

THE EFFECT OF ECONOMIC GROWTH ON THE NUMBER OF POOR PEOPLE IN INDONESIA, PERIOD 1994-2010

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THE ABSTRACT

In order to improve the economic welfare in Indonesia, so the economic growth is an important factor to be considered by the government. One of efforts to improve the welfare is to reduce the number of poor people.

The purpose of this study is to determine the effect of economic growth on the number of poor people in Indonesia period 1994-2010. The Implementation period is a period of long-term development phase II (PJPT II), where the direction of economic development period aims to achieve sustainable economic growth.

This study concludes the effect of significant economic growth on the number of poor people in Indonesia, where rising economic growth can reduce the number of poor people. The expected results of the study may help government to establish policies of economic development particularly related to poverty.

Keywords: economic growth, poverty

BACKROUND ISSUES

The Development process of a country is always aim to achieve prosperity. Where to be able to achieve the goal of development is to create sustainable economic growth. In addition to long-term oriented, the economic growth could have an impact on national income very high and spread evenly.

In further the success of a country to improve economic growth is definitely able to reduce poverty. Especially for Developing Countries generally have a large population and mostly live below the poverty line (Todaro, 2000). Even so it is Indonesia, which has a population of 240 million is the fourth most populous nation in the world. But with the ability to achieve high economic growth during the New Order (1966-1996) has been successful in reducing poverty from 40% to 17.5% (Tulus Tambunan, 2011).

The achievement of Indonesia is apparently decreased during the Asian financial crisis in the period of 1997-1998 where the number of poor people increased from 17.47% in 1996 to 24.23% in 1998. The main factor that causes it is decreasing economic growth to 13.13%. In the history of Indonesia's economy this is the worst period. After this period, number of poor people seems decline even though it is fluctuation. As happened along the period of 2003 -2005, the

number of poor people in Indonesia increased by 4.2 million people (Tulus Tambunan, 2011:192) and then declined again since 2007.

By the description above, comes out the issue that in absolute number of poor people in Indonesia is relatively large and varies between regions and sectors. Even have ever happened an increased in economic growth actually resulted higher number of poor people and on the contrary. Dissatisfaction with these conditions encourages the writer to know how much further the effect of economic growth in the number of poor people in Indonesia, especially during the period of 1994-2010.

Which the early period is determined the implementation of sustainable economic growth in Indonesia as the effort to whole population development. The assumption arise that increasing economic growth become a solution for Indonesia to reduce poverty, especially in the Long-Term Development Phase Two.

PROBLEM FORMULATION

Based on the description of background problems above then the problem studied is: To what extent the effect of economic growth on the number of poor people in Indonesia?

RESEACH OBJECTIVES

The purpose of this study is to determine to what extent the effect of economic growth on the number of poor people in Indonesia.

HYPOTHESIS

Based on description of background, the formulation of problem and the purpose of research on the hypothesis put forward are: increasing of economic growth can reduce the number of poor people in Indonesia.

THEORY

1. Economic Growth

Economic growth is generally defined as the process of change in a country's economy sustainably toward a better situation for a certain period. Specifically, economic growth is quantitative because more emphasis on the increase in national income so that economic growth is only one aspect of economic development. Which is the measurement of economic growth can use the Gross Domestic Product (GDP) or Gross National Product (GNP) in accordance with the conditions of the country.

Next comes out the various theories of economic growth that emphasizes the different determinants. Like the classical economic theory by Adam Smith more emphasis on the utilization of natural resources and labor in order to increase economic growth. The opinion was denied by David Ricardo and TR

Malthus who feel pessimistic about the use of labor in developing countries if it is not followed by the use of technology.

While Neo classical economic growth theory by Robert Sollow more emphasis on two inputs factors, namely capital and labor. The use of capital in promoting economic growth, according to Harrod Domar can only occur when accompanied by an investment that can improve the productivity of capital and labor. Then J. Schumpeter adds the importance of innovation that should be done by employers to further enhance the economic growth of a country (Todaro, 2000).

2. Poverty

Understanding poverty is simply a condition that describes a shortage of good against economic basic consumption needs like clothing, food and house and non-economic, such as health, education, sanitation, water supply and transportation. While in a broad sense include the lack of future security, Human Resources (HR), social appreciation and access to employment and sustainable livelihoods.

The types of poverty can be divided into two those are relative poverty and absolute poverty. Relative poverty is a measure of the inequality in the income distribution. While absolute poverty is more emphasis on the inability to meet minimum living needs.

The effort to reduce poverty is necessary strategy and appropriate intervention. There are three main pillars of poverty reduction strategies in Indonesia, namely:

1. Sustainable economic growth
2. Good governance
3. Social development

In order to support the strategy of government interventions in accordance with the goals or objectives are:

1. Short-term interventions, especially for the development of agriculture and rural economy.
2. Medium and long-term interventions include private sector development, regional cooperation, budget and administration, decentralization, education and health, water supply and urban development.

RESEARCH METHOD

This research is an approach to Development Economics knowledge that focused on the problem of poverty. More specifically, the approach is related to economic growth and its impact on the number of poor people in Indonesia. Thus the research method used is descriptive analysis approach. This approach can provide a descriptive overview of the development of economic growth and its relationship with the number of poor people in Indonesia.

TYPES AND DATA COLLECTION

Related to the object that is researched, the type of data that is used are annual time series data limited from 1994 to 2010. Limitation on 1994 is considered that at the time was the beginning of the implementation of the Long-Term Development (PJPT) Phase II in Indonesia which has lead to sustainable economic growth. Limitation in 2010 assumed that the analysis carried out can restrict the time dimension occurred to relationship between the variables being taken.

Data collection procedure is to do a collection of secondary data from the Statistics Indonesia (BPS), Bank Indonesia's report. Further to add references is done research literature by reading reference books, articles, papers and reading materials related to the problem being analyzed.

DATA ANALYSIS

As the purpose of research is to analyze the influence of economic growth in the number of poor people in Indonesia, then the analysis uses a regression equation based on annual data over the period of 1994 to 2010. On that equation, the economic growth variables shown by X while variable number of poor people in Indonesia indicated by Y. Further the analysis will be written for the regression equation becomes:

$$Y = a + bX$$

a. Test Statistics

In this statistical tests include the t test, F and R². T-statistics testing is intended to examine the significance of each independent variable in determining the movement direction of independent variables. Which the application is by comparing the estimated coefficients of each independent variable, including constants, to t-statistics, to determine whether the independent variables had a significant effect or not to its dependent variable. This study used statistical t-test two-way, so that when the t-count is greater than t-table or t-count smaller than t-table then the influence of the independent variables to dependent variables is significant.

While the F-test statistic is intended to examine the significance of all the independent variables simultaneously to its dependent variables in an equation model that used. Which is in this F-test statistics will be compared between the F-calculation from the regression equation with the value of the F-table. When the F-calculation is greater than F-table, then the effect of all independent variables to dependent variables in an equation model that used is significant.

Further is done testing R² on the regression equation that used to investigate the effect of the use of the independent variables as a whole which are estimated to its dependent variables. When the value of R² obtained by large numbers means that using those independent variables statistically is representative and on the contrary when the value of R² is relatively small.

b. Economic Analysis

After the statistical test is done then economic analysis does. This analysis aimed to compare the model results to the applicable rules of economic theory whether is appropriate or not. For the reason, it is necessary the analysis of the equations that have been obtained based on the results of the estimations.

The Results of Statistical Tests

From calculation of the regression coefficients in the regression equation based on the data of 1994 to 2010 it obtained the following results:

$$Y = \begin{matrix} 40.4744 \\ (29.6967) \end{matrix} - \begin{matrix} 0.8878 \\ (-4.1063) \end{matrix} X$$

$$F = 16.8611 \quad R^2 = 0.5292$$

The results obtained through the estimation that is done using a specific method. The numbers are located inside the brackets, below the regression coefficient is the value of t-statistics.

From the results obtained by statistical t-test results for the equation of economic growth influence on the number of poor people in Indonesia during the period that researched, have the coefficient smaller than t-table at a significance level of 1% (-2,977) that is -4.1062. This suggests that partially economic growth variables can affect the number of poor people in Indonesia at a significance level of 1%. Thus it can be said that decrease of the number of poor people in Indonesia still depends on economic growth. Even with high economic growth will drive revenue more evenly which can further improve the welfare.

Similarly, to test F-statistic, seen equation effect of economic growth on the number of poor people in Indonesia, the amount of F-statistic shows the number 16.8611. This figure is much larger than the F-table at 1% significance level (8,53). This means that all variables in this equation together will affect the number of poor people in Indonesia at a significance level of 1%.

As for the test R^2 value is obtained of 0.5292, means the contribution of independent variables to the poor population of 52.92% is influenced by other variables. Contribution of economic growth of 52.92% is high enough to reduce the number of poor people in Indonesia. The main factor that causes is the rise of the Asian economies has impacted the growing trade sector thus pushing up economic growth. Furthermore, this condition will increase labor productivity by increasing competition in the international market. Thus society welfare will increase as evidenced by the declining number of poor people in Indonesia.

The second reason is the reality of the development process in Indonesia has entered the second phase of the long-term that emphasizes economic growth followed by a high equity. In accordance with the guidelines for the development of Indonesia emphasizes eight equity lines covering basic needs, education and health, income distribution, employment, business opportunity, a chance to participate in the development, deployment distribution and justice as the result

economy growth of Indonesia is predictable more quality so that influence strongly in reducing poverty in Indonesia.

Those efforts of equity will be successfully realized by the government after entering PJPT II so that poverty reduction policy in Indonesia is very important through sustainable economic growth policies.

Results of Economic Analysis

Based on the result of regression equation of economic growth influence on the number of poor people in Indonesia can be rewritten as follow:

$$Y = 40.4744 - 0.8878 X$$

From the equation above shows that the direction of the independent variable coefficient that is economic growth indicates negative direction on the number of poor people in Indonesia. That means that Indonesia's economic growth by 1% will be followed by a decrease in the number of poor people in Indonesia amounted to 0.8878 million. The statement is in accordance with the theoretically that increasing economic growth in Indonesia will encourage increased production by the private sector will be followed by an increased use of labor. This condition will lead to the growing prosperity means to reduce poverty in Indonesia.

Indonesia's ability to reduce poverty through economic growth is excellence. Considering the success of economic growth generally occurs only in Developed Countries. It turns out from the results of these calculations proved that economic growth is still the best solution for Indonesia in reducing poverty which becomes the main issue of a country. Even according to the principle of sustainable economic growth it should cover all aspects of economic, social-culture and politic then the welfare of the people will be actually happened.

CONCLUSION

In the equation of economic growth influence on the number of poor people in Indonesia, from the regression results show that economic growth has a negative correlation to the number of poor people in Indonesia.

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