is to create a peaceful, democratic, just, competitive, progressive and prosperous society within the Unitary State of the Republic of Indonesia. It supported by healthy, independent, faithful, pious, noble, respectful, and environment, master of science and technology, and has a high work ethic, and discipline (Ministry of Development Planning, 2013).

In improving the welfare of the community, it is necessary to increase economic growth and income distribution equally. Economic development is defined as a series of businesses in an economy to develop its commercial activities so that more infrastructure is available, more and more companies are growing, higher education and technology are increasing. The primary objectives of the economic development effort besides creating the most top growth should also eradicate and reduce poverty, income inequality and unemployment rates. Employment opportunities for residents or communities will provide income to meet their living needs (Todaro and Smith, 2009).

Siregar (2009), said that increasing economic growth is a requirement to reduce unemployment and poverty. But the condition is not enough. The provision of sufficiency is to improve the quality of economic growth, to have a higher absorptive capacity of the workforce, to spread the benefits of such growth more evenly, to encourage the empowerment of the sustainable poor (Akhmad et al., 2012).

Furthermore, the imbalance of inter-regional economic development according to Sjafrizal (2012) is a common phenomenon that occurs in the process of economic development of a country. This inequality initially caused by differences in demographic content in each region. As a result of these differences, the ability of an area to increase economic growth and encourage the development process also becomes different. Armida. S Alisjahbana (2005) said that one of essential inequality problems in Indonesia is the disparity between regions as a consequence of the concentration of economic activities in Java and Bali.

Rustiadi et al., (2009) said the main factors causing inequality of regional development in Indonesia, among others; (1) geography; if other factors are equal, better geographic conditions will lead to better local development, (2) history; (3) politics; political instability dramatically affects the process of growth and development in a region, (4) government policy; governments should play an essential role in promoting private sector activities within a region's regional economy, (5) administration; Efficiently administrated areas will be able to invite investment, because licensing is not always complicated otherwise areas with poor administration performance (bottleneck bureaucracy) are not attractive to investors, (6) socio-cultural; and (7) the economy.

High regional inequality trends between developed regions and regionsstate Adewara and E. Olon (2013) said the gap would reduce public confidence in the government which would then threaten the integrity of a country. Therefore, the difference must be overcome by the government by encouraging poor areas to be able to catch up with the economies of the already wealthy regions

Ministry of Development Planning (2013) said the gap between regions in Indonesia is inseparable from the diversity of potential natural resources, geographical location, human resource quality, ethnic or political ties. This diversity can be an advantage on the one hand, but on the other hand can potentially be a source of national social and political instability. For that, the implementation of development in a planned and oriented to the reduction of the gap between regions becomes very important to do.

Simon Kuznet in 1955 introduced the phenomenon of the relationship between economic growth and income inequality. Kuznet found that at the beginning of the growth stage, income distribution (welfare) tends to worsen. But in the next step, the income distribution improves with increasing per capita income (reversed curve U). In the early stages of development, economic growth is usually concentrated in the modern sector and focused in already developed areas (Mankiw 2003, McCann 2001, Romer 2001)

Todar and Smith (2009) explain high growth rate does not always worsen the distribution of income. Taiwan and South Korea experienced a high growth rate of Gross Domestic Products (GDP) and an even distribution of income. However, Mexico and Panama experienced rapid growth, but it accompanied by a worsening distribution of income. Other cases in India, Peru and the Philippines show that worsening income distribution accompanies low GNP growth rates. Sri Lanka, Colombia, Costa Rica and El Salvador despite experiencing weak growth, but they managed to improve the welfare of their people. The structure of the neoclassical growth model explains the mechanism of long-term economic growth. Capital accumulation and labour growth explain output growth per labour or labour productivity.

Research on the development of development has been done in many countries, among others, Lu S at.al. (2015) in China, Tello C. and R. Ramos (2012) in Mexico, Postoiu C. and I. Buşega (2015) in the European Union, Zali N. at.al. (2013) in Azerbaijan, Habibullah M.S at.al. (2012) in Malaysia; Giannias D at.al (2017) in European Union mainly they found that the gap at both the regional and national levels is quite high in recent years so that governments in each country need to take concrete steps in reducing the increasing gap.

Researchers on development inequality and poverty in Indonesia have been undertaken by Yusuf et al. (2014); Akhmad (2015); Gitting (2015); Mahardiki and Santoso (2013); Nurhuda at.al. (2012) in East Java; Baransano at.al (2016) in West Papua; Barika (2012) in Bengkulu province; said that there has been an imbalance of development at both the provincial and district levels within the area. Therefore, the development of each region's superior sectors should be improved in each area, so that it can spur regional growth and ultimately can accelerate the reduction and the gap and poverty. It is essential because by reducing the inequality of development aims to reduce the level of debt in the region.

Although it can not be eliminated, the gap between regions should still be reduced. One of the fundamental principles that policymakers have to adhere to is that regional economic disparities can still be tolerated to the extent that they do not interfere with national economic growth and do not create extraordinary inequalities of income in society. In other words, efforts to redistribute people's profits should be given top priority over regional economic redistribution. One more thing to do in the effort to reduce the financial gap between regions is to minimize the distance between the most prosperous regions and the most deprived regions, through an individual effort to raise the most deprived areas significantly.

The development of Indonesia's macroeconomic indicators in recent years has shown encouraging results. Economic growth has increased and is an average of 5.65 percent in the period 2010-2016. However, financial growth that occurs at the same time there is an imbalance. Gini Indonesia Index data from 2004 to 2015 showed an increasing trend and even in 2015 showed a figure of 0.41. The Gini Index of 2015 is the most significant index in history

II. Data And Research Methods

The data used in this research for 33 provinces in Indonesia from 2009-2015. The data collected include data on per capita income, growth of Gross Regional Domestic Product (GDP), Gini index, Total and percentage of poor people and Human Development Index data. The data obtained from the Indonesian Central Bureau of Statistics and the Indonesian Ministry of National Development Planning (PPN).

The data analyzed by descriptive analysis and multiple linear regression analysis. The descriptive study aimed inequality conditions can describe as real conditions. It did by showing the data showing the disparity both from the income side and from the human development index.

Analysis of multiple linear regression aims to determine the effect, growth of Gross Regional Domestic Product (GDP), Gini Coefficient, and Human Development Index (HDI) to poverty in Indonesia, by the formula:

$$Y = a + b_1.X_1 + b_2.X_2 + b_3.X_3 + e$$

Where:

Y = Percentage of poor supporters

X1 = GDP growth

X2 = Gini Coefficients

X3 = Human Development Index,

III. Research Result

Income Gap

The level of population income gap in Indonesia in the period 2009-2015 shows the tendency of income gap to increase; this is indicated by the Gini Index from 2008 to 2012 rising as shown in Table 1. In general, the Gini Index in 2011 was recorded Gini Index of 0,41 is more significant than in previous years while the year 2012-2015 Gini index tends to remain.

The growth of Gini Index of each province in 2009-2015, as a whole can be categorized as moderate and fluctuate with increasing trend. It shows the level of the improvement income in each area on average. In Sumatra Region, there are nine provinces have low Gini Index and fluctuate but indicating increase every year, only one city vary, but it means decreased every year that is Kep. Bangka Belitung province.

Java-Bali Region recorded the destination (all) provinces have Gini Index fluctuate but has definite trend increase every year. The Kalimantan region, marked in East Kalimantan Province, has a Gini Index that indicates every year, while for other provinces in 2015 it fluctuates and tends to increase. Sulawesi, carrying six (all) areas have a fluctuating Gini Index and tend to grow every year. The Nusa Tenggara-Maluku-Papua Region, recorded the level of income gap in Papua and West Papua, West Nusa Tenggara and East Nusa Tenggara provinces tends to increase every year, but on the contrary, the development of North Maluku Province revenue gap tends to decrease. When compared to the Gini index between provinces and national in 2015, it noted that DKI Jakarta, West Papua, Papua, East Java, D.I. Yogyakarta, Gorontalo and South Sulawesi provinces, the income gap in the region is higher than in other areas, and the average is above the National Gini Index.

Table 1. Gini Ratio Development by Province in 2009-2015

No.	Province	Years						
		2009	2010	2011	2012	2013	2014	2015
1	Aceh	0,29	0,30	0,33	0,32	0,34	0,32	0,33
2	North Sumatera	0,32	0,35	0,35	0,33	0,35	0,32	0,34
3	West Sumatera	0,30	0,33	0,35	0,36	0,36	0,33	0,34
4	Riau	0,33	0,33	0,36	0,40	0,37	0,35	0,36
5	Jambi	0,27	0,30	0,34	0,34	0,35	0,33	0,36
6	South Sumatera	0,31	0,34	0,34	0,40	0,38	0,40	0,36
7	Bengkulu	0,30	0,37	0,36	0,35	0,39	0,36	0,38
8	Lampung	0,35	0,36	0,37	0,36	0,36	0,35	0,38
9	Bangka Belitung Island	0,29	0,30	0,30	0,29	0,31	0,30	0,28
10	Riau Island	0,29	0,29	0,32	0,35	0,36	0,40	0,36
11	DKI Jakarta	0,36	0,36	0,44	0,42	0,43	0,43	0,43
12	West Java	0,36	0,36	0,41	0,41	0,41	0,41	0,41
13	Central Java	0,32	0,34	0,38	0,38	0,39	0,38	0,38
14	DI Yogyakarta	0,38	0,41	0,40	0,43	0,44	0,42	0,43
15	East Java	0,33	0,34	0,37	0,36	0,36	0,37	0,42
16	Banten	0,37	0,42	0,40	0,39	0,40	0,40	0,40
17	Bali	0,31	0,37	0,41	0,43	0,40	0,42	0,38
18	West Nusa Tenggara	0,35	0,40	0,36	0,35	0,36	0,38	0,37
19	East Nusa Tenggara	0,36	0,38	0,36	0,36	0,35	0,36	0,34
20	East Kalimantan	0,32	0,37	0,40	0,38	0,40	0,39	0,33
21	Central Kalimantan	0,29	0,30	0,34	0,33	0,35	0,35	0,33
22	South Kalimantan	0,35	0,37	0,37	0,38	0,36	0,36	0,35
23	West Kalimantan	0,38	0,37	0,38	0,36	0,37	0,35	0,32
24	North Sulawesi	0,31	0,37	0,39	0,43	0,42	0,42	0,37
25	Central Sulawesi	0,34	0,37	0,38	0,40	0,41	0,37	0,37
26	South Sulawesi Selatan	0,39	0,40	0,41	0,41	0,43	0,42	0,42
27	Southeast Sulawesi	0,36	0,42	0,41	0,40	0,43	0,41	0,40
28	Gorontalo	0,35	0,43	0,46	0,44	0,44	0,41	0,42
29	West Sulawesi	0,30	0,36	0,34	0,31	0,35	0,35	0,36
30	Maluku	0,31	0,33	0,41	0,38	0,37	0,35	0,34
31	North Maluku	0,33	0,34	0,33	0,34	0,32	0,32	0,28
32	West Papua	0,35	0,38	0,40	0,43	0,43	0,44	0,44
33	Papua	0,38	0,41	0,42	0,44	0,44	0,41	0,42
	National	0,37	0,38	0,41	0,41	0,41	0,41	0,41

Source: Central Board of Indonesian Statistic

In addition to the Gini Index, the income gap between regions can be illustrated by GDP per capita as shown in Figure 1. The inter-provincial income gap shows a high enough or high disparity rate, due to the per-capita GDP of some provinces far higher than the national average per capita GDP, based on BPS data from 2009-2015 per capita GRDP with oil and gas as many as seven provinces with per capita GDP is above the national average with the highest value reached 130.175 million rupiah per person in DKI Jakarta Province and as many as 26 areas with GDP per capitamining materials, and forest resources. In the Riau Islands, the city of Batam is the centre of industrial activity and trade between countries. DKI Jakarta is the centre of industrial sector activities, services and business.

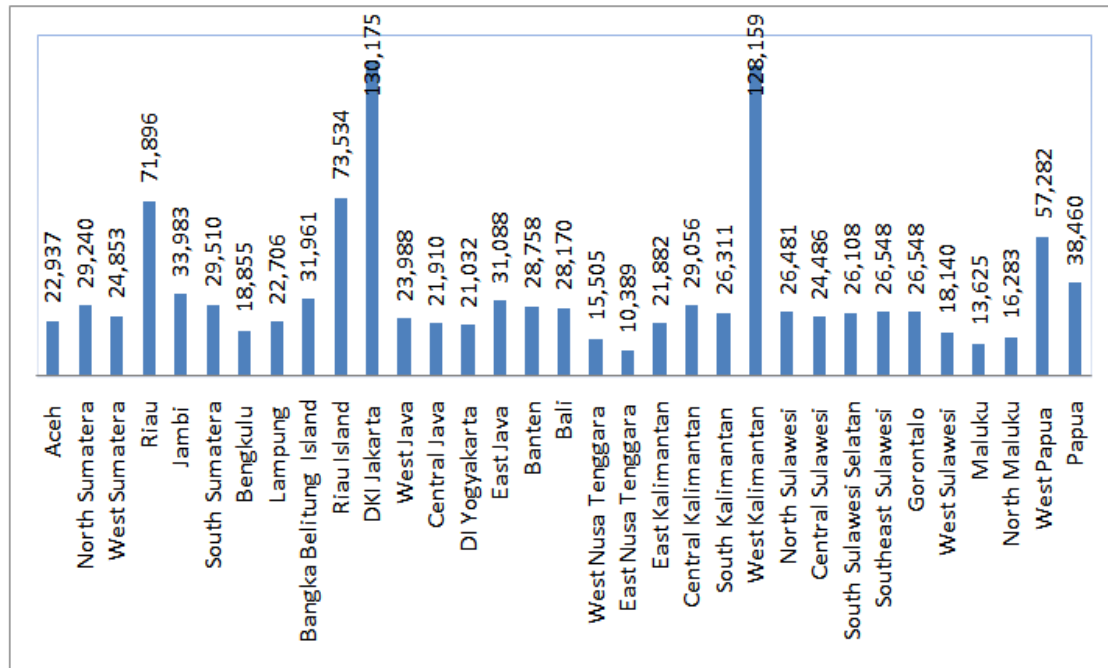


Figure 1. Average Gross Regional Domestic Product per Capita Year 2009-2015 Based on 2010 Constant Price by Province (thousand rupiahs)
Data Source: Central Bureau of Statistics processed

Poverty rate

The data of poor people in Indonesia in 2009 recorded at 14.15 percent, where Papua and West Papua Provinces represented the two provinces with the highest percentage of 37.53 and 35.71 percent respectively. The lowest poverty rates province in the DKI Jakarta and South Kalimantan Provinces respectively 3.62 and 5.12 percent. By 2015 the poverty rate has decreased to 11.13 percent. Papua and West Papua provinces are still the two provinces with the highest percentage of 28.40 and 25.73 percent respectively. The lowest poverty rates provided in the DKI Jakarta and South Kalimantan Provinces respectively 3.61 and 4.72 percent. The incidence of the poor in various regions shown in Figure 2.

Based on BPS data in 2009-2015 shown in Figure 2. The disparity of poverty among provinces in Indonesia is very high. The poverty rate in Western Indonesia, for example in DKI Jakarta, Bali, Sumatra and Java are relatively lower than in Eastern Indonesia. The difference in the poverty rate in Jakarta is only about 3.74 percent while in Eastern Indonesia as an example in West Papua province reaches 29.81 percent of the total population. Or there is a disparity of 26.07 percent. The difference in the percentage of poor people by region shows the high imbalance of inter-regional development in Indonesia.

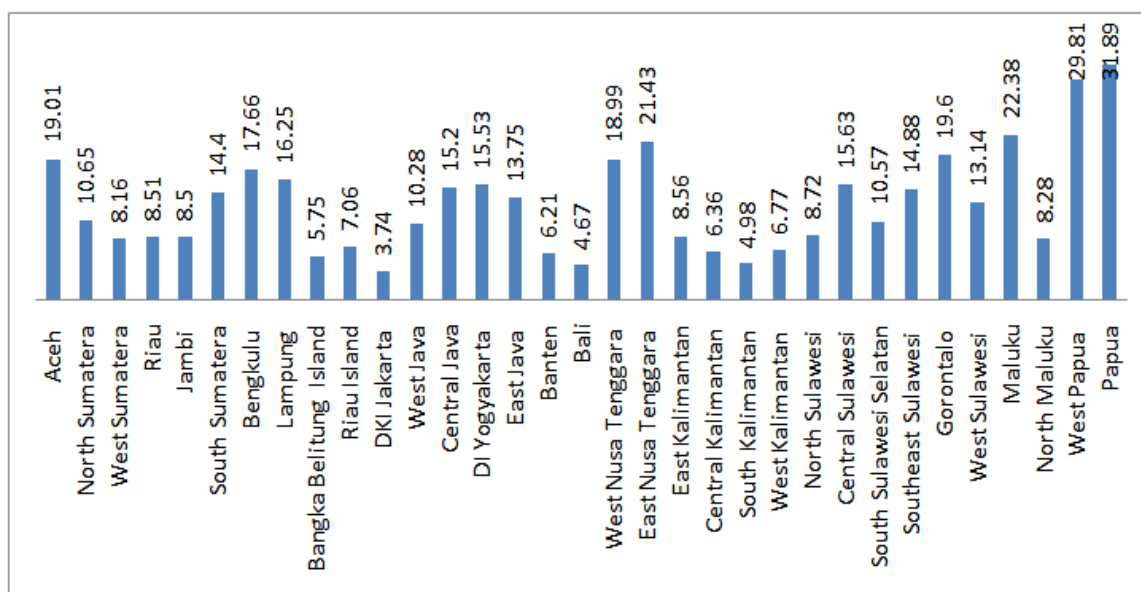


Figure 2. Average Percentage of Poor People in 2009-2015
Data Source: Central Bureau of Statistics processed

Human Resource Gap

The level of inequality can also show from the aspect of quality of human resources in each region in a country. One of the benchmarks of the quality of human resources is to understand the human development index in each of Indonesia Province. The index of human development in Indonesia can show in Figure 3.

Figure 3 shows that there are still many provinces with a quality of human resources below the national average of 68.01. Based on the average data of Human Development Index (IPM) in 2009-2015, as many as 18 provinces of 33 provinces have the value of Human Development Index (HDI) under the national HDI. The areas with HDI carried federal located in Eastern Indonesia covering the Provinces of Papua, Nusatenggara, Sulawesi and Kalimantan. The three provinces with the lowest HDI were Papua, West Papua and East Nusa Tenggara respectively 55.88, 60.21 and 61.15.

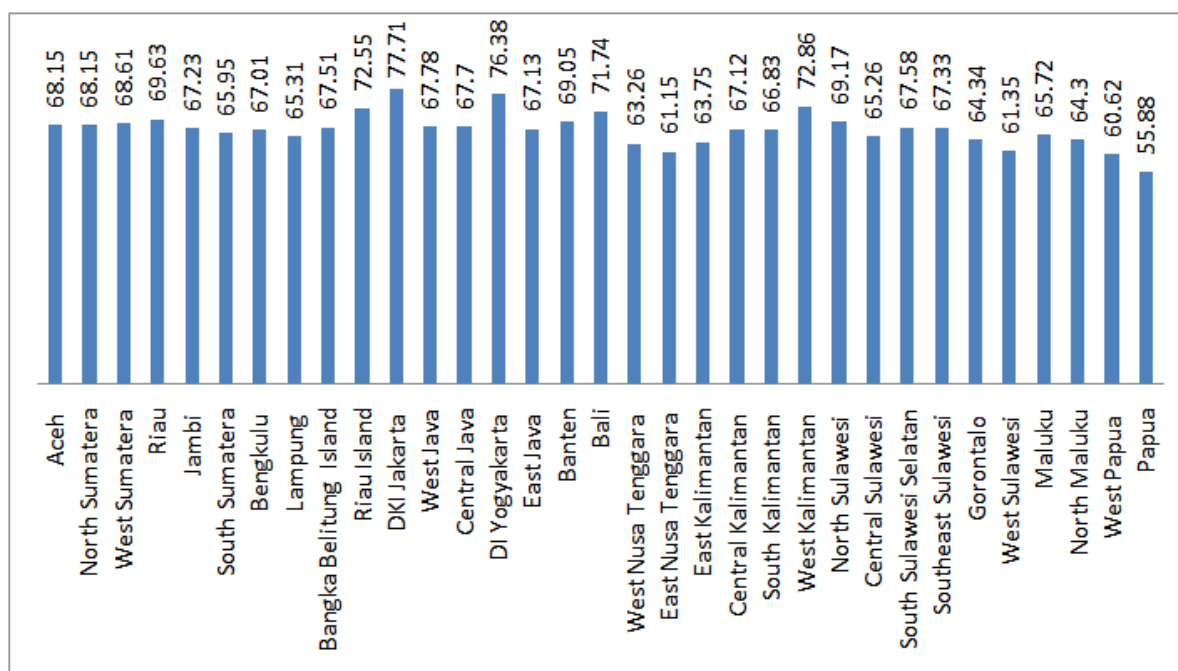


Figure 3. Average HDI in 2009-2015
Data Source: Central Bureau of Statistics processed

B. Estimation Results

The result of poverty model estimation found that: poverty area is influenced by real and positive by a coefficient of Gini index. The index of human development (IPM) contrary and real to debt. The growth of Gross Regional Domestic Product (PDRB) have an adverse effect but not authentic to poverty in Indonesia. Table 2. Estimation Results of Poverty Parameters Variables Estimating Prob> [T] F-arithmetic Adj R-Sq

Variables	Variable	Prob>[T]	F-Count	Adj R-Sq
Intercept	61,5073	0,0010	12,555	0,520
Per. PDRB	-0,3560	0,4819		
Koe. Gini	82,2615	0,0069		
IPM	-1,1429	0,0000		

Model estimation result of human development index (HDI) shows the number -1,1429. It indicated that if the human development index increases 1 percent, then the poverty rate will decrease by 1.1429 percent. This finding is very rational, which found that if the quality and health of human resources increases then the poverty rate will drop.

On the other hand, the estimation result of the Gini coefficient shows positive and real numbers on the growth of poverty rate. These results indicate that if the level of income inequality between the population increases, then the poverty rate will increase. The estimation result of Gini coefficient shows the number of 82,2615. It shows that the Gini index warning of 1 percent will increase the poverty rate by 82.2615 percent. This finding is in line with findings by Lu S at.al (2015) in China in finding that the higher inequality of development in a region will lead to increased poverty in the area. Similar findings by Datt and Ravallion (1990) emphasize that one way of alleviating poverty in a city is to eliminate inequality among regions that occur.

Meanwhile, for GDP growth variable, the result of regression analysis shows that GDP growth variable has an adverse but not significant effect on poverty growth variable. It indicated by the negative variable growth coefficient of 0.356. This result means that every 1 percent increase in GDP growth, can reduce 0.357 percent poverty rate in Indonesia. The results showed line with research conducted by Astrini (2013). Using the data in Bali Province, the results of the survey indicate that GRDP has an adverse and significant effect on reducing poverty in Bali Province. A similar opinion expressed by Rusdarti and Karolina (2013), who researched Central Java Province. The results of the study found that GRDP has a significant effect on poverty reduction in Central Java.

IV. Conclusions And Policy Implications

Conclusion

The development of poverty in Indonesia, in general, has decreased from 14.15 percent in 2009 to 11.13 in 2015. The decline in the poverty rate in Indonesia is partly due to the improved economic condition marked by an average economic growth above 5 percent per year from the year 2009 until 2015. On the other hand, income inequality shows a worsening number characterized by an increasingly widening Gini index wherein 2009 the Gini index was 0.37 while in 2015 the Gini index rose to 0.41. It shows that the growth of development in Indonesia completely lacks in quality. Improved income inequality does not fully offset It means.

The result of regression analysis found that there is the positive and significant influence of the coefficient Gini variable to the increase of poverty. It means that any increase in income inequality that occurs in Indonesia can lead to the rise in poverty. While the human development index variables influential contrary and real to poverty. Then GDP growth has an adverse effect, but it is not practical on poverty reduction. It means that every Human Development Index and GDP growth is increasing, it can encourage poverty reduction in Indonesia.

Policy implications

Based on the results of the analysis and conclusions that have been proposed, then the policy implications that need to be asked is the central government, and the blood needs to be sided with the poor. Besides, the central government has time to crash the program to solve the problem of income and poverty inequality in Indonesia. One of them is the development of sound infrastructure in eastern Indonesia. The infrastructure consists of the construction of ports, road improvements, the addition of power and electricity capacity, the development of hospitals and health centres are reliable, and also significant is the development of educational facilities and infrastructure. Without it all, it is difficult for eastern Indonesia to catch up from western Indonesia.

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