

CHAPTER II

LITERATURE REVIEW & THEORETICAL FRAMEWORK

2.1. Literature Review

In finding the variables and analysis in this research, it is important to refer to previous research that discussed about the factors that determine poverty, Human Development Index or HDI, Gross Regional Domestic Product or GRDP, inflation and unemployment.

Subanidja and Suharto (2014) conducted research entitled “*The dominant Factors in The Causes of Poverty Level in Indonesia*” to find the main factors for eradicating the poverty in Indonesia. It also determines the effect of education level, human development index, small business loans, unemployment, gross regional domestic product and local minimum wage on a level of poverty in the period of 2009-2012 in 33 provinces in Indonesia by using panel data. Variable small business loans, HDI, wage, GRDP, unemployment, and education level have a significant effect on the level of poverty in Indonesia. All of the independent variables except unemployment rate have a negative effect on the level of poverty. It means small business loans, HDI, wage, GRDP, and increasing education level will decrease poverty levels.

According to research which is conducted by Susanti (2013) entitled *“Pengaruh Produk Domestik Regional Bruto, Pengangguran dan Indeks Pembangunan Manusia terhadap Kemiskinan Pembangunan Manusia terhadap Kemiskinan di Jawa Barat dengan Menggunakan Analisis Data Panel”*, poverty rate will be influence by some factors such as Gross Regional Domestic Product, Unemployment and Human Development Index. Period of time also become one of the factor, thus this research use panel data to analyze this problem. This research using population in West Java in period of 2009-2011. The result is GRDP and unemployment has significant positive impact to poverty. In GRDP, the higher of GRDP in a city will increase the number of poverty. Same as unemployment, the higher of unemployment in a city will raise the number of poverty. Otherwise, HDI had significant negative effect on poverty; it means the higher of HDI in a city will decrease the number of poverty.

The research conducted by Giovanni (2018) entitled *“Analysis of Gross Regional Domestic Product, Unemployment and Education Effects to Poverty Rate in Java Island in 2009-2016”*, have aim to analyze the effect of Gross Regional Domestic Product, unemployment and education to poverty rate in Java island in period 2009-2016 using panel data regression. Result for unemployment variable is not significant to poverty in West Java, Central Java, East Java, and DIY provinces, because not all of the population in

unemployment are categorized in poor people if in his/her family there is a worker with high salary. Thus if there is one unemployment in a family, it will not indicate this family are poor. The result of GRDP variable is significant to poverty in West Java, Central Java, East Java and DIY provinces, because if GRDP value is increase yearly, it will decrease the poverty rate in West Java, Central Java, East Java and DIY provinces.

Afandi et al. (2017) conducted "*Policies to Eliminate Poverty Rate in Indonesia*". The aim is to analyze the factors which influence the poverty rate in Indonesia in period of 1981 – 2013. The researcher used Error Correction Model or ECM as an empirical poverty model. The study has 160 observations. The Dependent variable is poverty rate and the independent variables are Gross Domestic Product or GDP, Inflation, Foreign Direct Investment or FDI and Gini Ratio. Based on the analysis result, all the variables have probability P value greater than confidence level (0.05). This means, in the long run there is no correlation between GDP, inflation, FDI, gini ratio and poverty. Otherwise, in short run there is a positive correlation between inflation and poverty. It fits with the theoretical expected; the result approves the impact of price increase on lower purchasing power. It can be concluded, this relationship may turns into two ways. First, in stable income, the increasing price will lead to rises the poverty rate. Second, the significant reduced in real income by inflation, does not affect poverty alleviation.

In previous research entitled "*Impact of Economic Growth, Inflation and Minimum Wage on Poverty in Java*" by Susanto (2014) had aim to analyze of economic variable, which include economic growth, inflation and minimum wage on poverty rate in Java in period 2003 - 2011. This research using dynamic panel data regression based on Error Correction Model or ECM. The result is inflation has a positive influence on poverty. An increasing of inflation is followed by increasing the poverty rate. The inflation indicates a decline in real income will drive the reducing purchasing power society and society's consumption will be decreased. It leads to the decline of society's welfare. Therefore, the increase in inflation causes more society fall into poor, consequently the poverty rate increase.

Sugema et al. (2010) in their research "*The Impact of Inflation on Rural Poverty in Indonesia: an Econometrics Approach*" has aim to analyze the impact of inflation on poverty in national level urban and rural level. In this research, the contribution of each group of inflation commodity is measured to poverty level, and also measured its impact on urban and rural poverty level. The result shows, inflation in food price have higher impact than non-food commodity to poverty level. The higher impact occurs in rural poverty than urban poverty level.

The research entitled "*Pengaruh PDRB, Pendidikan, Kesehatan, dan Pengangguran terhadap Tingkat Kemiskinan di Jawa Tengah (2011-2015)*" by

Mohammad Bintang (2018) has aimed to identify some factors which influence the poverty rate in 35 cities in Central Java Province in period of 2011-2015. This research using panel data with Fixed Effect Model. The result of this research is GRDP has positive effect on 35 cities in Central Java province. It indicates the unequal economic growth and dominated by high wage society. The area or regions which do not in the equality will suffer the inequality economy. Unemployment variable also have positive effect and significant to poverty rate in Central Java province.

Marinda et al. (2017) conducted the research entitled “*The Analysis of the Economic Growth, Minimum Wage and Unemployment Rate to the Poverty level in East Java*” to analyze the economic growth, minimum wage and unemployment rate to the poverty level in East Java in period of 2012-2014 from 29 district and 9 cities in East Java. This research using fixed effect panel data. The result is the unemployment rate affects the poverty level of East Java positively, it means when the unemployment rate higher, the number of poor family increase as well.

The research conducted by Dama et al. (2016) entitled “*Pengaruh Produk Domestik Regional Bruto (PDRB) terhadap Tingkat Kemiskinan di Kota Manado (Tahun 2005-2014)*” has aim to find out the influence of Gross Regional Domestic Product to Poverty Rate in Manado city in period of 2005-2014. The result is GRDP has negative effect and significant to poverty rate in

Manado city. GRDP has important role to economic growth in Manado city especially in decreasing the poverty rate in Manado city.

Wahyuningsih and Zamzani (2014) conducted the research entitled “*Analisis Pengaruh Produk Domestik Regional Bruto dan Jumlah Penduduk Terhadap Tingkat Kemiskinan di Kabupaten Nagan Raya*” has aim to analyze the effect of Gross Regional Domestic Product and population on the poverty rate in Nagan Raya. This research used multiple regression models. The result is GRDP is affect negatively and significant to poverty rate in Nagan Raya. It means, if GRDP is rise it will help to reduce the poverty population.

2.2 Theoretical framework

2.2.1 Poverty

According to World Bank, poverty is a situation when someone has no option or opportunity to increase his/her standard of living to get healthy life of decent life. According to Rank, 2004 in Yolanda (2017), the roots of poverty can be divided into three main factors namely, individual factors, cultural and environmental factors and structural factors. In addition, less motivation becomes the individual failure of individual poverty.

According to Kuncoro 2010 and Nasikh 2013(Marinda et al., 2017)stated one of the reasons why poverty happens is poverty will

arise because of a low quality of human resource. In the same journal, Tambunan(2008) add some point about economic growth. Economic growth is one of the requirements to develop and improve society's prosperity in an area. It becomes the benchmarks of economic performances since economic growth is a factor to reduce the poverty level.

Poverty reduction is one of the fundamental challenges to the Indonesians Government. The process of poverty reduction still needs the government involvement through some proper public policies, especially in local area Indonesia already conducted programs such as a subsidy for gasoline and rice, and commonly they give in lower price. However these programs not really contribute in reducing poverty in Indonesia. Indonesia needs programs that already succeed in a developed country.

2.2.2 Human Development Index (HDI)

Human Development Index is a benchmark to achieve of good quality of human development in term of a physical condition such as health and welfare, and non-physical such as education (Yolanda,2017).

In the same journal, according to BPS, there are three basic dimensions of Human Development Index measurement. It includes

long life and healthy life, education, and decent standard living. There is a general equation of HDI:

$$\text{HDI} = 1/3 (\text{X1} + \text{X2} + \text{X3})$$

X1: long life index

X2: education index

X3: decent standard living index

Ramirez (1998) in Yolanda (2017) stated, managing the sources of economic growth and having a good connection with or against institutional technology will determine the level of human development in ability to absorb a population.

2.2.3 Gross Regional Domestic Product

Gross Regional Domestic Product or GRDP in concept is same with Gross Domestic Product or GDP which measure lately created value through production by local production in the domestic economy, while GRDP measure lately created value through production by regional production in a regional economy such as a province or a district(Viet, 2010).

GRDP can be measured by three approaches:

1. The production approach: requires data on the output produced by regional resident and data on intermediate consumption. The sum of value added by regional residents is equal to GRDP.
2. The expenditure approach: requires data on final consumption and gross capital formation of regional residents (household and government), inventory alteration and their export and import.
3. Revenue approach: requires data on a component of value. component of value added can only be collected for the corporations and the government sector where there is a difference between compensation of employee (COE) and operating surplus (OS)

GRDP is one of the indicators to supervise economic condition in a province in a period of time, whether using actual price or constant price. GRDP based on actual price shows the additional value of goods and services calculated using the price in the current year, while GRDP based on constant price shows the additional values of goods and services using the applicable price as a basis price. (Department of Economic and Monetary Statistics)

2.2.4 Inflation

The impact of inflation as an economic phenomenon to economic activities, usually have a negative effect on the purchasing power of money will be lower and affect the builder of quality of life (Yolanda, 2017). Indicator for measuring the quality of human quality is Human Development Index or HDI.

Inflation also affects poverty through its impact on real wages. In Latin America, for empirical evidence, shows wages increase slowly than prices during inflation. It means inflation raises the wage slowly but the price increase rapidly. It will drives to rises of poverty because, when Rupiah depreciates, people will have difficulties in purchasing goods and services according to Cardoso (1992) in Afandi et al. (2017 p.437).

Inflation can be differentiated based on these factors:

a. Demand Pull Inflation

Yolanda (2017) agreed with John Maynard Keynes (1883-1946), the rise in aggregate demand as a source of demand-pull inflation. Aggregate demand consists of consumption, investment and government.

b. Inflation insistence on cost (cost push inflation)

The increasing price happened because of increased production costs, including rising wage level. The rising wage level will increase the productivity of labor rapidly.

2.2.5 Unemployment

In Todaro (2000) in Puspadjuita (2018) stated unemployment is usually regarded as an unadjusted condition rather than a temporary supply demand of supply, in addition, unemployment can be seen from demand and supply side.

Subanidja and Suharto (2014) agree with Cameron (2000) that unemployment affects the poverty level. The reduction of poverty in the Island of Java, related with income levels of educated labor.

According to Sukirno (2000) in Retnowati and Harsuti (n.d.), unemployment divided into three types based on the causes:

- a. Frictional Unemployment, the unemployment which left his job to look for better job or positions.
- b. Structural unemployment, unemployment caused by the structure changing in economics.
- c. Conjuncture unemployment, the unemployment caused by exceeding unemployment in supply and reduction of a worker in demand.

The forms of unemployment:

- a. Open unemployment, for those who have ability and willingness to work but there is no suitable job for them
- b. Under unemployment, for those who have normal work time with low productivity, thus the reduction of working time do not have any impact on them.

2.2.6 The Relationship Between Independent Variables And Dependent Variable

The Human Development Index will reduce poverty. It will happen if there is a program of increasing the quality of the Human Development Index. Thus it will have negative relationship. If the HDI is higher, it will reduce the poverty population.

The growth of Gross Regional Domestic Product is expected to reduce poverty. The higher GRDP in a region will help to reduce poverty population. Thus, the relationship is negative because the higher GRDP, will drive the lower poverty population.

Inflation affecting poverty through an impact on real wages, because of nominal wages does not increase as fast as the rising of inflation rates. Higher inflation drives a lower purchasing power.

The decreasing of purchasing power parity or consumption because of the decreasing demand for goods and services tend to decline the production capacity which causes the labor cut off to reduce production cost. Therefore, the unemployment level will rise and poverty level rises as well according to Sulistiawati 2013 (Marinda, et al., 2017, p.128).

(Susanti, 2013b)The relationship between inflation and poverty is when the inflation rise, the number of population will rise as well because the price is getting higher and the purchasing power to buy goods and services will decrease due to the increasing in price (Afandi et al. 2017).

A factor which influences the poverty is unemployment, because the higher unemployment rate in a region will be given an impact to poverty in that region. The unemployment in society will suffer difficulty in fulfilling their daily basic needs; it drives the rise of poverty rate (Giovanni, 2018).

2.3 Hypotheses Framework

Based on relevant theories and concepts above, support from previous research result on factors which affect the poverty population, then hypotheses can be given to the existing problems. The hypotheses for this research are:

1. HDI have a significant and negative relationship with poverty in Java
2. GRDP have a significant and negative relationship with poverty in Java
3. Inflation has a significant and positive relationship with poverty in Java
4. Unemployment has a significant and positive relationship with poverty in Java.