

UDC 332

THE EFFECT OF POVERTY, UNEMPLOYMENT AND ECONOMIC INEQUALITY ON INCLUSIVE ECONOMIC GROWTH IN INDONESIA'S PROVINCES

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ABSTRACT

The purpose of this study is to examine the impact of poverty, unemployment and economic inequality on inclusive economic growth in Indonesian provinces. This study is a quantitative study conducted in all provinces of Indonesia. The data used in this study are cross-sections of data, especially panel data for his 34 provinces in Indonesia, and time series, especially data from 2012 to his 2021. The analytical technique used was multiple linear regression with fixed-effects modeling using IBM Eviews 9. Based on research findings, the impacts of poverty, unemployment, and economic inequality have been shown to have positive and significant impacts on inclusive economic growth. I have it in Indonesia.

KEY WORDS

Poverty, unemployment, inequality, inclusive economic growth.

As a developing country, Indonesia continues to achieve people's well-being through economic growth. Economic growth is considered an indicator of a country's development success (Muryani, 2018). But the problem is that high economic growth alone is not enough to guarantee the development of people's wealth. Rather, it aims at alleviating poverty and unemployment by sharing sensitive issues of income distribution. As things stand, regional development gaps still exist due to unequal distribution of income, which may create conditions that increase poverty. Based on these assumptions, one economic development strategy aims to pay attention to the quality of economic growth with inclusive economic growth (Klasen, 2017).

Inclusive economic growth integrates equity and growth into an integrated measure of social welfare functions, taking into account community contexts to promote economic growth, reduce poverty and reduce income inequality (Anand et al., 2013). According to Ali and Soon (2007), inclusive growth means that benefits are shared by all sectors of society in order to achieve greater benefits as a result of effective poverty reduction strategies, and economic actors are encouraged during economic growth. The concept of developing a fair opportunity for a fair distribution of wealth and prosperity for those who extend the development agenda.

The regional development of Indonesia, which is very large and has many island groups, leaves the problem of uneven development that still exists. This happens in each region with different results. In other words, regional income distribution is still unequal across individual provinces in Indonesia. According to data from the Central Bureau of Statistics (2021), 84% of economic growth is distributed to provinces in western and central Indonesia, and the rest to provinces in eastern Indonesia. Below is the Inclusive Economic Growth Index for Indonesia in 2021.

Based on the chart above, the inclusive economic growth of each Indonesian province in the period from 2012 to 2021. The highest inclusive economic growth in Indonesia was in the DKI province of Jakarta at 7.93%. The DKI province of Jakarta has a profitable employment system and is able to reduce the poverty rate of its population compared to other provinces. Papua's most comprehensive economic growth rate is 4.41%. This is consistent with many flaws in the facilitators, and gaps still exist among communities in Papua. As a result, some of the poverty and unemployment rates in Indonesian society remain fairly high.

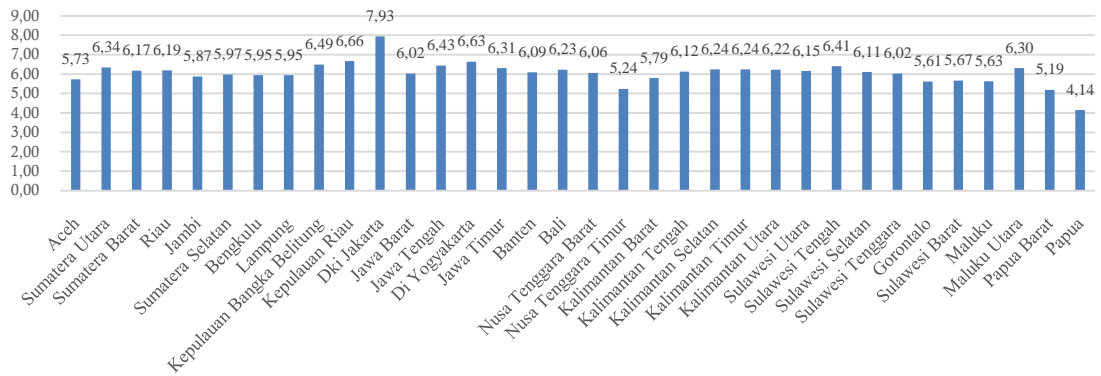


Figure 1 – Provincial Inclusive Economic Growth in Indonesia, 2021 (Source: Development Planning Agency, 2012-2021)

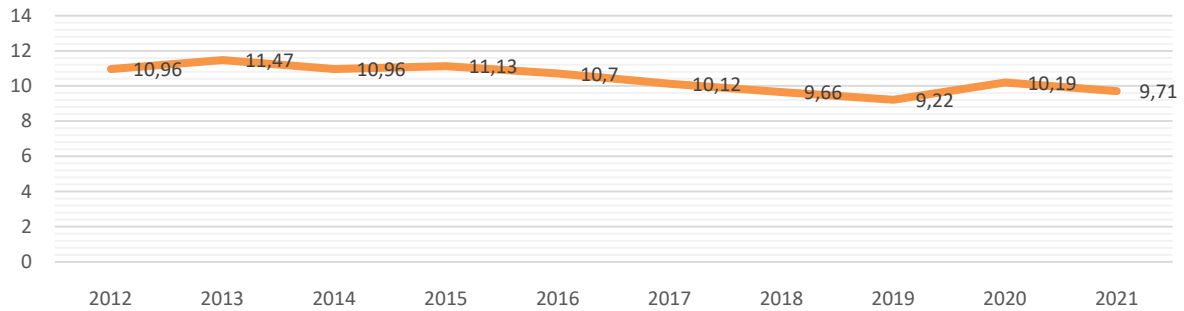


Figure 2 – Poverty in Indonesia 2012-2021 (Source: Central Bureau of Statistics, 2012-2021)

Figure 2 from the National Bureau of Statistics for the period 2012-2021 shows that much needs to be done to reduce poverty by promoting inclusive economic growth. Due to the effects of the Covid-19 pandemic, many people have lost their jobs and lost their jobs, thus reducing their income. Poverty leads to higher costs for economic development and indirectly slows economic growth (Fahrul, 2016). In addition, the community should also have the skills of the acquired professional skills. A lack of specialized skills in communities affects income shortfalls and increases unemployment.

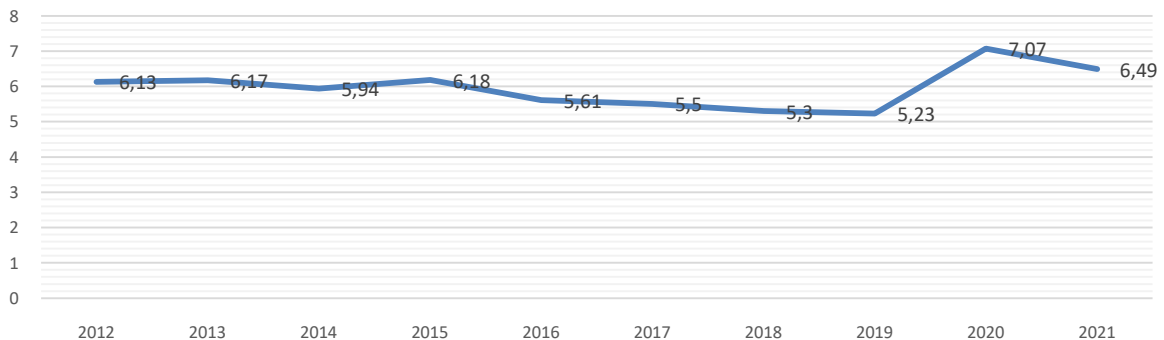


Figure 3 – Unemployment in Indonesia, 2012-2021 (Source: Central Bureau of Statistics, 2012-2021)

Indonesia's own unemployment rate has fluctuated over the past decade. Reducing unemployment to achieve inclusive economic growth is becoming increasingly difficult. According to the Indonesian Central Bureau of Statistics, the unemployment rate in 2020 he

rose to 7.07%. This is because the Covid-19 pandemic has negatively impacted Indonesian workers, losing 7.8 million workers. This means that the higher the unemployment rate, the greater the social inequality. In the current situation, economic access is more concentrated among the wealthy than the poor, and this will exacerbate inequalities.

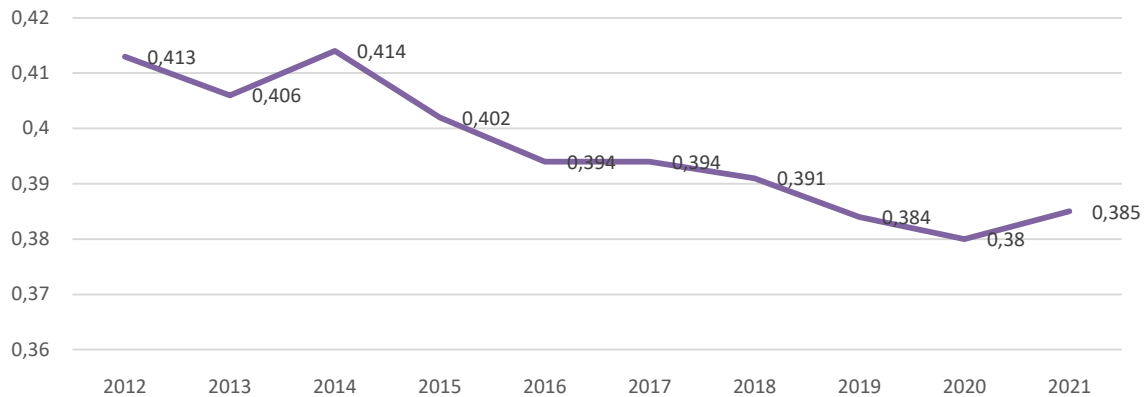


Figure 4 – Economic Inequality in Indonesia, 2012-2021
(Source: Central Bureau of Statistics, 2012-2021)

Based on economic inequality in Figure 4 (as measured by the Gini ratio index), inequality in Indonesia remains high. In an effort to reduce inequality, according from Central Statistical Office's performance government has not been maximized. This reduces inequality by providing access to specific facilities in each state, creates employment opportunities for local communities, and improves people's well-being. But when it comes to overcoming inequalities, western and central Indonesia are all being felt compared to eastern Indonesia, which still lags relatively behind.

Basically, inclusive economic growth has its own view of what it should be, along with measures of whether a country's economic growth is quality growth. When a country enjoys low-quality growth, it benefits only that country, exacerbating poverty, unemployment and economic inequality (Habito, 2009). Based on the above issues, this study aims to determine the impact of poverty, unemployment and economic inequality on inclusive economic growth at the regional level, especially. her 34 provinces in Indonesia.

LITERATURE REVIEW

Economic Growth

Economic growth is the process of increasing the productive capacity of an economy and manifests itself in national income. We speak of economic growth when a country's real gross domestic product increases (Gordon, 2003). According to Mankiw (2006), economic growth means increasing the production of goods and services to increase the number of workers and reduce unemployment and poverty.

Of the various growth theories that exist, namely Harold Domer's theory, Thoreau's neoclassical theory, and Romer's endogenous theory, there are his three main drivers or components of economic growth. Three are: a) capital accumulation; this includes any form or kind of new investment in land, property, factories and equipment, capital or human resources; b) Community Development. As a result, the number of employees will increase in the coming years. c) Technological Advancement Community development is done to achieve her three main goals of growth, equity and sustainability. The first goal, growth, determines the extent to which resource shortages occur.

Inclusive Economic Growth

Economic growth produces quality economic growth in an inclusive way. Inclusive economic growth generally provides broad access and opportunity equitably for people at all

levels, rapidly increasing prosperity and reducing inequalities between groups and regions (www.Bappeda.go.id).

According to Berg (2017), inclusive growth refers to the rate and distribution of economic growth in which growth is sustainable and effective in reducing poverty, so growth must be inclusive. Following the same argument, McKinley (2010) creates and expands economic opportunities so that community members can participate and benefit from growth, ensuring broader access to those opportunities. To achieve sustainable growth, he defines two key aspects of inclusive growth. Inclusive growth usually refers to the goal of promoting high growth while creating productive employment and equal opportunity. This allows all levels of society to share growth and jobs, ultimately reducing inequalities of outcome, especially for the poor.

According to Amarta Sen (1987) in Haughton and Shahidur (2012), poverty is related to the ability to function in society. Thus, poverty occurs when people have no income, poor education and poor health. Poverty is seen as a multifaceted phenomenon.

Unemployment Theory

Unemployment is the situation where someone in the workforce wants to get a job but has not been able to get it, and the situation where people want to work but cannot get one (Franita, 2016).

Although the number of unemployed people is not always taken into account when discussing unemployment, the unemployment rate can be interpreted as a figure indicating the percentage of people working (Sukirno, 2000). The unemployment rate can be interpreted as a number that indicates the percentage of people looking for work.

Economic Inequality Theory

The theory of economic inequality first proposed the inverse U hypothesis in 1955. Simon Kuznets found that income distribution becomes more unequal early in development. However, with some development, the income distribution becomes more even. According to the U-inverted hypothesis, income inequality decreases as people's per capita income increases (Todaro, 2012).

According to Sjafrizal (2012), economic inequality is the difference in vertical and horizontal economic development between one region and another, leading to disparities and uneven development. The main causes of this inequality are regional differences in natural resource content and demographic differences. These differences also result in different regional capacities to support the development process. Therefore, it is not surprising that in principle each region has developed and undeveloped areas. The occurrence of this inequality affects the level of social welfare between regions.

METHODS OF RESEARCH

The scope used in this study includes 34 provinces of Indonesia from 2012 to 2021. This study uses secondary data in the form of cross-sections and time series: data on poverty, unemployment, economic inequality, and inclusive economic growth. This data comes from the Central Bureau of Statistics and the Indonesian Development Planning Agency.

Panel data regression techniques combine date-time series and cross-sections with *common-effects*, *random-effects*, and *fixed-effects* models in the Estimation Models method. I have some tests. The first test is a good model selection test.

Uji Chow and *Hausmann's test*. In addition, this study also tests classical assumptions using *normality*, *autocorrelation*, *heteroscedasticity*, and *multicollinearity tests*. The last is hypothesis testing using *Uji-F* and *Uji-t*. Panel data analysis helps assess the impact of variable-independent poverty (P), unemployment (U), and economic inequality (EI) on variable-independent Inclusive Economic Growth (IEG).

$$IEG_{it} = \alpha_0 + \alpha_1 P_{it} + \alpha_2 U_{it} + \alpha_3 EI_{it} + \varepsilon_{it}$$

Where:

IEG = Coefficient or Inclusive Economic Growth Index in Indonesian Province;
 P = Poverty in the Province of Indonesia;
 U = Unemployment in the Province of Indonesia;
 EI = Economic Inequality in the Provinces of Indonesia;
 α_0 = Constant;
 $\alpha_1 \alpha_2 \alpha_3$ = Regression Coefficient;
 ε = Interrupt Error (Error Term);
 i = 34 Provinces in Indonesia;
 t = Year.

RESULTS AND DISCUSSION

According to data released by the Planning and Development Authority (BAPPENAS), the DKI province of Jakarta had the most inclusive economic growth in Indonesia from 2012 to 2021, with an average satisfaction rate of 7,197%. Jakarta has a conducive employment system to reduce poverty and absorb the labor force. Papua has the lowest inclusive economic growth, averaging 3,717%. Papua states that poverty rates among Papuans remain the highest due to lack of infrastructure related to education, health and public welfare (Saleh, 2018).

Panel Data Regression Estimation Results

It can be seen that by using the Common Effect Model method there is one independent variable that has a negative effect on inclusive economic growth with a poverty ratio coefficient of -0.088745 with a probability value of 0.0000. In addition to the Fixed Effect Model method, statistically there are independent variables that have a negative effect on inclusive economic growth. The poverty variable has a coefficient value of -0.227926 with a probability ratio of 0.0000 and the unemployment variable has a coefficient value of -0.082817 with a probability ratio of 0.0000 and the economic inequality variable has a coefficient value of -7.618106 with a probability ratio of 0.0000. It is similar to the last method used, namely the Random Effect Model. It can be seen in the table that there are independent variables that have a negative effect on inclusive economic growth. The poverty variable has a coefficient value of -0.129978 with a probability ratio of 0.0000 and the unemployment variable has a coefficient value of -0.079933 with a probability ratio of 0.0000 and the economic inequality variable has a coefficient value of -7.129139 with a probability ratio of 0.0000.

Final model selection exercise is used to decide which regression model to use.

Table 1 – Panel Data Regression Estimation Results Using the Method Common Effect Model, Fixed Effect Model and Random Effect Model

Variable	Common		Fixed		Random	
	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.
C	6.026447	0.0000	11.14235	0.0000	9.896616	0.0000
P	-0.088745	0.0000	-0.227926	0.0000	-0.129978	0.0000
U	0.014366	0.3709	-0.082817	0.0000	-0.079933	0.0000
EI	0.987065	0.2214	-7.618106	0.0000	-7.129139	0.0000

Source: Estimation Results Using Eviews 9, 2022.

Table 2 – Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	33.797766	-33,300	0.0000
Cross-section Chi-square	522.799185	33	0.0000

Source: Chow Test Results Using Eviews 9, 2022.

Chow test results show that the probability value *Cross-section Chi-square* = 0.0000 > 0.05. This shows that H_a accepted because the probability value obtained is less than 0.05. Based on the Chow Test the best model to use is *Fixed Effect Model*.

Table 3 – Hausman Test

Test Summary	Chi-Sq.Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	76.67098	3	0.0000

Source: *Hausman Test Results Using Eviwes 9, 2022.*

Random cross section values of 0.000 < 0.000, based on *the Hausman test*. 0.05 received. It determines that H_0 is rejected and H_a is accepted because the probability value is less than 0.05. Based on the results obtained with the *Hausman test*, we can say that the *fixed effects model* is the best model to use.

After testing the validity of regression models for panel data using *common-effects*, *fixed-effects*, and *random-effects* methods, according to the results of testing the three models, the best method available is the *fixed-effects model*. For this reason, the *fixed effects model* is the best model to use in this study. Tests using both *Chow* and *Hausman* tests show that the best model is the *fixed effects model*.

Table 4 – Fixed Effect Model

Variables	Coefficient	Std. Error	t-Statistics	Prob.
C	11.14235	0.238976	46.62539	0.0000
P	-0.227926	0.015749	-14.4723	0.0000
U	-0.082817	0.014104	-5.871925	0.0000
EI	-7.618106	0.649472	-11.7297	0.0000

Source: *Fixed Effect Model Estimation Results Using Eviews 9, 2022.*

Based on the test results using the Fixed Effect Model method in Table 3, it can be stated as follows:

$$IEG = 11.14235 - 0.227926P - 0.082517U - 7.618106EI$$

The regression results for the fixed effects model show that the constant value is positive at 11.14235. In other words, inclusive economic growth increases by 11.14235% when the variables of poverty, unemployment and economic inequality are considered constant.

The poverty variable (P) has a negative impact on inclusive economic growth. This is reflected in the poverty variable coefficient value of -0.227926. This means that for every 1% increase in poverty rate, inclusive economic growth falls by 0.227926%.

The unemployment variable (U) has a negative impact on inclusive economic growth. This is reflected in the coefficient value of -0.082817 for the unemployment variable. This suggests that a 1% increase in the unemployment rate reduces inclusive economic growth by 0.82817%.

The final variable, economic inequality (EI), has a negative impact on inclusive economic growth. This is reflected in the response coefficient value of -7.618106, which suggests that a 1% increase in economic inequality reduces economic growth by 7.618106%.

Classic assumption test

Figure 5 shows that the probability number for Jarque Bera is 0.091232 > 0.05. This figure shows that the probability value of Jarque Bera has a value greater than the significant level (0.5). The conclusion that can be drawn is that the data in this study are normally distributed.

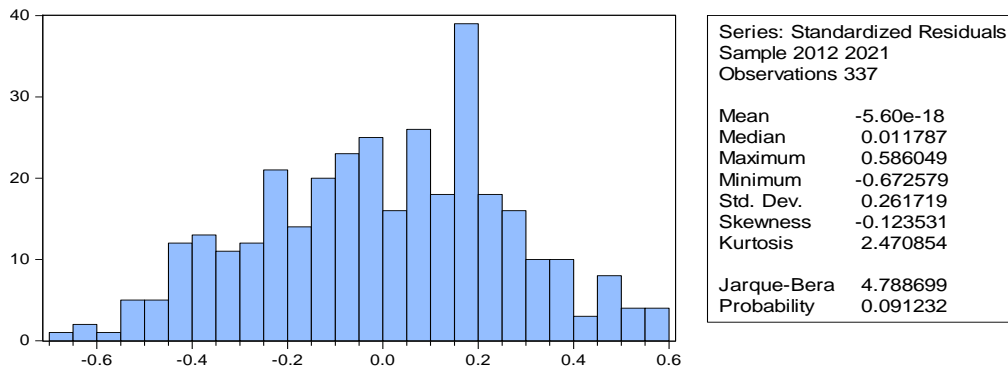


Figure 5 – Normality Test Results. Source: Normality Test Results Using Eviews 9, 2022

Autocorrelation test is used to see whether the data has autocorrelation symptoms or not. Table 4 can be said that the Durbin-Waston value (D-W test) is 1.464287 with a dU value of 1.27 and a dL value of 1.65 ($dU > D-W < dL$). From these results it can be concluded that there are no symptoms of autocorrelation because the dU value is smaller than the D-W value.

Table 5 – Autocorrelation Test Results

Durbin-Watson stat	1.464287
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Source: Autocorrelation Results Using Eviews 9, 2022.

In table 5 it can be seen that the probability value of the poverty variable is $0.0204 < 0.05$. It can be concluded that in the poverty variable there are symptoms of heteroscedasticity. While the unemployment variable is $0.2271 > 0.05$ and the economic inequality variable is $0.6327 > 0.05$. This suggests that the variables of unemployment and economic inequality do not show signs of heteroscedasticity.

Table 6 – Heteroscedasticity Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.075416	0.18269	-0.412806	0.6800
P	0.02726	0.011697	2.330597	0.0204
U	0.012471	0.010303	1.210399	0.2271
EI	-0.236404	0.494095	-0.478458	0.6327

Source: Heteroscedasticity Test Results Using Eviews 9, 2022.

Table 6 shows the results of the correlation between the variables of poverty and unemployment is $0.140475 < 0.80$. The correlation value between unemployment and economic inequality is $0.002221 < 0.80$ and the correlation value between economic inequality and poverty is 0.285312 . From these results it can be concluded that the data in this study did not show signs of multicollinearity between the variables of poverty, unemployment and economic inequality.

Based on hypothesis testing using the F test in table 8 with all provinces in Indonesia, the results show that the probability value of the F-statistic is $0.0000 < 0.05$. H_0 means rejected and H_a accepted. From this it can be concluded that overall the variables of poverty, unemployment and economic inequality have a significant effect on inclusive economic growth.

Table 7 – Multicollinearity Test

	P	U	EI
P	1.000000	0.140475	0.285312
U	0.140475	1.000000	0.002221
EI	0.285312	0.002221	1.000000

Source: Data Using Eviews 9, 2022.

Table 8 – F-test results

F-statistic	72.97501
Prob. (F-statistic)	0.000000

Source: *F-test results using Eviews 9, 2022.*

Table 9 – T-test results

Variable	Coefficient	t-Statistic	Prob.
P	-0.227926	-14.4723	0.0000
U	-0.082817	-5.871925	0.0000
EI	-7.618106	-11.7297	0.0000

Source: *F test results using Eviews 9, 2022.*

Table 9 shows the results of testing the hypothesis using a t-test showing the values between the independent variables against the dependent variable of the provinces of Indonesia, which can be explained below.

- We rejected H₀ and accepted H_a because the poverty variable has a probability number of 0.0000 < 0.05. The value of the regression coefficient is 0.227926. From this, we can conclude that variable poverty has a significant impact on inclusive economic growth;
- We rejected H₀ and accepted H_a because the probability number for the unemployment variable is 0.0000 < 0.05. The value of the regression coefficient is -0.082817. From this, we can conclude that the variable unemployment rate has a significant impact on inclusive economic growth;
- We rejected H₀ and accepted H_a because the probability number for the economic inequality variable is 0.0000 < 0.05. The value of the regression coefficient is -7.618106. From this, we can conclude that fluctuating economic inequality has a significant impact on inclusive economic growth.

Impact of Poverty on Indonesia's Inclusive Economic Growth

Poverty variables have a significant negative impact on inclusive economic growth, based on the results of regression tests on panel data. This means that inclusive economic growth is not maximizing poverty reduction in Indonesia. Poverty can make economic development more expensive to spend, but indirectly impedes economic growth and reduces inclusive economic growth.

Poverty problems occurring in Indonesia can be caused by several factors such as low Human Development Index, rising unemployment rate, high inflation and low economic growth. Human development can be boosted by investments in areas such as education and health, which are expected to lead to higher productivity and higher incomes. Talent quality can be identified using the Quality of Life Index or the Human Development Index. Low Human Development Index leads to low labor productivity. Low productivity affects income and leads to increased poverty (Sri, 2021).

His research, which followed his Tang (2008) in Harwood's book (1966), *The Inclusive Economic Growth Armor*, found that many developing countries have shown extraordinary economic growth over decades. We have observed that the income distribution between countries has deteriorated to varying degrees. The poorest, who are most disadvantaged in development, say different dimensions and factors do not achieve correlations with inclusion because they find it difficult to benefit from development outcomes.

Impact of Unemployment on Indonesia's Inclusive Economic Growth

Regression tests on the previous panel data show that the variable economic unemployment has a significant negative impact on inclusive economic growth. This means that inclusive economic growth is not maximizing unemployment reduction in Indonesia. The findings reveal that the local economy has a negative impact on economic life and people's well-being. So inclusive economic growth with a decline in social level due to the emergence

of one of them is the result of unemployment. Based on BPS data, we can see that the poverty line percentage has not been crossed over the past decade. According to Aimon (2020), less employment has the effect of increasing unemployment, which in turn leads to higher poverty rates and unequal distribution.

Based on Suwandika's (2015) study, the most significant negative impact of unemployment on inclusive economic growth is in economic growth sectors with low employment uptake (e.g. agriculture, mining, manufacturing and trade). When the employment sector slumps, so does the unemployment rate. This means that the number of unemployed people makes it increasingly difficult to achieve inclusive economic growth. The study hypothesizes the relationship between unemployment and inclusive economic growth. Arguments in support of the findings of Fahrul et al. (2016) argue that unemployment is an obstacle to inclusive economic growth. In other words, when the unemployment rate rises, the unemployment index falls, and conversely, when the unemployment rate falls, the inclusive economic growth index rises. In theory, increased unemployment triggers poverty, lowering per capita income, and leading to poverty, because there are so many unemployed. As poverty increases, growth tends to be inclusive. Because poverty and inclusion are mutually exclusive.

Impact of Economic Inequality on Inclusive Economic Growth in Indonesia

Results from regression tests estimating panel data show that variable economic inequality as measured by the Gini ratio has a significant negative impact on inclusive economic growth. There is a reasonable wealth gap between the rich and the poor, implying that inclusive economic growth has failed to reduce inequality. There is still inequality in development and access to facilities. One of them is due to the minimum education level in Indonesia, resulting in poor quality of human resources. This could therefore lead to less inclusive economic growth (Bella et al., 2021). Under these circumstances, it is clear that Indonesia has not yet reached its limit in overcoming economic inequality. Not maximized in each region in lowering the poverty line or splitting each income equally.

From this statement, based on research by Hapsari et al., (2013), the number of disadvantaged groups in society is still insufficient to reduce economic inequality. Thus, economic inequality arises when existing economic growth is available to only a small portion of the community or her one. The study hypothesizes the relationship between economic inequality and inclusive economic growth.

CONCLUSION

Poverty has a negative and significant impact on inclusive economic growth, unemployment has a negative and significant impact on inclusive economic growth, and economic inequality has a negative and significant impact on inclusive economic growth. The quality of inclusive economic growth is in the 'satisfactory' category as it almost achieves a score of 4 or above. DKI Jakarta has the highest inclusive economic growth rate in the last decade and Papua has the lowest inclusive economic growth rate of over 3 in the last decade. Growth in reducing poverty, unemployment and economic inequality in Indonesia has not been maximized as there is still much inequality and unemployment in Indonesia.

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