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The Effect of Economic Growth in Terms of Expenditure on Poverty in Indonesia

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Abstract

This study aims to analyze the effect of economic growth in terms of expenditure on poverty in Indonesia. The data used in this study is secondary data sourced from the Central Statistics Agency, which was obtained from 34 provinces in Indonesia. This study used Multiple Linear Regression Analysis Panel data using Fixed Effect Model (FEM). The results of this study show that 1) Household consumption expenditure has a positive and insignificant effect on poverty in Indonesia; 2) Gross fixed capital formation has a negative and significant effect on poverty in Indonesia; 3). Government consumption expenditure has a positive and significant effect on poverty in Indonesia; 4). Net exports have a positive and significant effect on poverty in Indonesia.

INTRODUCTION

Community welfare is the ultimate goal of national development. With the development can show the changes that exist in people's lives to reach a better stage. To realize development, there are inhibiting factors that need to be considered so that all parties can overcome this (Büchs, 2021; Oka et al., 2015). One of the inhibiting factors in development is poverty. Poverty is the most, most urgent economic problem that must be addressed urgently. The government has made poverty a priority because of its far-reaching negative impacts. Poverty, affects the quality of life, hinders the development of superior human resources, burdens the socio-economic community, and increases crime. Poverty is defined as the inability to meet basic needs. Basic needs are the needs of consuming types of food and not food (Septiadi & Nursan, 2020). Many negative impacts caused by poverty, in addition to the emergence of many social problems, poverty can also affect economic development to be greater, so it will indirectly hamper economic development.

Indonesia is one of the developing countries in Asia, has 34 provinces which is the fourth most populous country in the world with a population of 270,203,917 million people in 2020. With a high population, Indonesia is inseparable from the problem of poverty, where poverty is a global problem faced by all countries in the world (Dartanto et al., 2020; Purwono et al., 2021). Throughout Indonesia's history as a developing country, poverty has long been a problem for the Indonesian people, poverty is a difficult problem to face because this problem is one of the inhibiting factors why it is difficult for Indonesia to develop into a developed country. The population factor is allegedly one of the causes of poverty. The increasing population, it will increase the number of poor people.

One important component to assess the development of the level of economic welfare is the pattern of public consumption expenditure. Household consumption expenditure (PKRT) refers to the purchase of goods or services to meet the needs of daily life or to make purchases based on personal or income. PKRT has a significant influence on economic growth so that it will also affect poverty (Sudirman & Alhudhori, 2018). PKRT in Indonesia contributes 60-75 percent of national income (Afiftah et al., 2019). On the other hand, to accelerate economic growth, it is necessary to increase physical investment and infrastructure improvements to accelerate so that it will affect poverty. Economic growth as a state benchmark is inseparable from the government's role in financing development activities, both economic and non-economic. Costs on activities are called government expenditures. During a recession, increased government spending (G) can increase consumption (C) and investment (I), thereby increasing national income (Y) (Amrozi, 2016). Capital formation is one way to increase the country's economic growth. Capital formation can be interpreted as the accumulation of assets or an increase in wealth in the future (Amri, K; Aimon, 2017). Gross fixed capital formation (PMTB) is the expenditure of capital goods used for more than one year and also excludes consumer goods, including buildings, machinery and other equipment. PMTB is a constituent component of GDP, which will represent the amount of investment (Topcu et al., 2020)

In addition to the above factors, there is another factor that will affect economic growth against poverty, namely Net Exports. With the opening of the economy, this shows the existence of trade between countries which is shown in export and import activities. When the value of exports is greater than imports, then income in foreign currency increases, in other words trade becomes a surplus, the difference between exports and imports is called net exports (Akbas & Sancar, 2021; Kurniawati, 2021). Increasing economic growth driven by exports will have a negative impact on poverty (Widarni & Bawono, 2022). This study aims to investigate the influence of these economic factors on poverty. With the role of economic growth in terms of expenditure, it will also affect poverty. Because the greater the expenditure in Indonesia, the income in Indonesia will also increase. The importance of economic growth in terms of expenditure and poverty also needs to be investigated more deeply.

METHODS

Type, Time and Place of Research

In this study, the approach method used is a quantitative approach method that will be used to examine the population or sample that aims to test the hypothesis. The research design uses the panel data method (pooled data) and consists of 4 independent variables (independent variables) and dependent variables (dependent variables). The location of this study is where the researcher makes the place where the research will be carried out and also to obtain data information that will be needed. The selection of this location in carrying out research as it must be in accordance with the thinking and suitability with the title or topic to be chosen. This research was conducted in Gorontalo City with the location that became the object of the study, namely 34 provinces in Indonesia.

The time period used in this study is 5 years from 2018 to 2022.

Data, Instruments and Data Collection Techniques

In collecting data, data sources are important in determining data collection techniques, there are two types of data sources used in research, namely primary data and secondary data. Secondary Data is research data obtained by researchers indirectly and only through the media or that has been obtained by other parties in the form of evidence, records or history that has been compiled in published or unpublished archives. Secondary data can make it easier for researchers, because the data to be used is already available and researchers just need to process the data. The type of data used in this study is secondary data obtained from the central statistics agency (BPS) in Indonesia. The data obtained is annual data on each variable, in the form of data that has been presented or relevant sources for analysis purposes.

Data Analysis Techniques

In this study, the analysis used was a panel data regression analysis technique. Panel data is a combination of time series data with a period of 5 years and cross section data. In this study, the basis of regression of panel data in general is as follows:

$$Yit = \beta 0 + \beta 1 PKRTit + \beta 2 PKPit + \beta 3 PMTBit + \beta 4 NEit + eit$$

Where:

Y	= Poverty in Indonesia
β0	= Konstanta
β1, β2,β3,β4	= Koefisien regresi
PKRT	= Household Consumption Expenditure
PKP	= Government Consumption Expenditure
PMTB	= Gross Fixed Capital Formation
NE	= Net Export
e	= Error components
i	= cross section
t	= time series

RESULTS AND DISCUSSION

Result

The results of the regression analysis that have been estimated and the selection of panel data models are carried out, then the results of panel data regression analysis using the Fixed Effect Model (FEM).

Table 1. Results of Multiple Linear Regression Analysis Fixed Effect Model

Variable	Coefficient	Std. Error	t-Statistic	
C	34.93134	6.413146	5.446834***	
PKRT	0.160731	0.389357	0.412813NS	
PMTB	-4.125530	0.734940	-5.613428***	
PKP	0.831798	0.293206	2.836904***	
NE	4.66E-09	2.38E-09	1.956980*	
Effects Specification				
Cross-section fixed (dummy variables)				
Weighted Statistics				
Adjusted R-squared	0.996938		Durbin-Watson stat	2.341913
F-statistic	1487.969			
Prob(F-statistic)	0.000000			

*Remarks: ***) 1%, **) 5%, *) Significant 10% and NS) Insignificant*

Source: BPS, (Processed), 2023

The results of the above analysis can be interpreted in the following sentence:

$$\mathbf{POV_{it} = 34.93134 + 0.160731\ (PKRT) - -4.125530\ (PMTB) + 0.831798\ (PKP) + 4.66E\text{-}09\ (NE) + \varepsilon_{it}}$$

Where:

1) The constant value on poverty without being influenced by any independent variable in this research model is **34.93134** percent.
2) Household consumption expenditure has a positive effect on poverty. This means that every increase in Household Consumption Expenditure by 1 rupiah will increase Poverty by **0.160731** percent.

3) Gross Fixed Capital Formation Negatively Affects Poverty. This means that every increase in Gross Fixed Capital Formation of 1 rupiah will reduce poverty by **-4.125530** percent.
4) Government Consumption Expenditure has a positive effect on Poverty. This means that every increase in Government Consumption Expenditure by 1 rupiah will increase Poverty by **0.831798** percent.
5) Net Export has a positive effect on Poverty. This means that every increase in Net Export by 1 rupiah will increase Poverty by **0.000466** percent.

Discussion

The Effect of Household Consumption Expenditure on Poverty

Based on the results of the analysis conducted in this study, household consumption expenditure has a positive and insignificant effect on poverty in Indonesia. This means that any increase in household consumption expenditure has no effect on the rise and fall of poverty in Indonesia. When households experience a decrease in spending on daily necessities, this can create a vicious cycle of poverty. A decrease in spending leads to a decrease in demand for goods and services, which in turn can hinder local economic growth. Households that are constantly experiencing a steady decline in spending tend to find it difficult to access education, healthcare, and other social capital. This can be detrimental to future generations because restrictions on access to education and health can create an environment that is not conducive to overall human development. Decreases in consumption expenditure can also create inequality in society, with poorer groups of people increasingly marginalized. This inequality can be a trigger for social tensions and increase the risk of conflict in society.

Research conducted by Berisso, (2016) Focus more on the long-term impact of reduced consumption expenditure on specific aspects of poverty, such as access to education and health. The study's findings highlight how declining consumption expenditures can be an obstacle to society's efforts to tackle poverty through increased human capital. In addition, previous studies have also demonstrated the important role of economic and social policies in addressing these challenges. Research conducted by Nguyen & Su, (2022) emphasizing the need for policies that support fairer income distribution to reduce inequality and mitigate the negative impact of declining consumption expenditure.

The Effect of Gross Fixed Capital Formation on Poverty

Based on the results of the analysis conducted in this study, gross fixed capital formation has a negative and significant effect on poverty in Indonesia. This means that every increase in gross fixed capital formation of 1-rupiah can reduce poverty in Indonesia. This is due to one of the main factors being its contribution to sustainable economic growth. PMTB includes investments in physical assets such as infrastructure, factories, and production facilities, which in turn can increase productivity and create jobs. Increasing people's production, employment, and income provide opportunities to access better jobs and improve their standard of living. Thus, PMTB not only creates wealth through investment, but also provides social benefits by reducing poverty levels.

In addition, PMTB can also increase community access to education and health facilities. Economic growth driven by investment in gross fixed capital can generate additional revenue for the government, which can then be allocated to key sectors such as education and health. This will help improve the quality of life of society as a whole. A number of previous studies have also supported the finding that the formation of Gross Fixed Capital (PMTB) has a negative impact on reducing poverty. Research conducted by Akobeng, (2017) found that increased investment in PMTB in developing Africa resulted in strong economic growth, ultimately contributing to a reduction in poverty rates. The research highlights that investment in infrastructure and production facilities creates new job opportunities and increases the productivity of sectors of the economy, having a positive impact on people's incomes and living standards. In addition, the importance of policies that support fair income distribution so that economic benefits can be felt by all levels of society.

Research conducted by Xia et al., (2022) shows that increased investment in sectors related to PMTB, such as manufacturing and construction industries, contributes significantly to the increase in employment. This is key in reducing unemployment and increasing people's access to decent work. Although the results of this study are in line with current findings, it should be noted that the implementation of sustainable policies and good management of investment returns are also crucial factors. Research by Ali, (2015) shows that in some cases, economic growth generated by PMTB investment does not necessarily lead to poverty reduction if it is not supported by effective policies to address inequality and ensure an equitable distribution of benefits.

The Effect of Government Consumption Expenditure on Poverty

Based on the results of the analysis conducted in this study, government consumption expenditure has a positive and significant effect on poverty in Indonesia. This means that every increase in government consumption expenditure by 1 rupiah can increase poverty in Indonesia. This is due to inefficient or poorly targeted government consumption expenditure can have a significant positive impact on increasing poverty rates in Indonesia. One aspect that can be explained is the disproportionate allocation of funds, where most government budgets are directed to programs or projects that do not directly benefit groups of people who are in poor conditions. For example, if the government allocates most of the funds to large infrastructure projects that benefit the upper middle economic group, while the poor do not get comparable benefits, this can increase social inequality and poverty.

Government consumption expenditures that do not prioritize sectors related to poverty alleviation, such as education, health, and social programs, can also reduce the effectiveness of government efforts in addressing poverty. Lack of investment in the education sector can limit poor people's access to quality education, which in turn can limit their economic opportunities in the future. A number of previous studies have also looked at the impact of government consumption expenditure on poverty in Indonesia. Research conducted by Amalia et al., (2015) highlighting that uneven allocation of government funds can lead to greater economic inequality. The results of this study show that when most government budgets are directed to sectors that do not directly support the improvement of the welfare of the poor, the impact is hampered poverty alleviation efforts.

Other research conducted by (Anderson et al., 2018) found that a lack of investment in the education and health sectors by the government can leave vulnerable groups of society marginalized. The results of this study are consistent with the finding that government consumption expenditures that are not focused on increasing human capital tend to amplify the cycle of poverty. In addition, fiscal policies that do not take into account economic inequality can increase the division between rich and poor groups. The implication is that government consumption expenditures that do not pay attention to income distribution can have a significant negative impact on efforts to reduce poverty.

The Effect of Net Exports on Poverty

Based on the results of the analysis conducted in this study, net exports have a positive and significant effect on poverty in Indonesia. This means that every increase in net exports of 1-rupiah can increase poverty in Indonesia. This is due to Net exports that experience a positive and significant influence that can contribute to increasing the poverty rate in Indonesia. This phenomenon can occur when the value of exports is lower than the value of imports, so that the country experiences a trade deficit. This trade deficit can result in currency weakening, inflation, and economic pressures that ultimately hurt more vulnerable groups of society. Currency weakness as a result of a trade deficit can make import prices rise, including raw materials and consumer goods. This can put additional economic pressure on households already in fragile economic conditions. Increasing the price of goods and services can reduce people's purchasing power, especially those at low-income levels.

In addition, inflation arising from trade deficits can also have a positive impact on increasing poverty. Price increases in general can put extra pressure on groups of people who have fixed incomes or who cannot adjust quickly to economic changes. These positive impacts can exacerbate economic inequality in society, with poor groups becoming more vulnerable to unstable economic conditions. Therefore, improvement in trade balance and increase in net exports can be one of the important steps in overcoming poverty problem in Indonesia. The balance of exports and imports to create inclusive and sustainable economic growth cannot be ignored. Policy measures that support the enhancement of domestic product competitiveness, export sector development, and import control can help reduce the risk of negative impacts of net exports on poverty. Research conducted by (Guarango, 2022) suggests that net exports make a positive and significant contribution to poverty in 109 countries covering the period 1980-2014.

CONCLUSION

Based on the Results of Analysis and Discussion on the Effect of Economic Growth in Side of Expenditure on Poverty in Indonesia in 2018-2022. then it can be concluded as follows: Household consumption expenditure has a positive and insignificant effect on poverty in Indonesia. This means that every increase of 1 rupiah in household consumption expenditure can increase poverty in Indonesia. The increase has not been able to be explained in reality. Gross fixed capital formation has a negative and significant effect on poverty in Indonesia. This means that every increase of 1 rupiah in gross fixed capital formation can reduce poverty in Indonesia. The increase can be explained in real terms. Government consumption expenditure has a positive and significant effect on poverty in Indonesia. This means that every increase of 1 rupiah in government consumption expenditure can increase poverty in Indonesia. The increase can be explained in real terms. Net exports have a positive and significant effect on poverty in Indonesia. This means that every increase of 1 rupiah net export can increase poverty in Indonesia. The increase can be explained in real terms.

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