

CHAPTER I

INTRODUCTION

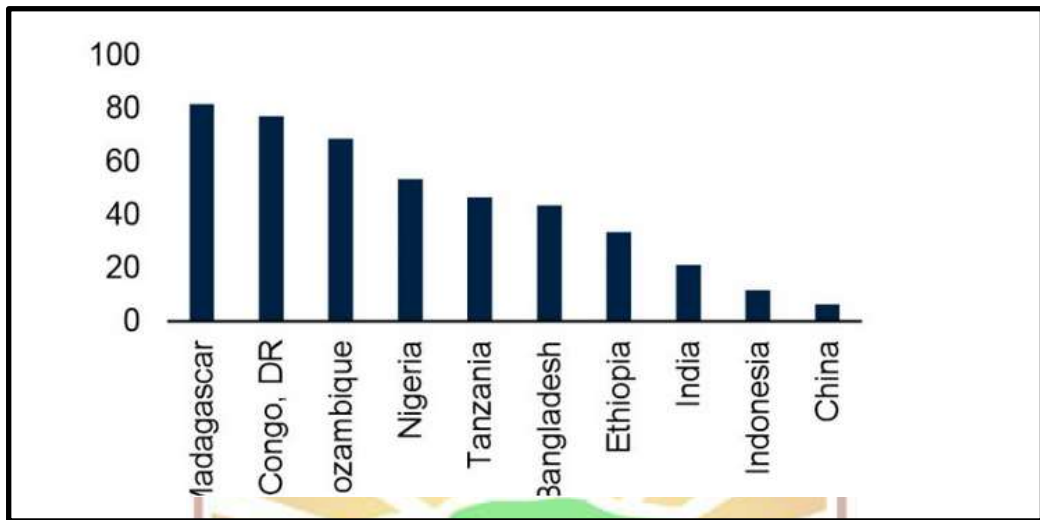
1.1. Background

One of the problems that occur in some countries in the world is poverty. It happen anywhere and can occur in any community, any age level or income levels of society. Poverty is a major issue that many occur in the developing countries and the classic issue for developing countries including Indonesia. The high percentage of the poor population in a region causing decrease of purchasing power because their low per capita income, the situation compounded if the unemployment rate in the region is also high (Hudaya, 2009). A poor country are usually characterized by low per capita income level and has high population growth rate (more than 2 percent per year), mostly labor working at the agricultural sector (Kunarjo, 2002). Indonesia as a developing country and has a large population and the majority still live in rural areas and the majority of the population work in the agricultural sector.

United Nations Development Programme (UNDP) in cooperation with the ASEAN and China on the financing of sustainable development released report. The report shows, most of the population living below the poverty line in Southeast Asia live in Indonesia and the Philippines. However, the report shows 36 million people in ASEAN Countries living below the poverty line, 90 percent are located in Indonesia and the Philippines. The high number of poor people in Indonesia and the Philippines are described in the size of the population in the country. Indonesia has a population about 250 million people and Philippines 100 million people, while the total of ASEAN citizens about 700 million.

Graph 1.1

The top 10 countries with largest number of poor poverty rate, percent



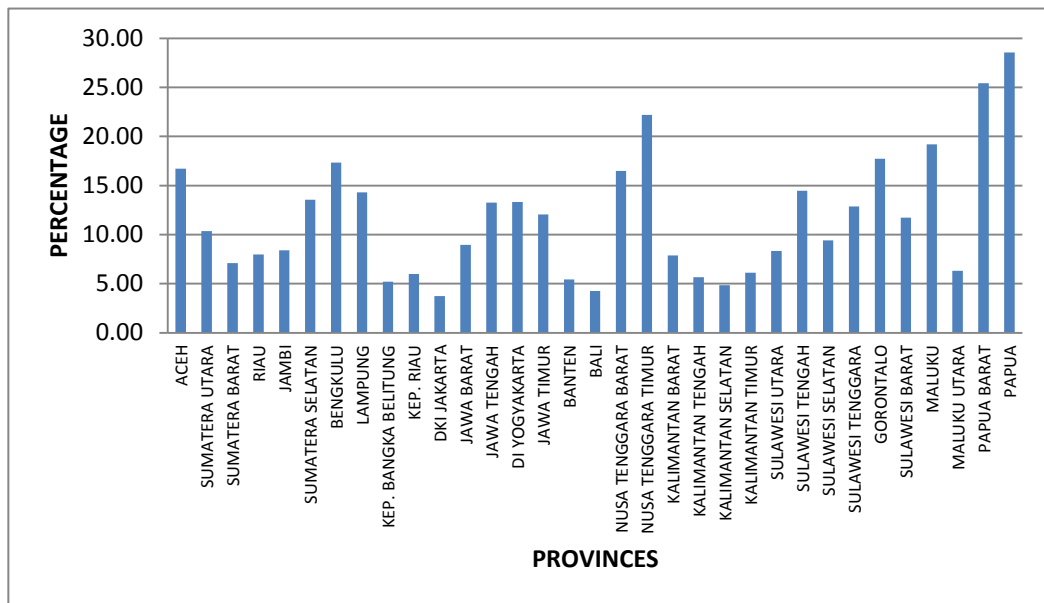
Source: Figures from World Bank

According to World Bank Indonesia was ranked nine in the list of countries with the largest number of poor people in the world after India it can be seen in graph below (World Bank Development Report, 2017)

The conditions of poverty in Indonesia can be said quite severe. According to data offered by BPS (Central Bureau of statistics), in 2014, the number of poor population in Indonesia reached 27.73 million (10.96%), later in the year 2015 increased which is about 28.51 million (11.13%) or has increased approximately 780 thousands people from the previous year. The poverty rate in Indonesia is still uneven and poverty levels in some provinces still high. The graph below show the highest poverty occurred in an area with abundant natural resources such as Papua, West Papua, NTT, Maluku and Kalimantan regions. The highest levels of poverty in Papua province reached 28.54% in 2016. There are several areas that have high economic growth but also have high poverty.

Graph 1.2

The percentage of the poor population province of Indonesia at 2016



Source: Central Bureau of statistics, edited by the author

The decline in the rate of the poor population in Indonesia is still not evenly distributed in the various provinces because it is not comparable to the growth the economic rise and Government spending that is already widely used to make programs in reducing poverty.

The existence of a decrease in poverty levels in the region has indicated that economic development. Economic development can be measured by economic growth, it can be seen in the development of Gross Regional Domestic Product (GRDP). Gross Regional Domestic Product (GRDP) growth has relationships with poverty. According to Kuncoro (2003), with the increase of economic growth then a country can achieve prosperity and economic well-being. The increasing economic growth illustrates that the more a country's production is increased. So the public can fulfill what they need. So the increase in this economic growth can reduce poverty in a country. Economic development is

essentially intended to reduce economic problems. One of the crucial problems to be solved is poverty, a lack of choice and opportunities of the individuals to achieve an optimal exploitation of their potentials to participate in the decision-making process affecting their livelihoods and well-being (Arsyad, M, & Yoshio,K, 2010).

Poverty-related to vocation and usually the population is categorized as poor (*the poor*) don't have jobs (*unemployment*), as well as the level of education and health, are generally inadequate. Indonesia countries often have high unemployment because lack of jobs and high population. Indonesia is the country with the fourth largest population in the world after China, India and the United States. According to Central Bureau of statistics, the total population of Indonesia is 255 million peoples and the open unemployment rate is 6.18%. According to Sukirno (2004), the effect of unemployment are reducing the income and reduce the level of prosperity. Decline the welfare of society because the unemployed will certainly increase the chances of them trapped in poverty because it does not have sufficient income.

According to Wiguna (2013), high populations need a lot of work so that the company will decrease the number of employees. This can lead to the problem of unemployment, the high unemployment rate in a region show less successful development and causes poverty. Lower levels of unemployment and poverty level is equally important, if the community does not idle means have jobs and income, and with income they can meet the necessities of life. If the necessities of life cannot be fulfilled, then there will be poor.

Local government expenditures are one of the Government's policy tools. Governments use it to manage the economy of an area. The increasing role of the Government means it can be seen from government spending. The problems of poverty need the intervention of the Government. With the existence of government intervention hoped problems of poverty can be solved.

The Government is already seeking and doing a wide range of policies and programs for reduce poverty with various expenses. The Government made some programs such as BOS (Operational Assistance school) education, Raskin (Rice's poor), BLT (Direct Cash Assistance), the PNPM (Independent National Community Empowerment Program), BLSM (direct assistance While community), Milky Jokowi card (the card is a smart, healthy, and prosperous), village Fund, and many more government programs that aim to alleviate poverty in the country.

Based on the data and the explanation above so I interested to do the research to know what factors affected poverty, then this research take the title **"THE IMPACT OF ECONOMIC GROWTH, UNEMPLOYMENT AND GOVERNMENT EXPENDITURE ON POVERTY IN INDONESIA"**

1.2. The Main Problem

There are several main problems that we have found in this study those as follows:

1. How is the impact of Economic growth on Poverty?
2. How is the impact of Unemployment on Poverty?
3. How is the impact of Government Expenditure on Poverty?

1.3. The Main Objectives

The main objectives of this study are:

1. To analyze the impact of Economic Growth on Poverty
2. To analyze the impact of Unemployment on Poverty
3. To analyze the impact of Government Expenditure on Poverty

1.4. Research Advantages

This study result will over several advantages to several users:

1. For a student, in order to improve their own knowledge in analyzing the investment for speeding up Indonesian development process for a government.
2. For a government, it will be useful as the basis for making policy for the government.
3. For research, it uses this result to extend in term of poverty, economic growth, unemployment and government expenditure

1.5. Writing Systematic

The study consists of 6 chapters from the introduction to the conclusion and recommendation. The complete lists of this research are as follows:

Chapter 1: Introduction

In this chapter includes the background of research why choose this topic, the main problem, the main objective and research advantage.

Chapter 2: Theoretical Framework and Review Literature

This chapter includes the answer to the hypothesis with reference and review that connect with independent and dependent variable theory.

Chapter 3: Research Methodology

This chapter tells about research methods, the operational definition of the variables study, collection all data, a source of data, method, and data analysis method.

Chapter 4: General Overview

This chapter describes the trend that happened in each variable include Poverty Rate, Economic Growth, Unemployment and Government Expenditure.

Chapter 5: Research Finding

This chapter consists of the outline result, discussion of description in object research, data analysis, and description.

Chapter 6: Conclusion and Recommendation

This chapter consists of the conclusion of analysis carried out, suggestion, and implication arising from the conclusion of problem.

