

Conference Paper

Government Expenditure and Poverty in Indonesia

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Abstract

Poverty is a complex and multidimensional problem, so that the necessary effort or Government policies that is sustainable and synergistic to reduce the number of poor population. This study aims to analyze the determinants of poverty in Indonesia based on economic and social indicators. It is using linear regression analysis tool by using multiple *Fixed-Effects Model* (FEM). The results of the study found that economic growth has a positive effect against poverty in Indonesia. While the government are spending, per capita income, labor force participation and effect negatively to poverty in Indonesia.

Keywords: poverty, economic growth, expenditure, labor force, income per capita

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1. Introduction

Since implemented fiscal decentralization and regional autonomy, local governments were given the authority to plan, compose, and implementing policies to line the regions necessity. Through the fiscal decentralization, local governments are expected to be more responsive to the problems of poverty in their regions. Fiscal decentralization is expected to create high economic growth, increasing per capita income, and lower poverty levels (Miranti, 2013) [1]. According to Norton (2002) [2] region need to implement three important things, *First*, local governments should provide infrastructure on its territory, such as road infrastructure. *Second*, competition between local governments will encourage the incentive to invest through low levels of taxes on investment. *Third*, the limited acceptance of the regional government will encourage local government more innovative in providing public goods and services.

The problem of poverty is the main agenda in the discussions of the economic, political, and social. Poverty became a very urgent priority in policy development plan. According to Royce (2009) [3], stated that:

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".....for many Americans, and most policy makers, the real problem is not poverty at all, the real problem is the poor. They have bad genes, poor work habits, and inadequate skills. Poverty is just a symptom, a regrettable by-product of individual failings. The hardships experienced by the poor stem from their own shortcomings, not from any dysfunctions of the system, thus grand schemes to alleviate poverty are inherently misguided.

Economic development is one of the Government's efforts to achieve a just and prosperous society. Regional development is carried out in an integrated and continuous appropriate priorities and needs of each region with roots and national development targets that have been set through the development of medium and long term. One indicator of the success of national development is the decline of poor population. The main objective of economic development in addition to create high growth, but should also lower the level of poverty, income inequality, and the unemployment rate (Todaro, 2006) [4].

The economic growth of a country can be said to be successful if the rate of GDP growth is higher than the rate of population growth of a country. Thus, economic growth will be more meaningful in the life of the community, (Miskhin, 2011) [5]. The better economic growth indicates increasingly good performance of the economy. Economic growth is not only viewed the increasing numbers of such growth, but also more important is the quality of economic growth. This means that when the economy is getting better, it will be followed by a decrease in the number of poor population. Number the higher economic growth will lead to *bubble economics* when not followed by a policy that is *pro poor*. Graph 1 the following is a comparison of the percentage of the population is poor and the rate of GDP growth in 33 province in Indonesia during the period of 2013:

The Government's fiscal policy in the allocation of functions which is reflected through the Government expenditures required to implement the principle of *pro poor*. In persistent poverty exists in every country and progress are endemic. The function of the Government in this case, is to reduce the number of poor population and improve the life or well-being of the community. The Government of Indonesia has a lot of modifications of policies to lower the number of poor population. For example, Special Market Operation (OPK), granting *raskin* (Rice's poor), the social safety net (JPS), Direct Cash Assistance (BLT), the PNPM Mandiri, and others. Reality, the Government's policy to reduce the number of poor population can't be equated in every areas, this is because of the difference of regional characteristics, social, and

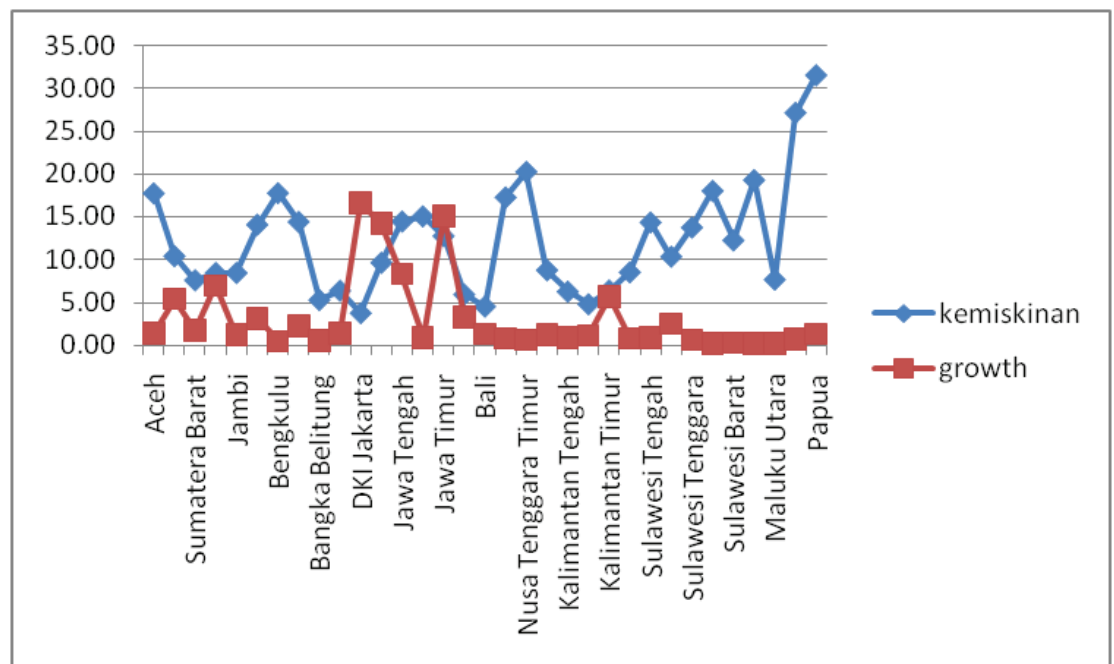


Figure 1: The percentage of the poverty population and the rate growth of GDP. Source: bps.go.id, managed.

demographic. Local governments have more perfect information against its territory, so that policies to reduce the number of poor population in accordance with the conditions in its territory. Based on the background, then the purpose of this research was to analyze the determinants of poverty in Indonesia.

2. Literature Review

Poverty is a complex and multidimensional problem, so that the necessary effort or Government policies that is sustainable and synergistic to reduce the number of poor population. The definition of poverty varied and different indicators in measuring poverty level. World Bank (2012) [6], the poverty divide into four basic, i.e. *lack of opportunity, low capabilities, low security, and low capacity*. Poverty is also related to the limitations of the rights of the social, economic, political, and so lead to vulnerabilities, deterioration, and helplessness. According to the Central Bureau of Statistics (2015) [7], poverty is based on the magnitude of rupiah spent per capita/month minimum needs for food and non-food. So, the person is said to be poor in income brackets below the poverty line. Meanwhile, according to the National Development Planning Agency (Bappenas) poverty is a condition in which a person or group of people are not able to meet basically the rights to maintain and develop a dignified life. BKKBN

defines poverty as a situation where a person is not able to maintain it'self by degrees of life owned and also not able to utilize energy, mental or physical, to fulfill their necessity.

According to Sen (2006) [8] said that the problem of poverty is not just a question of *income*, but also related to capability-capability that must be owned by a person concerned the problems of access-access. Those are including access to education, access to health care, and access to employment opportunities. Absolute poverty is a major concept in analyzing the problems of poverty. Criticism of opinion regarding the Sen is *capability theory*, such as *first*, the difficulty of measuring the indicators ease of access to education, access to health care, and access to employment opportunities. *Second*, the nature of an individualistic person in terms of has ability to access. Meanwhile Davis and Martinez (2014) [9] said that poverty was the main concept relative in analyzing the problems of poverty.

Factors that affect the conditions of poverty, among other conditions, the characteristics of the macro sectors, household, community, and individual (World Bank, 2012). The causes of poverty are divided into two, namely cultural poverty and structural poverty. Cultural poverty i.e. poverty refers to the attitude of a person or society caused by the lifestyle, customs, and culture. Meanwhile, structural poverty is the poverty caused by the structure of the society which was lame, either because of different ownership, ability, income and employment opportunities as well as unbalanced because the distribution of development and the results are uneven.

Poverty culture theory developed by Lewis-Benfield says that, the image of the lower class culture groups, in particular on the orientation for the present and the absence of top delay gratification, retained the poverty among them from one generation to the next. According to Royce (2009), the causes of poverty was still a controversy. Whether poverty is caused by a lack of effort or the effort of society itself, or a situation beyond their control. They are poor because of weak or weak celebrated politik-ekonomi. Poverty seen from a broader perspective of the economy such as supply and demand functions, people become poor due to the inability (*lack of marketable skills*). Meanwhile, in the perspective of poverty is a function of political power. People become poor due to the injustice in governmental and institutional policies in the labour market.

Theories of poverty from the perspective of macro-economic view that, the high investments in a country will encourage economic growth that is increasingly rapidly. The theory that explains the impact of economic growth against poverty explained

through the *trickle down theory* advanced by Todaro (1997). This can be explained in the following equation:

$$Y_{tp} = \alpha + \beta_r Y_{tr} + \xi_i \quad (1)$$

$$Y_{tr} = \alpha + \beta_p Y_{tp} + \xi_i \quad (2)$$

Where, Y_p dan Y_r show that the per capita income for the poor and the rich. β_p and β_r shows the coefficient *class income* transfers. For example, β_r shows changes income for the poor because of rich people's income due to changes. If the *trickle-down theory* is valid, then β_r should be positive value.

When economic growth could encourage the creation of employment opportunities, then can lower the number of poor population. Economic growth will bring down the absolute level of poverty and will result in increasing per capita income communities, (Davis and Martinez,2015). It will increasing the community's per capita income to become an indicator of the success of government policies in lowering the number of poor population. According to the Foster-Greer-Thorbecke (FGT) in Son (2004) [10], poverty factor is measured using the following equation:

$$P_\alpha = \int_0^Z \left(\frac{z-x}{z} \right) f dx \quad (3)$$

Where α is the parameter of the inequality, x is the standard of living of individuals, and z is the poverty line. In the equation it is assumed that the factors affecting poverty consists of income level and inequality of income. The increased revenue will reduce the level of poverty. It is also supported by the results of the research Fields (1989) [11], World Bank (1990) [12], Roemer and Gugerty (1997) [13] in Son (2004) which say that rising per capita income will reduce the level of poverty.

The relationship of government spending with poverty described by the Fiestas in Birowo (2005) [14], government spending will impact positively on the increased economic growth or decrease in the level of poverty through the provision of public services. This is an indirect government spending can lower the level of poverty. The assumption, that Government spending can decrease poverty level then the budget appropriations must provide efficient and effective output. Government is spending in the long term impact on economic growth, while that in the short term government spending could reduce the number of poor population. Government spending policy to reduce the number of poor population is not only limited to the question of the magnitude of the Government's budget, but also more is how and for whom the allocated budget. Theories of rationality of Government in allocating a budget to reduce

the number of poor population used two approaches, namely *welfare approach* and *social justice approach*, Fan (2008) [15].

3. Research Method

The research looks at the phenomenon of poverty within the scope of the macro on the 33 provinces in Indonesia. It is using secondary data during the period in 2008-2013. Data source variables of poverty, economic growth, participation rates and per capita income sourced from CBS in the meantime, the regional government spending data sourced from the Ministry of finance.

To observe the influence of free variables: economic growth, the realization of regional government spending, GDP per capita, labor force participation against poverty used multiple linear regression analysis tool with *Fixed Effect Model* (FEM). Use of FEM based the existence of heterogeneity of the variables do not change between the time (*time in-variant*) in each area (Gujarat) [16]. Models of research are as follows:

$$\text{Poverty} = f(\text{Growth, GE, PDRBk, Tpak}) \quad (4)$$

$$\text{Poverty}_{it} = \beta_{0it} + \beta_1 \text{Growth}_{it} + \beta_2 \text{GE}_{it} + \beta_3 \text{PDRBk}_{it} + \beta_4 \text{TPAK}_{it} + \mu_{it} \quad (5)$$

$$\text{Poverty}_{it} = \beta_{0it} + \beta_1 \text{Growth}_{it} + \beta_2 \log \text{GE}_{it} + \beta_3 \text{PDRBk}_{it} + \beta_4 \text{TPak}_{it} + \mu_{it} \quad (6)$$

Notes:

Growth : economy growth

GE: the realization of local government spending

PDRBk: the rate of GDP growth per capita

TPAK: labor force participation rate

β_0 : constantan

$\beta_1, \beta_2, \dots, \beta_6$: regression coefficient

μ : error variable

4. Result and Discussion

Indonesia as a developing country has the distinction of demographic characteristics, geography and culture that spread into 33 provinces. Problems and handling of poverty

in each area are not the same. Fiscal decentralization requires local governments to be more responsive and innovative towards the problem of poverty in the regions. Based on Graph 2, the area with the largest percentage of the poor population is Papua Province, followed by West Nusa Tenggara Province, East Nusa Tenggara Province. Meanwhile, DKI Jakarta with the lowest poverty rate in compared with other provinces.

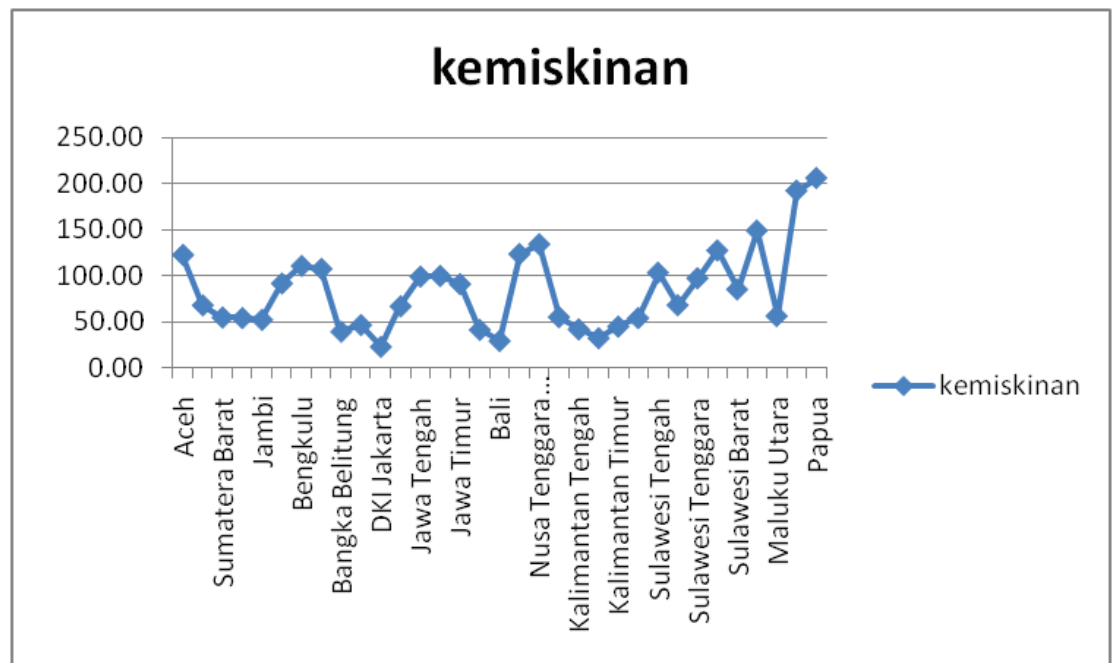


Figure 2: The Poverty Condition In Indonesia. Source: Secondary Data, Managed. 2015.

Based on table 1, it can be found in descriptive that the average poverty level in 33 provinces in Indonesia during the period 2008-2013 is amount 13.91%. Average economic growth in 33 provinces in Indonesia shows some pretty good numbers, namely of 5.77%. Government spending on the 33 provinces in Indonesia is the average IDR 6 trillion. Meanwhile, the level of participation in the work of 33 provinces in Indonesia amounted to 67.89%.

TABLE 1: The Statistics of Research Variable Descriptive.

Variables	Mean	Std. Deviation	Min	Max
Poverty	13,91	7,61	3,48	37,53
Economy Growth	5,77	4,13	-5,5103	28,46699
Regional Outcome	6,362909	0,3845284	5,571463	7,583216
GDB per Capita	9,521224	8,833115	0,7365406	47,71925
TPAK	67,89	4,108	59,76	80,99

Source: Secondary Data Managed

Poverty in Indonesia is a multidimensional problem and requires the hard work of local Government to decrease it. Many factors cause why in an area there is a poor population that high. In research with a case study of 33 provinces in Indonesia, factors that influence poverty levels are divided into economic factors i.e., income per capita and economic growth, and Government outcome. The social factor is the level of labor force participation. The results of the regression analysis with the *Fixed Effect Model* (FEM) can be seen in Table 2 as follows:

TABLE 2: Estimation Result of Fixed Effect Model of the Poverty Dependent Variable.

Independent Variables	Coefficient	Std. Error	t-statistic	Prob.	Conclusion (α=5%)
Growth	0,1348728	0,7980564	4,01	0,000	Significan
Log GE	-6,712,008	0,0336108	-8,41	0,000	Significan
PDRBk	-0,4743378	0,1119119	-4,24	0,000	Significan
TPAK	-0,2314233	0,0821146	-2,82	0,005	Significan
Cons.	76,068,680	83,615,650	9,10	0,000	Significan
R ²	0,46				
F-statistic	35,16				
Prob.F	0,0000				
N	198				

Source: Secondary Data Managed

Based on the results of the estimation data panels on table 2, then the equation is obtained as follows:

$$\text{Poverty} = 76,06868 - 6,712008 \log \text{GE} + 0,1348728 \text{Growth} - 0,4743378 \text{PDRBk} - 0,2314233 \text{TPAK} + \epsilon_{it}$$

The results of hypothesis testing showed that economic growth was a positive significant effect against poverty. This means that the higher economic growth with a case study of 33 provinces in Indonesia thus coupled with increasingly high rates of poverty. By implication, the higher economic growth is not followed by a quality of growth itself. This can lead to conditions of inequality between provinces in Indonesia. Any increase in economic growth of 1%, will increase poverty levels of 0.13% (*ceteris paribus*). Researchers addressing the results of the study that the difference with the previous research and theory that is related to the size of the poverty indicators are used on each case study.

The better growth moment should be followed with increasing the life quality of the community that is still under the poverty line. Usually, the higher level of a country's economic growth would be followed by a decrease in the number of poor population.

The Results Of This Research With Different Theories Have Been Presented Previously, *Trickle-Down Theory* (Todaro, 2006) and with different research results Miranti (2013), that increased economic growth will be followed by a decrease in the level of poverty. The higher economic growth needs to be mindful of the contribution of the rising growth. When economic growth is only from certain classes of contribution, then the moment to the better economic growth will also be enjoyed by a number of specific groups.

Subsequent findings stated that Government outcome and significant negative effect against poverty. That is, the higher Government's outcome area will be followed by a reduction of poverty in 33 provinces in Indonesia. Every increase of 1% of local government outcome will be followed by a decrease in the poverty rate of 6.7% (*ceteris paribus*). Government policy reflected by post a budget and the budget allocation should apply the principle of *pro poor*. The most fundamental is the implication, not just a question of how big government spending, but more is to whom and how the Government budget allocated.

Further test results showed that per capita income and significant negative effect against poverty. That is, the higher level of the community's per capita income will reduce poverty in 33 provinces in Indonesia. Any increase in per capita income of \$1 million will be followed by a decrease in the poverty rate of 0.47% (*ceteris paribus*). The per capita income showed a level of purchasing power in fulfilling their necessity. So, when the people's income increases, then the purchasing power also increased.

The test results showed that the social variable levels of labor force participation of significant negative effect against poverty. That is, if the labor force participation rate increases, it will be followed by a decrease in the amount of poverty. Any increase in the labor force participation rate of 1%, will be followed by a decrease in the poverty rate of 0.23% (*ceteris paribus*).

5. Conclusion and Suggestion

Based on the results of the research have been presented, there are a few conclusions in this study, namely:

1. Economic growth has positive effect against poverty in 33 provinces of Indonesia during the period of 2008-2013. The higher economic growth thus coupled with rising poverty rates (*ceteris paribus*).

2. Government spending takes effect negatively to poverty in 33 provinces of Indonesia during the period of 2008-2013. The higher government spending area will lower the level of poverty (*ceteris paribus*).
3. Per capita income effect negatively to poverty in 33 provinces of Indonesia during the period 2008-2013. The per capita income increasing community will be followed by a decrease in the level of poverty (*ceteris paribus*).
4. Labor force participation rates of negative effect against poverty in 33 provinces of Indonesia during the period 2008-2013. Labor force participation rates are higher, will be followed by a decrease in of poverty level (*ceteris paribus*).

Based on the conclusions above, there are a lot of suggestions: *First*, the contribution of quality economic growth must be encouraged through the production sector, for example, by the development of road infrastructure. *Second*, higher government outcome indicates a growing decrease in poverty levels. Allocation of government spending must be implemented the principle of pro poor, so that access to public facilities can be felt by the poor, such as schools, health, and sanitation. *Third* provision of the employment that is both of labor intensive can absorb the poor population due to not having a job. In addition, it shows the increasing role of Government in helping the poor through micro-funding. This is because the majority of the poor population has the ability in the informal labor sector.

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